



Commonwealth Bank

Credit Card & Merchant Businesses
“Positioned for the future environment”

Nicholas L.A. Kennett
Executive General Manager
22 March 2002

Disclaimer

The material that follows is a presentation of general background information about the Bank's activities current at the date of the presentation, 22 March 2002. 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.



Outline

- **Cards Environment in Australia**
- **Regulatory Environment**
- **CBA Response**
- **CBA Cards - Strategy and Vision**
- **The Future**

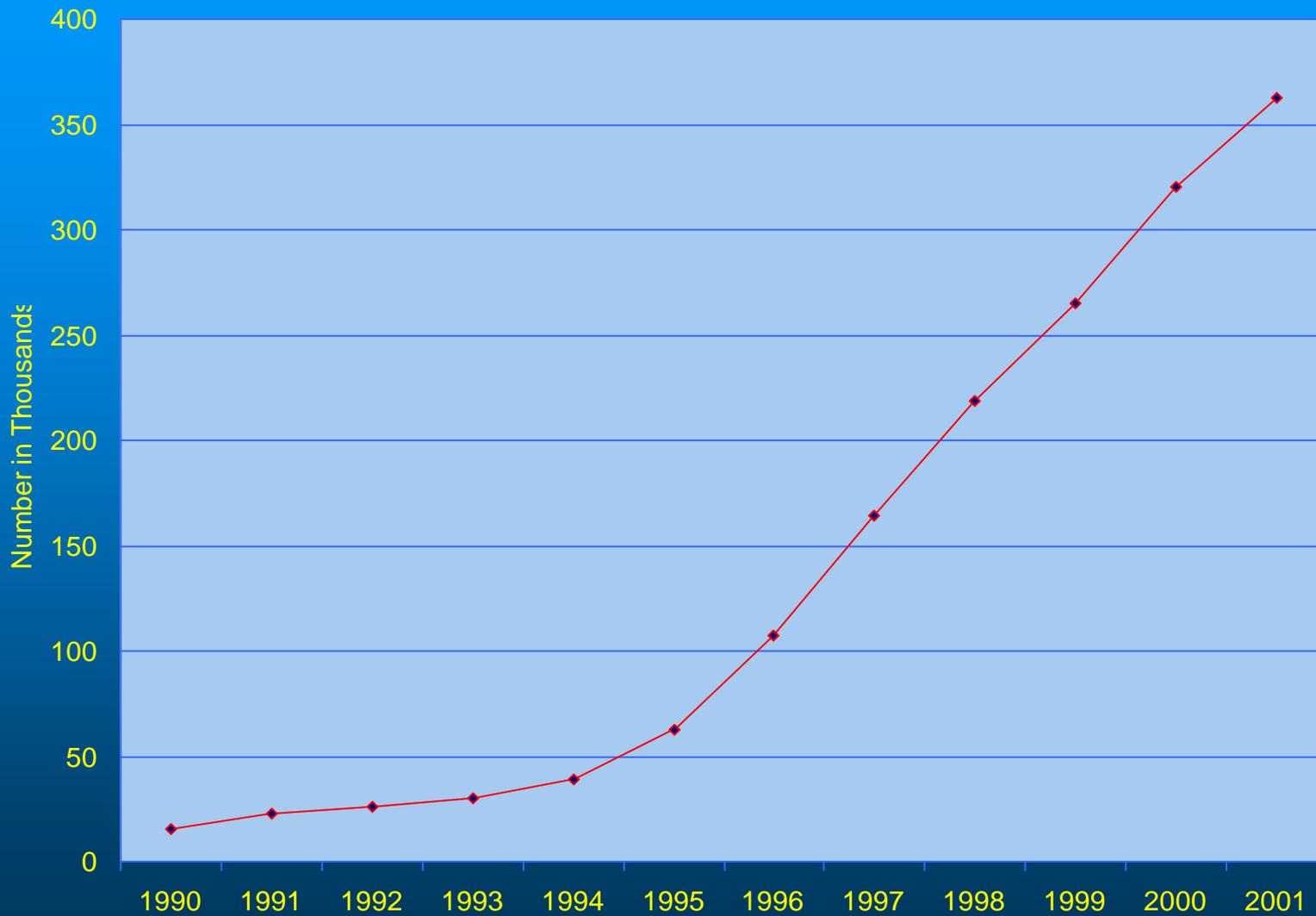


Cards Environment in Australia

- **Highly competitive**
- **Significant growth**
- **Key players and market share**
- **Consumers seeking convenience and security**
- **Sophisticated payments environment**
- **Re-regulation/competitive dis-equilibrium**



Growth in EFTPOS Terminals



Source: RBA Bulletin - Table C.5

—◆— at end June



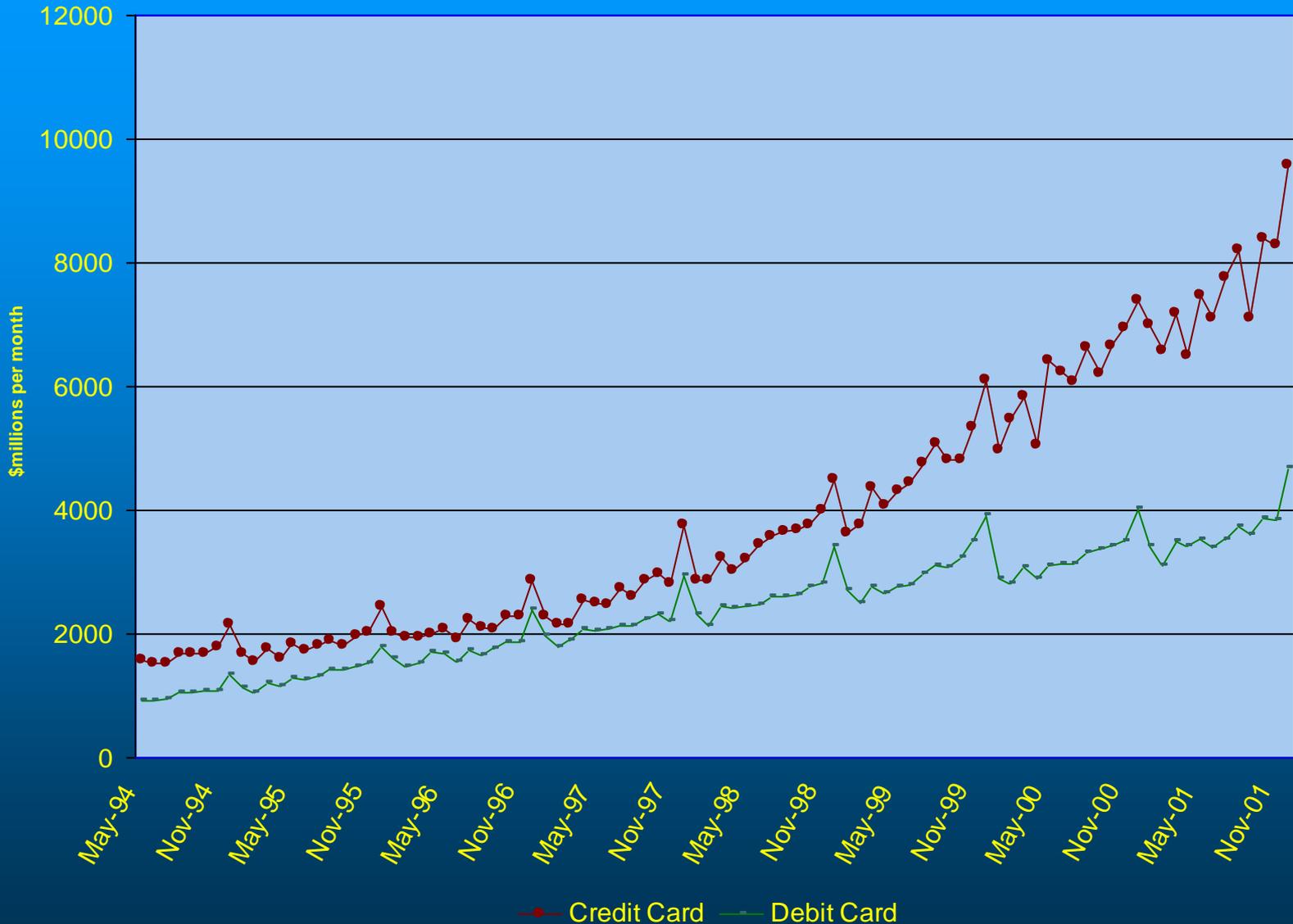
Debit & Credit Card Transactions



Source: RBA Bulletin - Table C.3



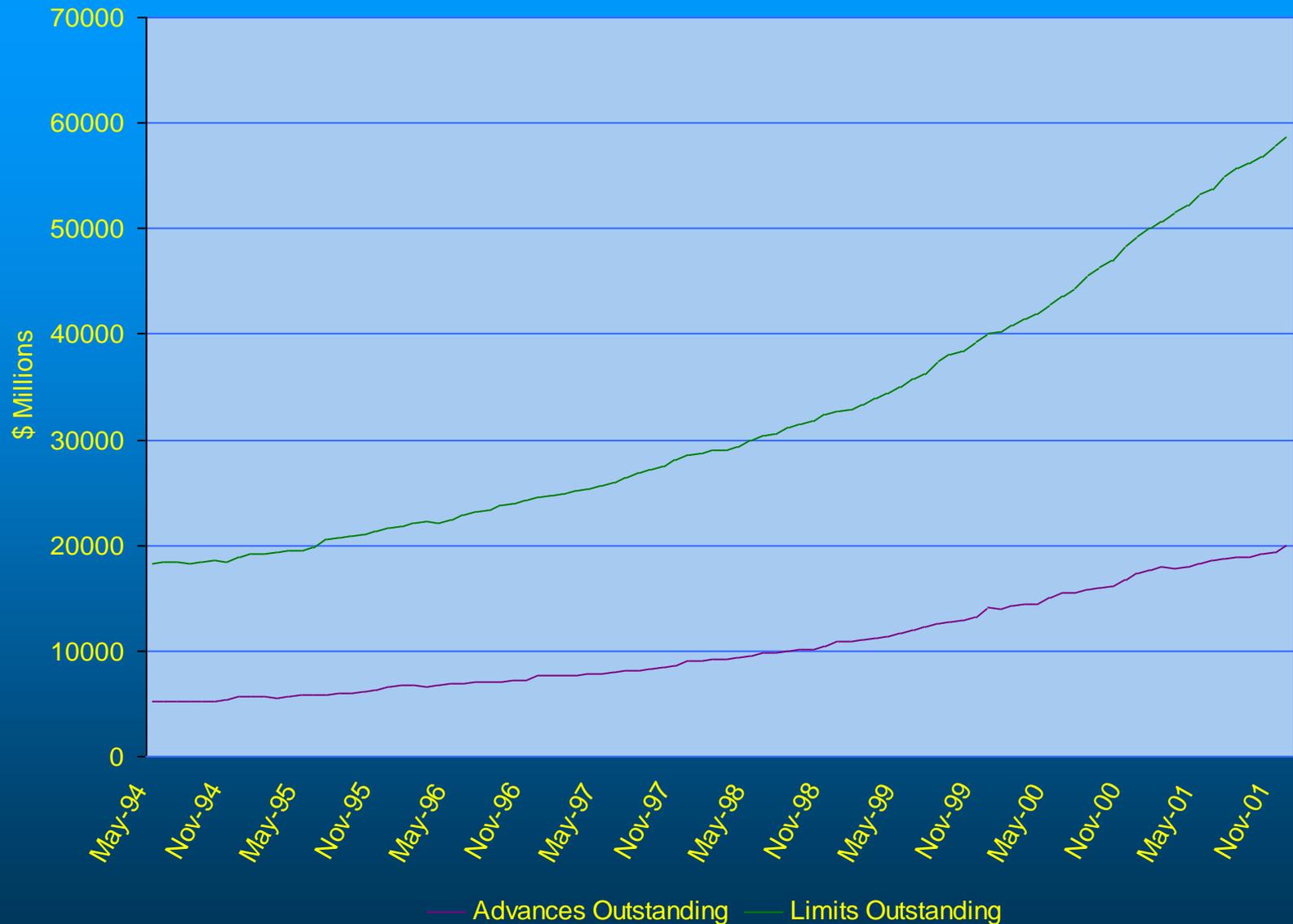
Value of Debit & Credit Card Transactions



Source: RBA Bulletin - Table C.3



Credit Card Balances Outstanding



Source: RBA Bulletin - Table C.1



Regulatory Environment

- **Worldwide focus**
- **RBA concerns**
 - “collective setting of interchange fees - rigidity, lack of transparency and absence of formal methodologies”
 - “inefficiency of credit card pricing to cardholders, reinforced by ‘no surcharge’ rules”
 - “lack of competition in credit card market and between payment networks more generally”



RBA's position

- **RBA proposed reforms**
 - cost based methodology for interchange fees
 - abolition of 'no surcharge' rules
 - new category of participants
- **Submissions to RBA closed 15 March 2002**
- **Three month consultation process**
- **Final decisions mid 2002 (indicative)**
- **Implementation late 2002 / early 2003 (indicative)**



CBA's response

- **RBA's proposals will not result in net public benefits**
- **RBA's interchange fee cost categories are unjustifiably narrow and should include:**
 - interest free period
 - costs that are common to 'on-us' and 'not-on-us' transactions
 - portion of statementing, remittance processing and collections costs
 - return on capital
 - cost of implementation and compliance
 - GST on interchange fee itself



CBA's response (cont.)

- **Abolition of 'no surcharge' rules unnecessary - regulated competitive disadvantage**
- **New participant proposals are incomplete - draft prudential standards are yet to be developed**

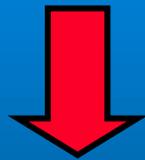


Regression of Australia towards a cash based society??



Possible impacts of regulatory reviews

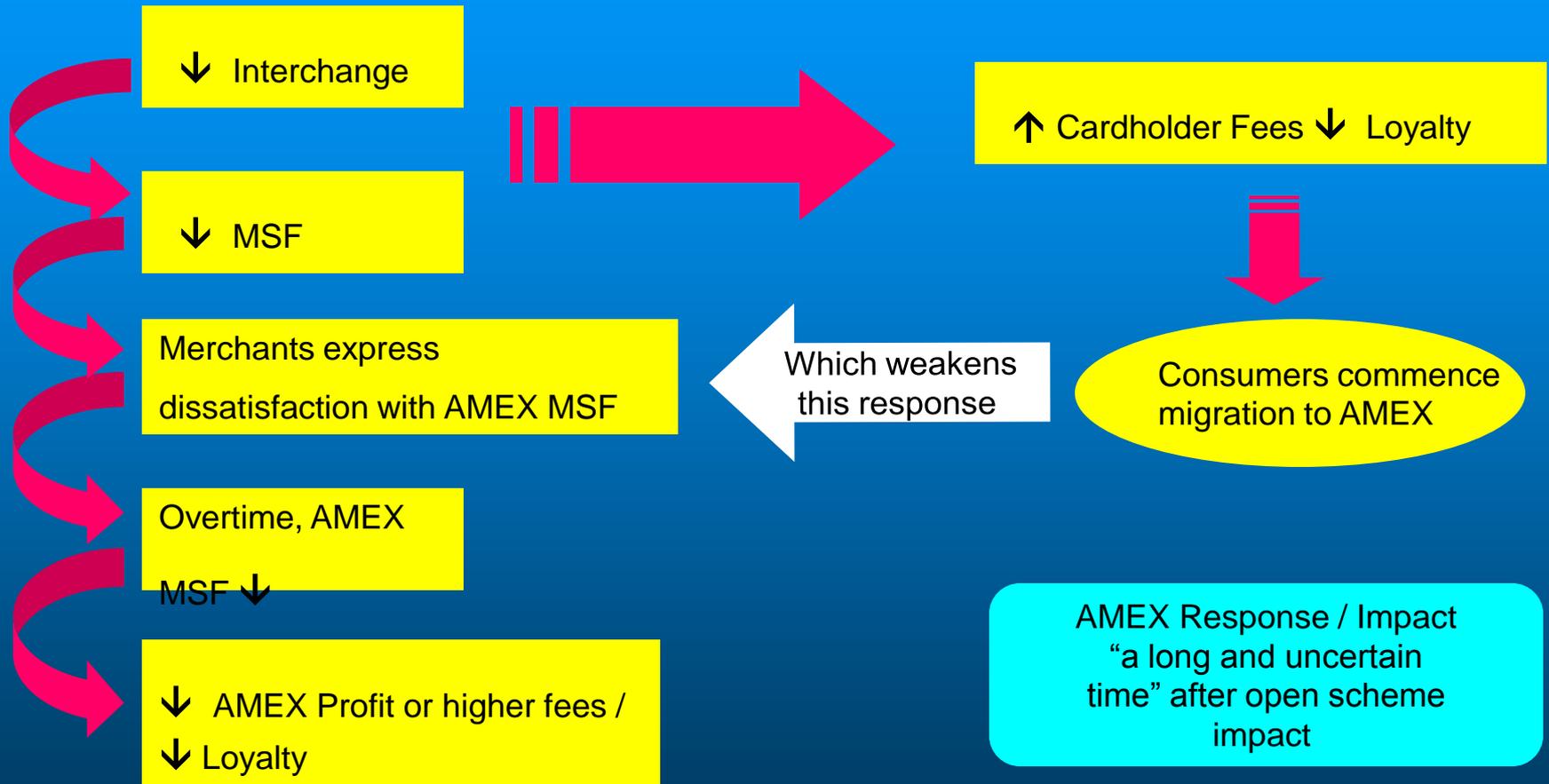
- Reduced interchange income to issuers
- Reduced interchange expense to acquirers
- Potential risk of ‘contamination’ of payments system



- Higher cardholder fees
- Reduced investment
- Less funding for loyalty
- Regulated competitive disadvantage with “closed” schemes
- Pressure on commercial cards



Closed versus open loyalty schemes



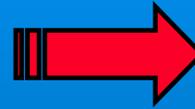
Winners in the new regulatory environment

- **Winners will have:**
 - **scale**
 - **balanced issuing and acquiring profile**
 - **high ratio of interest/interchange income**
 - **low cost rewards programme**
 - **broad portfolio of merchants**



Profitability Drivers

- Card numbers
- Spend/spend per card
- Revolve rate
- Margin and fees



Issuing

-
- Number of merchants
 - Number of ATMs
 - Merchant turnover
 - MSF
 - “On-us” transactions
-
- Loss/Fraud rates

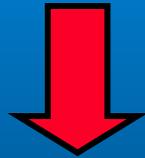


Acquiring



CBA Cards - Vision and Strategy

- Market share of profit
- Leverage customer base, distribution channels & scale
- Mono-line discipline with multi-product relationship
- Sustainable business model



- Packaged offerings
- Focus on ROTE, service and alliances



CBA Cards - a scale business

- **10m+ CBA Customers**
- **#1 in cardholders**
- **#1 in merchant relationships**
- **#1 in ATM terminals**
- **True Awards**
- **Woolworth's Ezy Banking alliance**
- **Partner relationships**



Issuing strategy

- **Focus on sustainable market share of profit:**
 - acquisition, retention and activation programmes
 - usage as a credit tool
 - usage as a relationship tool
 - NIM
 - loss management
 - loyalty costs
 - convergent business models
- **CRM/relationship packaging**
- **Service**
- **Distribution management**



Acquiring Strategy

- **Leverage scale**
- **Leverage low capital requirement**
- **Convergent opportunities**
- **Leverage corporate relationships**
- **New markets**
- **Support customer move to online**
- **Drive down losses**



The Future

- **Consumer** - **convenience and security**
- **Merchant** - **convenience, security and price**
- **Regulation** - **ongoing**
- **Technology** - **Pin@POS, 3DES, 3D Secure/SPA, Chip**



Positioning for the future...

The winner will have a sustainable business model, options, strong distribution and scale





Commonwealth Bank

Credit Card & Merchant Businesses
“Positioned for the future environment”

Nicholas L.A. Kennett
Executive General Manager
22 March 2002