

13 October 2003 Merrill Lynch Australasian Investment Conference / Roadshow Presentation by Michael Cameron

Title Slide: Roadshow Presentation - Michael Cameron, Chief Financial Officer Commonwealth Bank of Australia

No Speaker's Notes

Good morning

Thankyou for attending today's presentation

Copy of presentation available on Bank's website.

Presentation also submitted to ASX.

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, 14 October 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: Roadshow Participants - Commonwealth Bank of Australia

Michael Cameron - Chief Financial Officer

Adrian Cosenza - Group Executive Group Strategic Development

Carolyn Kerr - Executive General Manager Investor Relations

Slide 5: Agenda

Agenda:

Review operating environment in Australia

Review Bank's performance

Details of new transformation program.

Happy to take questions at end of session.

Slide 6: The Operating Environment

No Speaker's Notes

Slide 7: 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 8: 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 9: 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 10: Performance

No Speaker's Notes

Slide 11: 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 12: Banking performance drove underlying growth of 9% in FY03

No Speaker's Notes

Slide 13: Key shareholder ratios improved

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: Further improvement in the portfolio

Quality of lending portfolio has further improved.

Our Top 20 committed exposures represent just 3.3% of total committed exposures.

Well diversified portfolio by industry, and 63% individual risk rated portfolio at investment grade or equivalent.

Home loans represent > 50% total lending assets. Home loan arrears are at historically low levels.

Slide 16: 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 17: We have a successful track record on execution. Transformation of service is the next phase

No Speaker's Notes

Slide 18: September 2004 Quarter: Performance

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

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

Slide 19: Transformation

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

Slide 20 : 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 21: 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 22: There are over 100 initiatives...grouped into 20 key workstreams

No Speaker's Notes

Slide 23: 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 24: Customers - Initiatives predominantly drive revenue benefits

No Speaker's Notes

Slide 25: Customers - Initiatives predominantly drive revenue benefits

No Speaker's Notes

Slide 26: 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 27: People - Engagement improves the customer experience

No Speaker's Notes

Slide 28: 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 29: Process: 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 30: Process Simplification - Initiatives predominantly drive cost benefits

No Speaker's Notes

Slide 31: 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.

Just to give a couple of quick examples:

The work we are doing around our home loan processes will help to improve cycle times and increase our responsiveness. Our aim is to have 100% of applications conditionally decisioned within 4 hours, with the majority being decisioned on the spot.

The work we are doing around our business lending processes aims to cut business loans fulfilment time in half.

Slide 32: Financial impact and outcomes

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 33: Investments and Benefits

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

The \$1.2 billion of initiatives includes:

technology and project expenditure including redundancies: \$210m

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 34: Investment and Accounting Treatment

No Speaker's Notes

Slide 35: 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 36: Impact on Annual Profit (excluding all benefits and amortisation)

No Speaker's Notes

Slide 37: Investment spend

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

Slide 38: 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 39: 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 40: 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 41: We have a workplan for implementation over the next three years

No Speaker's Notes

Slide 42: Customer service culture, the next transformation

Just to reiterate:

Our transformation program is about:

Customer Service

through

Engaged People

supported by

Simple Processes.

Slide 43: 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.

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Slide 45: Supplementary Pack - Full Year Results Year Ended 30 June 2003

No Speaker's Notes

Slide 46: Segment Results - Banking

No Speaker's Notes

Slide 47: Banking result reflects the strong home loan market

No Speaker's Notes

Slide 48: Banking income has grown strongly

No Speaker's Notes

Slide 49: 9% growth in lending assets

No Speaker's Notes

Slide 50: Strong banking product market shares

No Speaker's Notes

Slide 51: Home lending growth profile

No Speaker's Notes

Slide 52: Continuing sound asset quality

No Speaker's Notes

Slide 53: The Bank remains well provisioned

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Slide 54: Segment Results - Funds Management

No Speaker's Notes

Slide 55: Lower Funds Management profit

No Speaker's Notes

Slide 56: Underlying expenses increased by \$46m

No Speaker's Notes

Slide 57: Movement in funds under management

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Slide 58: Net lows by product category

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Slide 59: Strong market share position

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Slide 60: FirstChoice has made a strong contribution

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Slide 61: Segment Results - Life Insurance

No Speaker's Notes

Slide 62: Steady operating margins and improving investment returns

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Slide 63: Operating expense to average inforce premiums is improving

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Slide 64: 9% growth in annual premiums

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Slide 65: Market shares growing

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Slide 66: Australian Life Insurance business

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Slide 67: Investment Earnings

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Slide 69: Investment Mandate Structure

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Slide 70: Wealth Management Valuations

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Slide 71: Wealth management valuations

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Slide 72: Wealth management valuations - movement analysis

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Slide 73: Capital

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Slide 74: Capital ratios remain strong

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Slide 75: Generation and use of capital

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Slide 78: Transformation

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Slide 79: We are serious about changing to be more customer focused

No Speaker's Notes

Slide 80: Plans are in place to complete our largest transformation

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Slide 81: Our vision

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Slide 82: Customers will receive 'what they need, when they need it'...

No Speaker's Notes

Slide 83: Key value drivers for customer service initiatives have been identified

No Speaker's Notes

Slide 84: ASB service and sales model - a proven success story

No Speaker's Notes

Slide 85: Application of ASB service and sales system in Commonwealth Bank

No Speaker's Notes

Slide 86: Retail branch sales effectiveness is being trialled in 12 branches

No Speaker's Notes

Slide 87: Initial results of the pilot are positive

No Speaker's Notes

Slide 88: Out customer service will be delivered through engaged people

No Speaker's Notes

Slide 89: Level of engagement has tangible impact on customer service and business performance

No Speaker's Notes

Slide 90: We are framing our cultural change within the context of our service aims

No Speaker's Notes

Slide 91: Our people will be supported by processes that are 'simply better'

No Speaker's Notes

Slide 92: Key value drivers for process simplification have been identified

No Speaker's Notes

Slide 93: End to End Home Loan supported by service initiatives are already underway and will be extended to other product lines

No Speaker's Notes

Slide 94: Lean manufacturing pilots in retail will be expanded across the Bank

No Speaker's Notes

Slide 95: We are drawing on lessons learnt from previous experience and are applying best practice principles to execute the transformation

No Speaker's Notes

Slide 96: A governance structure has been established to minimise execution risk

No Speaker's Notes