

Divisional Strategy: Institutional & Business Services by Michael Ullmer

Title Slide: Strategy Briefing

Good morning. I am delighted to have this opportunity to present to you today.

Slide 1: Disclaimer

The material that follows is a presentation of general background information about the Bank's activities current at the date of the presentation, 20 May 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 2: 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."

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Slide 4: Profile

Institutional and Business Services manages the Bank's relationships with institutional, corporate and business clients. It also designs and manufactures business products, for distribution across the Group.

IBS serves about 200,000 clients, through a wide range of access points available from our 1,000 branches, 50 Business Banking Centres, 18 Corporate Banking sites and offices in the major capital cities in Australia and offshore.

IBS has average assets of \$90 billion, represents around 30% of the Group's net profit after tax and has approximately 5,500 people.

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Slide 6: CBA Vision and IBS Goals

This is the Bank's and IBS' vision. Our Goals are aligned with the CBA vision. The key words are:

- **chosen** - we aspire to be chosen:

1. By clients
2. By employees
3. By shareholders
4. By community

- **respected** - in everything we do, we must earn respect.

Differentiation will come through delivering a service experience that is truly distinctive.

Slide 7: Our Strategy is Focused on Growth & Productivity...

Let me turn to our aspirations, and our strategy to deliver them.

As David Murray has mentioned, growing IBS is one of the key focus areas. With the scale of our business and strength of the CBA brand and franchise, we should be one or two in our mature businesses domestically. Our offshore strategy is focussed on facilitating Australian related business, together with targeted niche product opportunities. Whilst we are strong in a range of areas, we need to do more in increasing the market's awareness of our capability. We have brought together two distinct businesses, and we are now building a one team culture.

The two levers to deliver shareholder value are profitable growth and competitive productivity.

Growth in profits will come through providing excellent service to our clients, innovative services, active portfolio management and a team committed to delivering on our aspirations. Our analysis has shown that managing the cost-to-income ratio has the single largest impact on our performance. Hence, we are concentrating on:

- process and productivity improvements,
 - ensuring the Redesign programme is successfully implemented
 - streamlining credit processes, and
 - rationalising our system platforms having amalgamated various businesses.
- We need to ensure our people have the skills to add value to client relationships.

Slide 8: ...Underpinned by a Strong Emphasis on People

Delivering productivity improvements and growth requires a strong emphasis on our people. Substantial work has been done on our people management systems, but there is more to be done – particularly:

- creating the right culture to allow us to differentiate our client service
- ensuring there are opportunities for continuous education
- putting in place appropriate reward and recognition programmes

Slide 9: To Date We have Made Significant Progress

To date, we have made significant progress on implementing our strategic initiatives.

We amalgamated Business Banking and Institutional Banking and brought together business operational processing areas from a number of legacy Divisions in the old structure.

We streamlined our structure by reducing the number of levels, which resulted in approximately 90 positions becoming redundant.

Significant efficiencies are being achieved through the IBS Redesign programme, which I will touch on shortly.

We have refocused our international strategy, targeting niche opportunities. We expanded our Asian capital markets team, through measured organic expansion.

We have established a credit portfolio management team with a mandate to manage large counterparty exposures, monitor portfolio concentrations, and optimise the utilisation of credit capital.

Product developments include:

- specialised leasing, residual value risk and qualified technological equipment leases (QTEs), and infrastructure financing
- environmental products
- debt capital markets, agricultural commodities, precious metals.
- integrated working capital solutions comprising transaction services, working capital and asset finance, vanilla leasing and merchant acquiring.

Slide 10: The Redesign is a Critical Change Initiative...

The IBS Redesign programme has been the critical change initiative over the last year.

Client turnover and client total footings were used to determine the segmentation of our client base into 3 broad client segments - institutional, corporate and business.

There are different value drivers in the Business and Corporate Banking client base.

The corporate segment has untapped potential --> these clients require a higher level of service in a relationship based model

The Business segment has a cost-to-serve which needs to be reduced by using a different service model --> these clients will be serviced from centralised sites
Within Corporate Banking, we have 2 sub-segments - Top Tier and Corporate. This enables us to have greater focus on delivering a tailored value proposition to the larger relationships in the corporate segment, where our market share has substantial growth potential. For the mid market corporate clients, we are delivering a greater relationship focus than they have previously received under the old segmentation.
Within Business Banking, we have 3 sub-segments - Regional, SME, and Small. We chose to keep all regional clients in one segment to maintain a clear focus on rural factors. We are streamlining the sales and service processes for the SMEs and Small Business to deliver more responsive service at lower cost.

Slide 11: ...and Much Work Has been Completed

We are well progressed with the Redesign programme.
Transition of staff and clients between Corporate Banking and Business Banking is almost complete, with Victoria due to be completed by the end of this month.
The transitions to date have gone extremely well, with positive feedback from both staff and clients.
We realigned 20,000 clients between Corporate and Business Banking.
We are also amalgamating some centres. Corporate Banking sites will be reduced from 28 to 18 and the metropolitan Business Banking Centres will be reduced from 20 to 13, both with improved locations.
By bringing teams together, we are able to work more effectively and reduce duplication of processes. The amalgamated working groups also need fewer staff to service the client base, using more effective processes.
We rolled out a consistent and stable technology platform to increase the functionality and performance in each IBS site.
The Credit Process Improvements are designed to streamline the credit decisioning process, reduce workload, improve turnaround times and increase the focus on generation of new business, while preserving the overall Group Risk profile.
Trials of the new credit processes indicates that we will achieve significant efficiencies and time savings by implementing these processes.
The phases of the IBS Redesign Programme completed to date have resulted in approximately 460 positions becoming redundant.
We are expanding our Client Service Centre to handle day-to-day client service and this will create more than 100 new positions.

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Slide 13: Over the Year, We Have Completed Some Notable Deals

We have completed a number of notable deals, illustrating our specialist focus and product innovation.
The Airservices transaction represented the first integrated Air Traffic Management transaction in the southern hemisphere, and the first QTE globally to involve three cross border jurisdictions.
The transaction for Singapore Airport Terminal Services represented the first QTE transaction to be completed over cargo management systems and catering systems.
We are active participants in the domestic capital markets, with deals such as the Bluestone, retail mortgage backed securities over non-conforming mortgages. Offshore, we executed our first transaction in the US Traditional Private Placement Market in conjunction with Merrill Lynch, for Contact Energy.
We recently won the full transaction banking of Sydney Water, with the services previously split across 3 providers.

Slide 14: Our Standing in Client Satisfaction Amongst Institutions is Good

Given the change programme that has been underway, the results of client satisfaction surveys

across our 3 client segments are pleasing.
The results here are for the Top 500 institutions in Australia, a market where our primary competitors includes the foreign investment banks.

Slide 15: ... and is Equally Encouraging Amongst Mid-Corporates...

Client satisfaction for mid-corporates is outstanding, where again, our primary competition is from the foreign specialist providers.

Slide 16: ...and Business Clients

Approximately 53% of our business clients are satisfied with us, but more work needs to be done to convert those relationships that are not satisfied.

Slide 17: Our Product Market Shares in the Institutional Segment are Competitive...

Our market share is steady or improving, which is a good result given the extent of change over this period.
We were number one Bond Arranger 2002 and ranked 2nd for market share for Global Loans.

Slide 18: ...and are Similarly Competitive in the Corporate Segment...

For the mid-corporate treasury survey, CBA market share was up for all core products.

Slide 19: ...and in the Business Segment

In the business segment, our share of borrowings is stable and we have maintained our position as number 2 in this market. Like client satisfaction in this segment, more work needs to be done to strengthen this share.

Slide 20: Market Share of Aggregate Lending Balances Maintained

Looking at aggregate business lending across all three segments, we have held market share at 15% of the market on a rolling 12 month basis. Our balances* have increased 6.65% (\$3.3bn) in the 12 months ended March 2003, broadly in line with market growth.

**excludes bank acceptances*

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Slide 22: Issues Going Forward

Going forward, there are a number of industry and regulatory issues, and further phases of the IBS transformation.

Economic indicators show investment has dipped below trend. The drop is because average loan sizes have fallen, perhaps because businesses have responded to recent uncertainties by deferring some of their larger capital expenditure projects. The fundamentals remain supportive of a decent lift in capital expenditure.

The pool of investable assets is growing, but aggregate assets origination is lagging. Investment growth in the Australian capital markets is equivalent to the creation of a 5th Major Bank every year!

The Financial Services Reform Act will have a major impact on all financial services companies, and we are well advanced in preparing for our licence application.

Changes to international accounting standards will provide our clients with significant challenges, and opportunity to advise on appropriate re-structuring.

Reforms to credit and debit card schemes are likely to have offsetting effects on our business.

The areas of focus in IBS going forward will be a product and process simplification, where there are significant opportunities to increase efficiency. We also need to develop a more focussed sales culture.

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Thank you for your attention. As you have heard, much has been achieved in the last 12 months, client satisfaction and market share are encouraging and there is still more to be done. My direct reports are in the audience, so I may direct any questions you may have to them if appropriate. In the supplementary information, you will find more detail on the IBS structure and an analysis of our current risk profile which has remained sound.
Thank you.

Supplementary Slides:

IBS is Structured into Client and Product Groups... - no text
...Led by an Experienced Leadership Team – no text
Overall, Our Risk Profile Continues to Remain Sound – no text
Uncertain Business Credit Growth and Tightening Spreads - no text