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# **Investor Half Day**

## **Net Interest Margin (NIM)**

### **Sustainability of Dividend**

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19 October 2004

# Disclaimer

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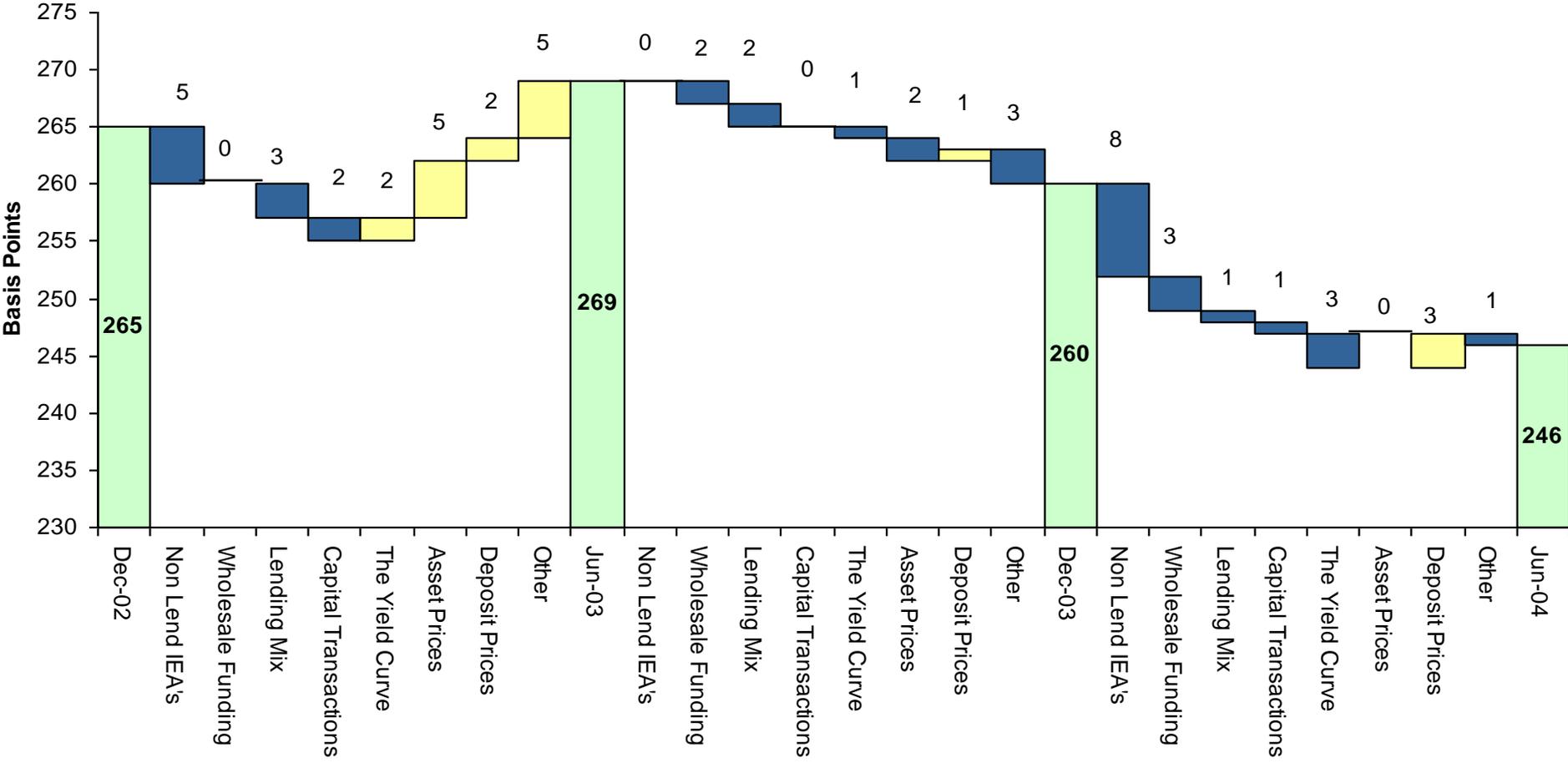
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# Net Interest Margin

# Half on Half Group NIM



# NIM Drivers

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1. **Non Lending Interest Earning Assets**
2. **Wholesale Funding**
3. **Lending Mix**
4. **Capital Transactions**
  - hybrid issuance
  - share issuance
  - share buyback
5. **The Yield Curve**
  - cash : bills
  - change in replicating effect
6. **Asset Prices**
  - housing
  - personal
  - business
7. **Deposit Prices**
  - at call deposits
  - term deposits

# Non Lending Interest Earning Assets

Non Lending Interest Earning Assets - Group	Half Year Ending		
	Jun-03	Dec-03	Jun-04
Cash & Liquid Assets	4.0	4.8	5.0
Receivables from Other Financial Institutions	6.3	7.1	7.2
Deposits with regulatory authorities	0.1	0.1	0.1
Trading Securities	12.2	11.7	14.5
Investment Securities	12.6	11.7	14.1
Other Interest Earning Assets	0.0	0.0	0.0
<b>Non Lending IEA's</b>	<b>35.2</b>	<b>35.3</b>	<b>40.9</b>
Includes Group Treasury Liquidity Holdings	7.7	8.6	12.2
<b>Change in level Non Lending Interest Earning Assets - Group</b>			
Cash & Liquid Assets	-0.2	0.7	0.3
Receivables from Other Financial Institutions	0.3	0.8	0.1
Deposits with regulatory authorities	0.0	0.0	0.0
Trading Securities	2.9	-0.5	2.8
Investment Securities	0.6	-1.0	2.4
Other Interest Earning Assets	0.0	0.0	0.0
<b>Non Lending IEA's</b>	<b>3.6</b>	<b>0.1</b>	<b>5.6</b>
Includes change to Group Treasury Liquidity Holdings	1.7	0.9	3.6
<b>Impact on Group NIM</b>	<b>-0.05%</b>	<b>0.00%</b>	<b>-0.08%</b>
Figures may not add due to rounding	(All figures \$bn average balance unless stated otherwise)		

# Wholesale Funding

	Half Year Ending		
	Jun-03	Dec-03	Jun-04
<b>Group Funding</b>			
Long Term	32.4	34.6	35.9
Short Term	42.5	43.7	57.1
Total Wholesale	74.8	78.4	93.0
Total Retail	132.6	139.0	145.0
Total Funding	207.4	217.4	238.0
<b>Growth</b>			
Long Term	1.8	2.3	1.3
Short Term	-0.9	1.3	13.4
Total Wholesale	0.9	3.5	14.7
Total Funding	5.4	9.9	20.6
<b>% Share of Total Funding</b>			
Long Term	15.6%	15.9%	15.1%
Short Term	20.5%	20.1%	24.0%
Total Wholesale	36.1%	36.0%	39.1%
Total Retail	63.9%	64.0%	60.9%
Total Funding	100.0%	100.0%	100.0%
<b>Impact on Group NIM</b>	<b>0.00%</b>	<b>-0.02%</b>	<b>-0.03%</b>

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# Lending Mix

	Half Year Ending		
	Jun-03	Dec-03	Jun-04
<b>Interest Earning Lending Balances - Group</b>			
Housing	96.7	106.3	116.2
Other Personal	12.4	12.5	13.0
Business / Other	48.7	50.2	54.1
Total	<u>157.7</u>	<u>169.0</u>	<u>183.3</u>
<b>Growth</b>	0.0	0.0	0.0
Housing	7.3	9.6	10.0
Other Personal	0.5	0.1	0.5
Business / Other	-2.1	1.6	3.8
Total	<u>5.7</u>	<u>11.3</u>	<u>14.3</u>
<b>% Share of Total Group Loans</b>			
Housing	61.3%	62.9%	63.4%
Other Personal	7.8%	7.4%	7.1%
Business / Other	30.9%	29.7%	29.5%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Impact on Group NIM</b>	<b>-0.03%</b>	<b>-0.02%</b>	<b>-0.01%</b>

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# Capital Transactions

	Half Year Ending		
	Jun-03	Dec-03	Jun-04
<b>Impact From Capital Transactions</b>			
Average Balance Preference Shares	0.7	0.7	0.7
Average Balance Other Equity Instruments	0.0	0.7	1.6
Issue \$467m in Share Purchase Plan on 25/06/04	0.0	0.0	0.0
<b>Sub-Total</b>	<b>0.7</b>	<b>1.4</b>	<b>2.3</b>
Dividend Payment of \$832m on 8/10/02	-0.8	-0.8	-0.8
Interim Dividend Payment of \$699m on 28/03/02	-0.4	-0.7	-0.7
Dividend Payment of \$865m on 8/10/03		-0.4	-0.9
Share Buyback \$532m on 29/03/04			-0.3
Interim Dividend Payment of \$808m on 30/03/03			-0.4
<b>Sub-Total</b>	<b>-1.2</b>	<b>-1.9</b>	<b>-3.1</b>
<b>Total Balance Impact on Interest Free Liabilities</b>	<b>-0.5</b>	<b>-0.6</b>	<b>-0.9</b>
<b>Impact on Group NIM</b>	<b>-0.02%</b>	<b>0.00%</b>	<b>-0.01%</b>

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# The Yield Curve

## Yield Curve

### NIE Impact

Change in Basis Risk (Cash v 90 Day Bills)  
 Reduced Replicating Portfolio Benefit (not due to Cash rate change)  
**Subtotal**

Average 90 Day BBR  
 Average Cash Rate  
 Difference

### Impact on Group NIM

	Half Year Ending		
	Jun-03	Dec-03	Jun-04
	\$m	\$m	\$m
	15	-2	-19
	0	-9	-10
	<b>15</b>	<b>-12</b>	<b>-29</b>
	4.76%	5.03%	5.53%
	4.75%	4.87%	5.25%
	0.01%	0.17%	0.28%
	<b>0.02%</b>	<b>-0.01%</b>	<b>-0.03%</b>

Figures may not add due to rounding

# Asset Prices

	Half Year Ending		
	Jun-03	Dec-03	Jun-04
<b>Interest Earning Lending Balances - Group</b>			
Housing	96.7	106.3	116.2
Other Personal	12.4	12.5	13.0
Business / Other	48.7	50.2	54.1
<b>Total IEA Lending Assets</b>	<b>157.7</b>	<b>169.0</b>	<b>183.3</b>
<b>Change in Margin on Lending Products (CBA Bank Domestic)</b>			
Home Loan Margin	0.04%	-0.02%	-0.03%
Other Personal	0.07%	0.03%	0.06%
Business / Other	0.18%	-0.08%	0.09%
<b>Market Share</b>			
Australia Home Loans	19.5%	19.3%	19.3%
Australia Credit Cards	22.8%	22.7%	22.7%
Australia Business Lending	14.0%	14.2%	14.2%
New Zealand Lending for Housing	20.6%	21.6%	22.2%
<b>Impact on Group NIM</b>	<b>0.05%</b>	<b>-0.02%</b>	<b>0.00%</b>

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# Deposit Prices

	Half Year Ending		
	Jun-03	Dec-03	Jun-04
<b>Interest Bearing Deposits - Group</b>			
Time Deposits	59.2	66.9	79.4
Savings Deposits	35.4	34.7	33.7
Other Demand Deposits	38.6	41.9	43.0
Sub-Total	133.2	143.6	156.2
<b>Change in Margins on Deposit Products (CBA Bank Domestic)</b>			
Time Deposits	0.05%	-0.05%	0.04%
Savings Deposits	0.08%	0.09%	0.08%
Other Demand Deposits	0.00%	0.06%	0.06%
<b>Deposit Competition (Market Share)</b>			
Australia Retail Deposits	24.2%	24.1%	23.6%
New Zealand Retail Deposits	16.4%	17.2%	17.5%
<b>Impact on Group NIM</b>	<b>0.02%</b>	<b>0.01%</b>	<b>0.03%</b>

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# NIM Sensitivity

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<b>Change required to produce movement in Group NIM of</b>	<b>0.01%</b>	<b>-0.01%</b>
Non Lend IEA's change in level (\$bn)	-\$0.9 bn	\$0.9 bn
Wholesale Funding (% change wholesale share)	-0.65%	0.65%
Lending Mix (% change in HL share)	-0.78%	0.78%
Capital Transactions (\$bn change in Equity)	\$0.4 bn	-\$0.4 bn
The Yield Curve (change % cash/bill differential)	-0.15%	0.15%
Asset Prices (change lending prod margin)	0.01%	-0.01%
Deposit Prices (change in deposit product margin)	0.01%	-0.01%
Required Change in Group NIE (\$m)	\$22m	-\$22m

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# Sustainability of Dividend

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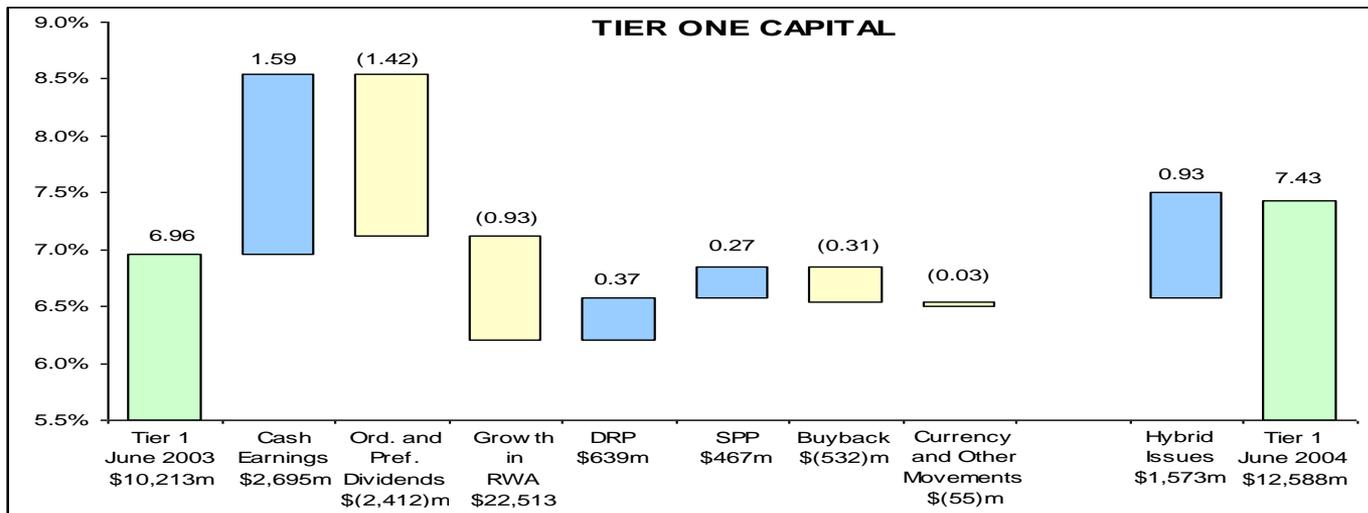
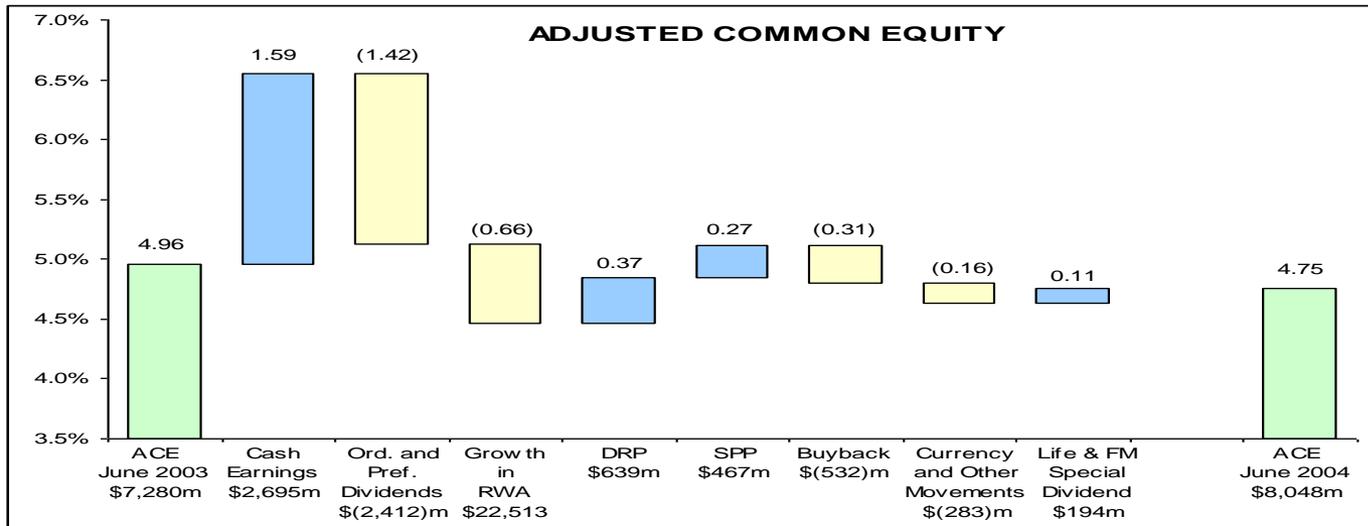
Sustainability of the Dividend Payout Ratio (DPR) is related to:

- Cash Profit
- Current and expected rates of business growth and the mix of business
- Capital needs to support economic, regulatory and credit ratings requirements
- The rate of return on assets
- Investments and/or divestments to support business development

Subject to current market conditions continuing:

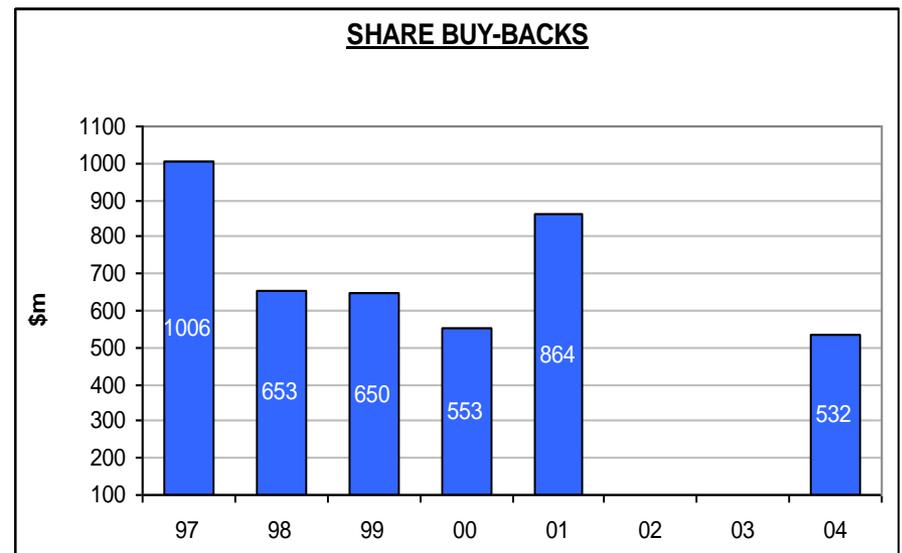
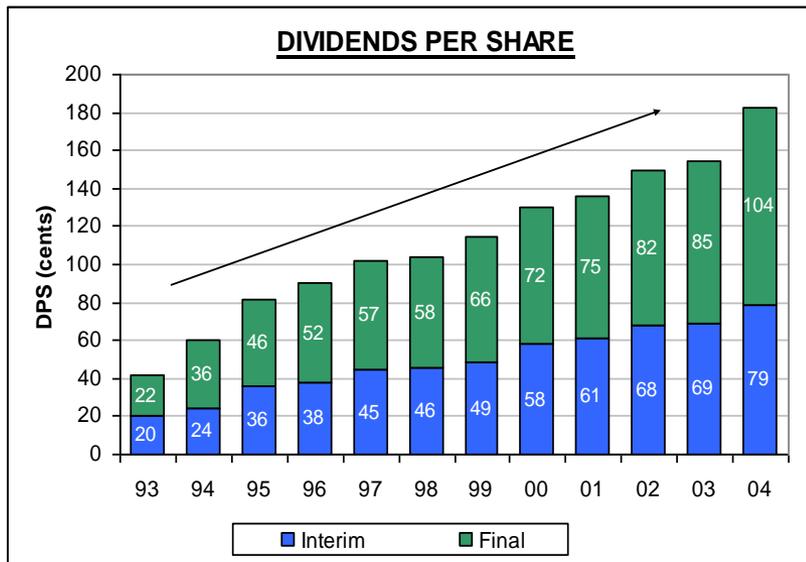
- Over the three years 2004-2006 we expect to deliver increases in DPS each year

# Generation and Use of Capital



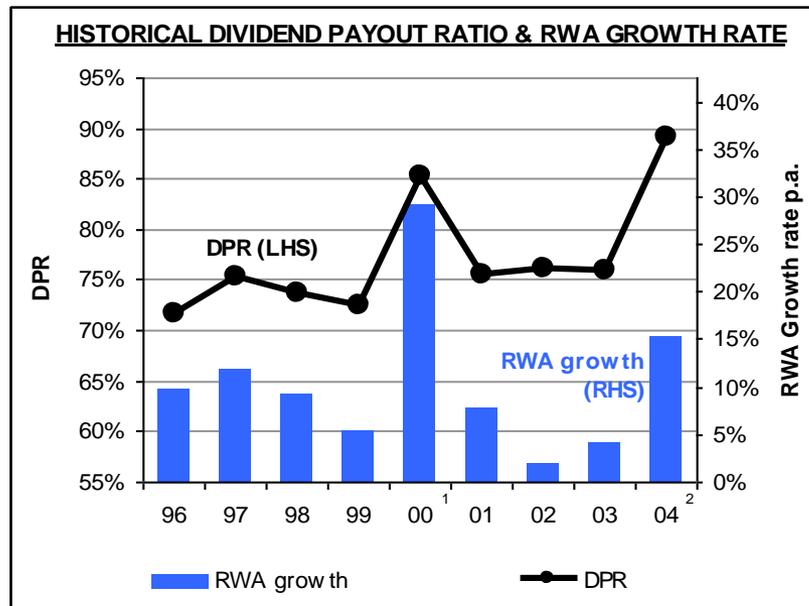
# Dividend and Buy-Back History

- Increases in DPS each year
- Buy-backs regularly used to enhance EPS and increase ROE
- \$4.3bn of shares bought back since privatisation



# ACE and the Dividend Payout Ratio

- ACE is sensitive to the rate of business growth and business mix
- DPR represents total annual dividends as a proportion of cash profit less preference share dividends



RWA Growth Scenarios	Maximum FY05 DPR to maintain 4.5% ACE ratio	
	Assuming 0% Cash NPAT growth	Assuming 5% Cash NPAT growth
6%	95%	95%
8%	89%	89%
10%	83%	84%
12%	77%	78%
15%	68%	70%

1. Relates to Colonial merger.

2. FY04 Dividend Payout Ratio of 89.1% is based on Cash Profit (i.e. after Which New Bank costs). FY04 DPR is 73.9% based on Cash Profit with WnB costs added back.



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# **Investor Half Day**

## **Net Interest Margin (NIM)**

### **Sustainability of Dividend**

Marten Touw

Group Treasury

19 October 2004