

# GROUP STRATEGY UPDATE

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**Commonwealth**Bank



# Disclaimer

The material that follows is a presentation of general background information about the Group's activities current at the date of the presentation, 19 April 2012. 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.

# A logical continuation

- A strategy built around **strengthened capability** delivering competitive advantage
  - World-leading application of **technology** to financial services
  - Vibrant **customer-focused culture and people**
  - **Strong, flexible balance sheet**
- Enables **domestic growth**
  - **More customer needs identified and met** in core retail/small business franchise
  - Continued growth in **business and institutional banking**
  - **Productivity** across the Group
- Underpins **growth outside Australia**
  - Ongoing **capability transfer** to retail/small business presence in Indonesia
  - Further **value added** to partnerships in China, with some proprietary investment
  - **Disciplined M&A** approach
- Delivers **TSR outperformance**
  - Industry-leading ROE and stable dividend stream

# Our view of the operating environment

- Confidence in Australia's long-term economic strength
- Global volatility
- Higher competitive intensity in all businesses
- Technology driving change in customer preferences
- Increased demands from other stakeholders – regulators and the community in particular

# A track record in technology delivery

## Revitalised front-line customer interface

- Single view of customer across channels
- CommSee
- Revitalised Sales & Service processes

## Best-in-class online platforms

- NetBank
- CommBiz
- CommSec
- FirstChoice

## Core Banking Modernisation

- Legacy system replacement
- Real-time banking
- Straight-through processing
- Concurrent process redesign

# Long-term competitive advantage through technology

## Key areas of focus

## Example benefits

### Applications to leverage real-time

- Everyday Settlement / working capital solutions
- Real-time account opening and maintenance

### Streamlining of customer interfaces

- New ways to pay and transact – e.g. Kaching
- Greater convenience, interactivity and experience
- Higher trust and privacy

### “Big data” and analytics

- Insights to offer more value and to price based on loyalty and risk
- Improved risk / capital insights

### On-demand service/ cloud

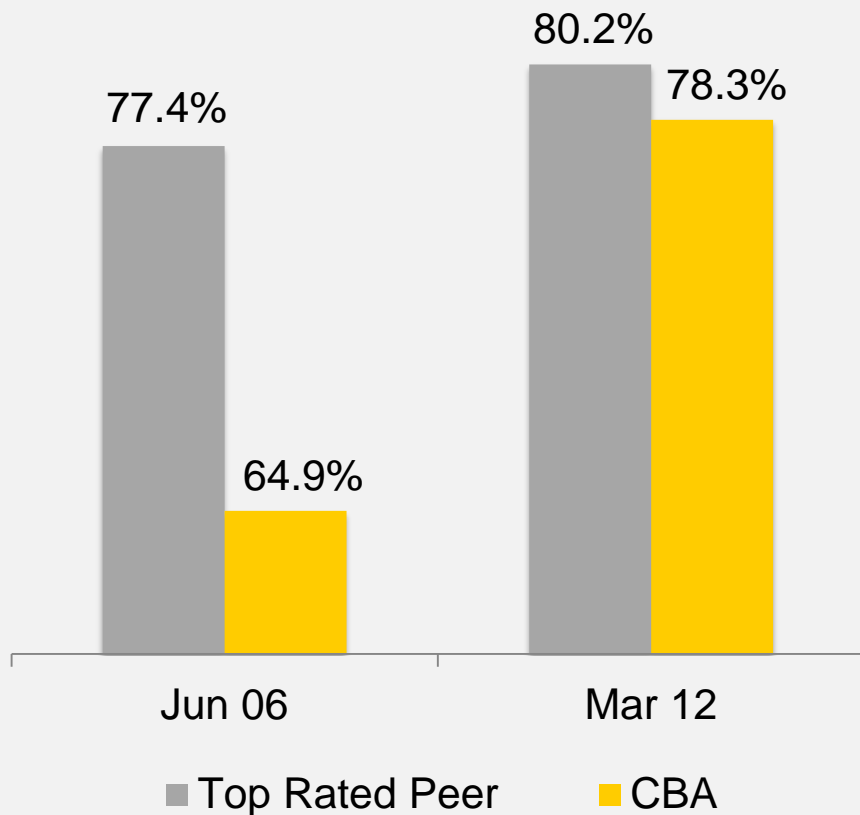
- Dynamic content and capability
- Greater stability and lower cost for our customers

### Simplicity to enhance productivity

- Simple processes – customer-facing and internal
- Straight-through processing, reduced paper handling

# Customer-focused culture and people

## Customer satisfaction – retail<sup>1</sup>



- Customer focus remains primary:
  - Collaboration
  - Accountability
  - Innovation
  - Pride in the Group
  - #1 in customer satisfaction
- Enhanced talent programs
- Commitment to diversity
- Long-term people focus
- No offshoring

1. Retail MFI Customer Satisfaction – Roy Morgan Research. Australian population 14+, % "Very Satisfied" or "Fairly Satisfied" with relationship with that main financial institution. 6-month rolling average. Top rated peer based on comparison with the Major Four banks. Note the institution definitions were updated from Mar-12 onwards.

# A strong, flexible balance sheet

## Managing growth

- Scenario-driven
- Portfolio management approach – dynamic capital allocation
- Conservative bias and risk settings

## Funding & liquidity

- Diversified wholesale funding profile
- Active management of deposit funding
- Strong liquid asset holdings – well placed for LCR

## Capital

- Balance regulatory, capital markets and rating agency demands
- ROE focus
- Continued recognition of dividend importance to shareholders



# Unrivalled core franchise

## Reach

- 1,150+ branches
- Largest ATM network
- Leading online websites and platforms (website #1 financial services, #4 overall)

## Relationships

- MFI for ~33% of Australians<sup>1</sup>
- ~45% of all retail transactions
- #1 share in mortgages, deposits and payments
- ~155,000 merchant relationships

## Technology

- World-leading systems
- Real-time banking for 11 million+ customers
- Cutting edge innovation – e.g. Kaching

1. Source: Roy Morgan Research. Australians 14+, Proportion of Banking and Finance (B&F) Main Financial Institution (MFI) Customers (excl. Can't Say B&F institution) that nominated each banking group as their MFI, 12 months to February 2012.

# Identify and meet more customer needs

**Reach**



**Relationships**



**Technology**

- Improve access to our products (especially investments and insurance) in every channel across the Group
- Utilise information advantage to identify and meet customer needs more proactively and tailor pricing
- Simplify product offerings
- Strongly defend leading shares while managing margins
- Similar opportunities for ASB and Bankwest

# Continued growth in Business & Institutional

## Today

- Improved market shares
- High customer satisfaction in all segments
- Strong risk management
- Technology advantage
- Below potential in share, particularly in institutional banking

## Future

- Substantial upside remains
- Emphasis on technology advantage: CommBiz, real-time banking, Everyday Settlement, foreign exchange capability
  - Already delivering results – 29 new-to-bank institutional transaction banking clients this financial year
- More specialised industry coverage
- Strengthen investment in capabilities



# Group-wide productivity emphasis

## Good track record

- Group C:I ratio down 4ppts in four years (8ppts in Retail Bank)

## Significant opportunity still remains without offshoring, enabled by world-leading technology

### Area

- Lean process improvement – sales
- Lean process improvement – back office
- Centres of Excellence
- Disciplined cost control
- Lean process re-engineering

### Opportunities include...

- Lean Branches, Lean Business Banking Sales
- Lean IT Maintenance, Lean IT Development, Lean IT Operations, Lean Back Office
- Finance Operations, Workout, Credit Decisioning, Loan Processing, Call Centres
- Group-wide sourcing arrangements, remove organisational duplication
- “No Paper”, “e-conveyancing”

# International growth supported by capability transfer

	Today	Future
<b>Indonesia</b>	<ul style="list-style-type: none"> <li>▪ In the market since 1992</li> <li>▪ 87 branches across Indonesia</li> <li>▪ Primarily focussed on SME banking</li> </ul>	<ul style="list-style-type: none"> <li>▪ Accelerate branch rollout</li> <li>▪ Upskill staff and improve technology</li> <li>▪ Maintain mass affluent/SME focus with conservative risk settings</li> </ul>
<b>China</b>	<ul style="list-style-type: none"> <li>▪ In the market since 1992</li> <li>▪ Strong partnerships with Hangzhou, Qilu, BoComm</li> </ul>	<ul style="list-style-type: none"> <li>▪ Continue to add value to partnerships</li> <li>▪ Shanghai and planned Beijing branch to boost RMB and trade finance capability</li> <li>▪ County Banking investment</li> </ul>
<b>Asset management</b>	<ul style="list-style-type: none"> <li>▪ More than 50% of revenue and profits generated offshore</li> <li>▪ 35% of FUM raised from offshore clients</li> </ul>	<ul style="list-style-type: none"> <li>▪ Build on emerging market strength with newly seeded funds e.g. fixed income</li> <li>▪ Continue build-out of distribution</li> </ul>

# A disciplined approach to M&A

- Only undertake if we can create more value for our shareholders than they can create for themselves
- Means we need to be able to add value to any asset we buy, or be a uniquely qualified purchaser e.g. Bankwest
- Attractive assets will likely be strongly competed – requires compelling capability-based way to add value

# Long-term commitment to the community and Australia

## Lending

- 2m home loan borrowers
- 4.3m credit card holders
- 500,000 personal loan borrowers
- 600,000 business relationships

## Saving

- 11m retail saving and transaction accounts
- 1.2m funds management customers
- 360,000 CommSec accounts

## Paying

- Employ 52,000 people
- Australia's 3rd largest tax payer
- Pay >70% of our profit in dividends

- Negativity towards financial institutions
- Addressed by managing the business for the long-term
- Long-term “grass-roots” community commitments, especially in financial literacy
- Recognition that we are owned by our community – ~800,000 direct shareholders and millions more through super funds

# Key metrics – internal and external

## Revenue growth

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- Customer satisfaction
- MFI share
- Products per customer
- Market share
- Net interest margin

## Productivity

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- Total income and sales per FTE
- Employee expense / Total income
- Customer-facing : back office FTE ratio
- Cost-to-income ratio

**TSR  
outperformance**

## Capital efficiency

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- Profit after Capital Charge
- Return on equity
- Return on marginal funding
- Safety: Tier 1 capital, wholesale funding %, liquids

## Non financial measures

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- People engagement
- Safety
- Diversity measures
- Reputation measures



# CBA Strategy – in summary ...

- A strategy built around strengthened capability delivering competitive advantage
- Enables domestic growth
- Underpins growth outside Australia
- Delivers TSR outperformance

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