

**Commonwealth** Bank

**Presentation of Half Year Results**

**13 February 2001**

**[www.commbank.com.au](http://www.commbank.com.au)**

# Disclaimer

The material that follows is a presentation of general background information about the Bank's activities current at the date of the presentation, 13 February 2001. 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.



# 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."**



# Overview

- **Significant progress on the integration**
- **Strong interest earnings with improved margin**
- **Good growth in other banking income**
- **Strong new business growth in funds management**
- **Good inflows of insurance new business**
- **Actions taken to address market share**
- **Lower insurance earnings due to weak equity markets**
- **Costs reflect volume growth and new businesses**
- **\$700m off-market share buy-back**



# Agenda

- **Performance Highlights**
- **Income and Expenditure**
- **Balance Sheet**
- **Colonial Merger**
- **Funding and Capital**



# Performance Highlights

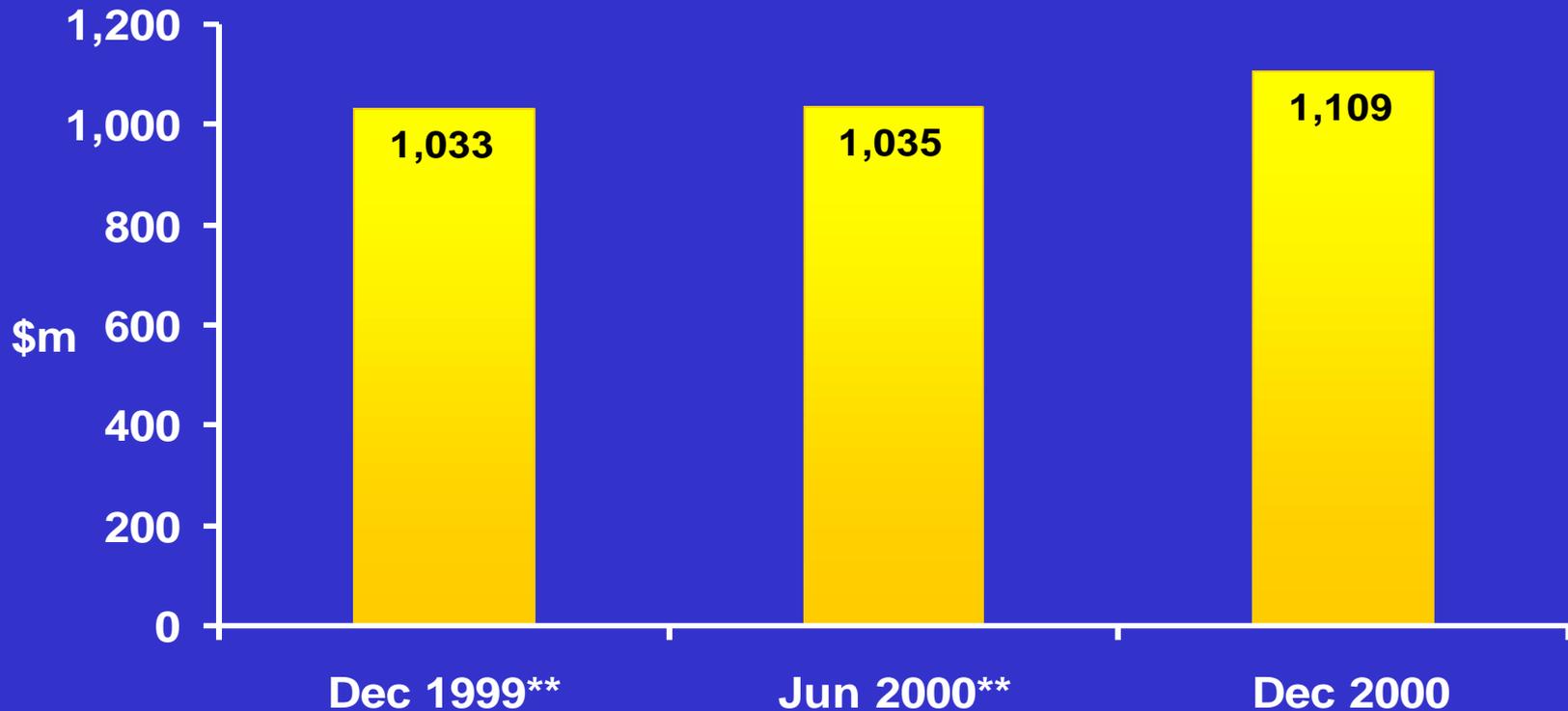
## Commonwealth Bank Group

Set out in this presentation are unaudited proforma graphs and tables which comprise the profit and loss, balance sheet and life insurance and funds management statistics for the Commonwealth Bank Group and Colonial Limited for the half years ending December 1999 and June 2000. These have been prepared to illustrate the proforma consolidated position of Commonwealth Bank and Colonial as if Colonial had been merged with Commonwealth Bank as at 31 December 1999 for balance sheet purposes and from 1 July 1999 to 30 June 2000 for profit and loss purposes.

The proformas do not include goodwill amortisation or life insurance appraisal value uplift. The results included within the profit and loss have been adjusted for abnormal items and other items not considered part of the ongoing operations, such as the effect of Colonial's UK life insurance business which was sold during the year and specific payments made by Colonial in relation to the merger with Commonwealth Bank. [No adjustments have been made for inconsistencies in accounting policies between Colonial and Commonwealth].



# Net Operating Profit\*

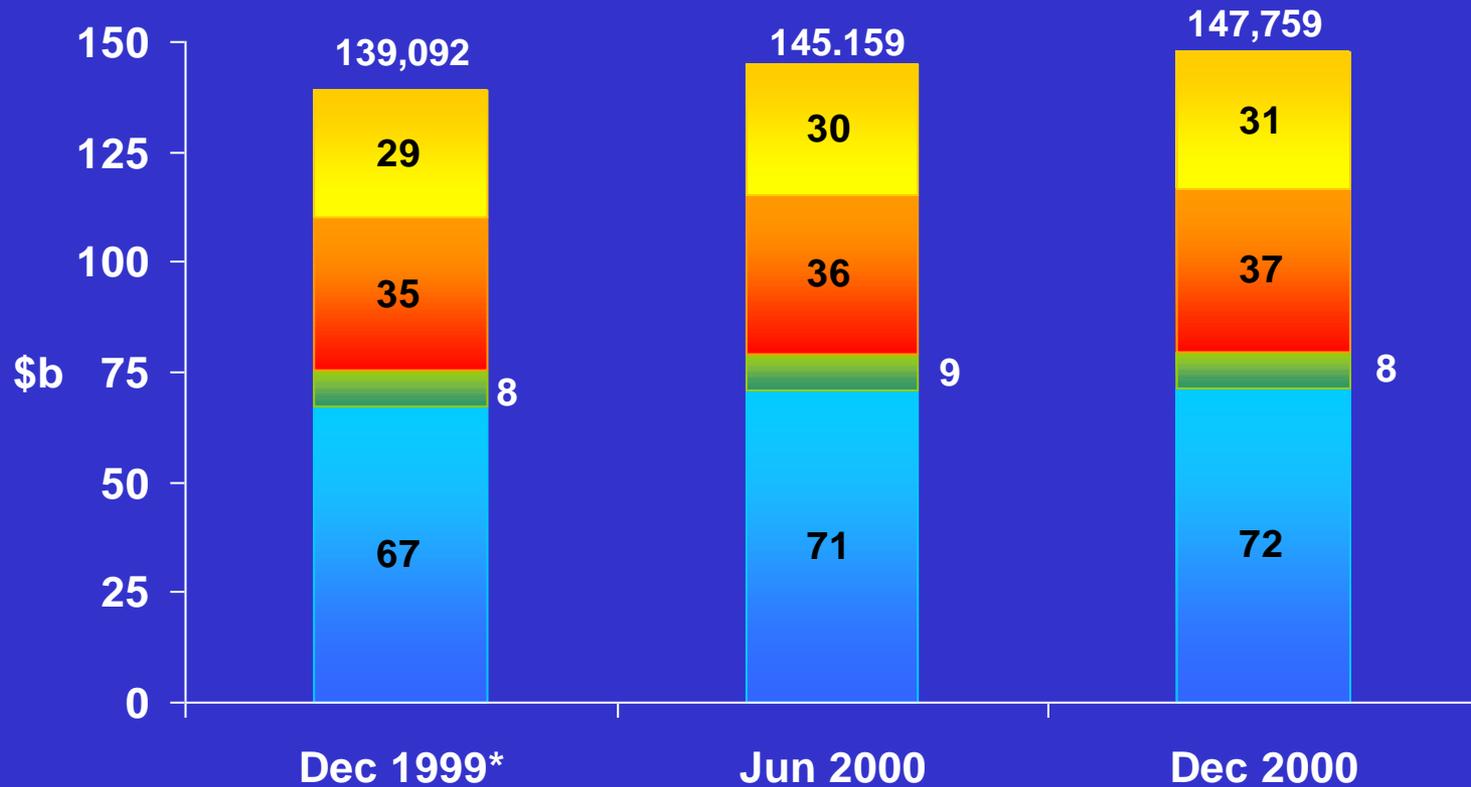


\* Net Profit after tax and outside equity interest - cash basis.  
Excludes abnormal items, appraisal value uplift and goodwill amortisation.

\*\* Proforma



# Lending Assets Growth



\* Proforma

\*\* Excludes securitised housing loan balances \$4.7b (Dec' 2000), \$3b (June 2000), \$1.7b (Dec'1999).



# Australian Market Share

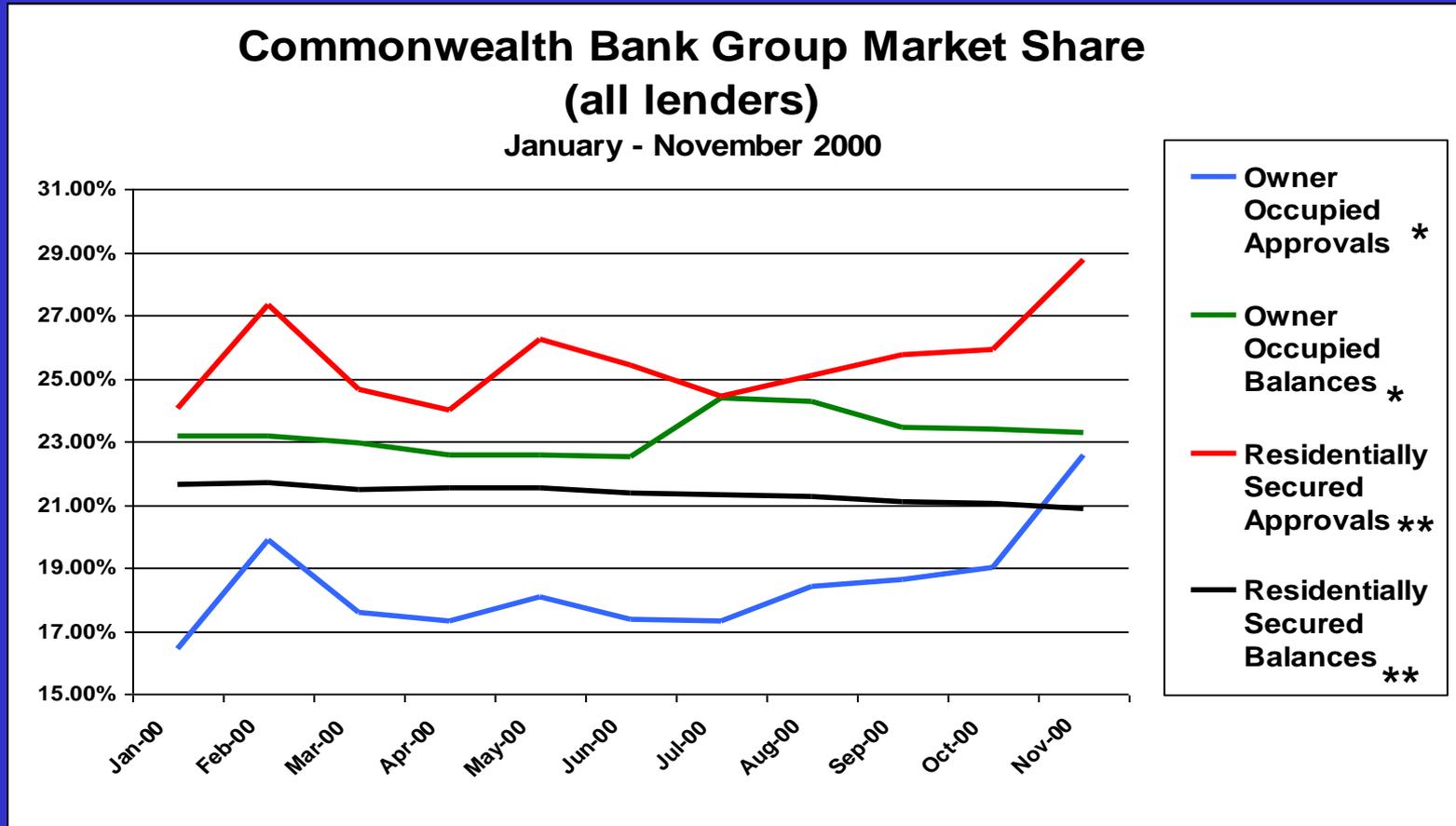
	<u>Jun</u> <u>2000</u>	<u>Dec</u> <u>2000</u>
Home loans	n/a	23.30%*
Credit Cards	29.00%	29.00%
Personal Loans	24.97%	24.93%*
Retail Deposits	25.29%	24.61%
Retail FUM	16.00%	16.77%**
Retail Broking	9.00%	8.50%

\* As at 30 November 2000

\*\* As at 30 September 2000



# Home Loan Market Share



\* Since September APRA all lenders includes home loan reclassification (ie home equity and similar facilities). Figures have been adjusted for HEF proforma back to January 2000.

\*\* APRA data includes owner occupied loans, home equity and similar facilities and investment home loans.



# New Zealand Market Share

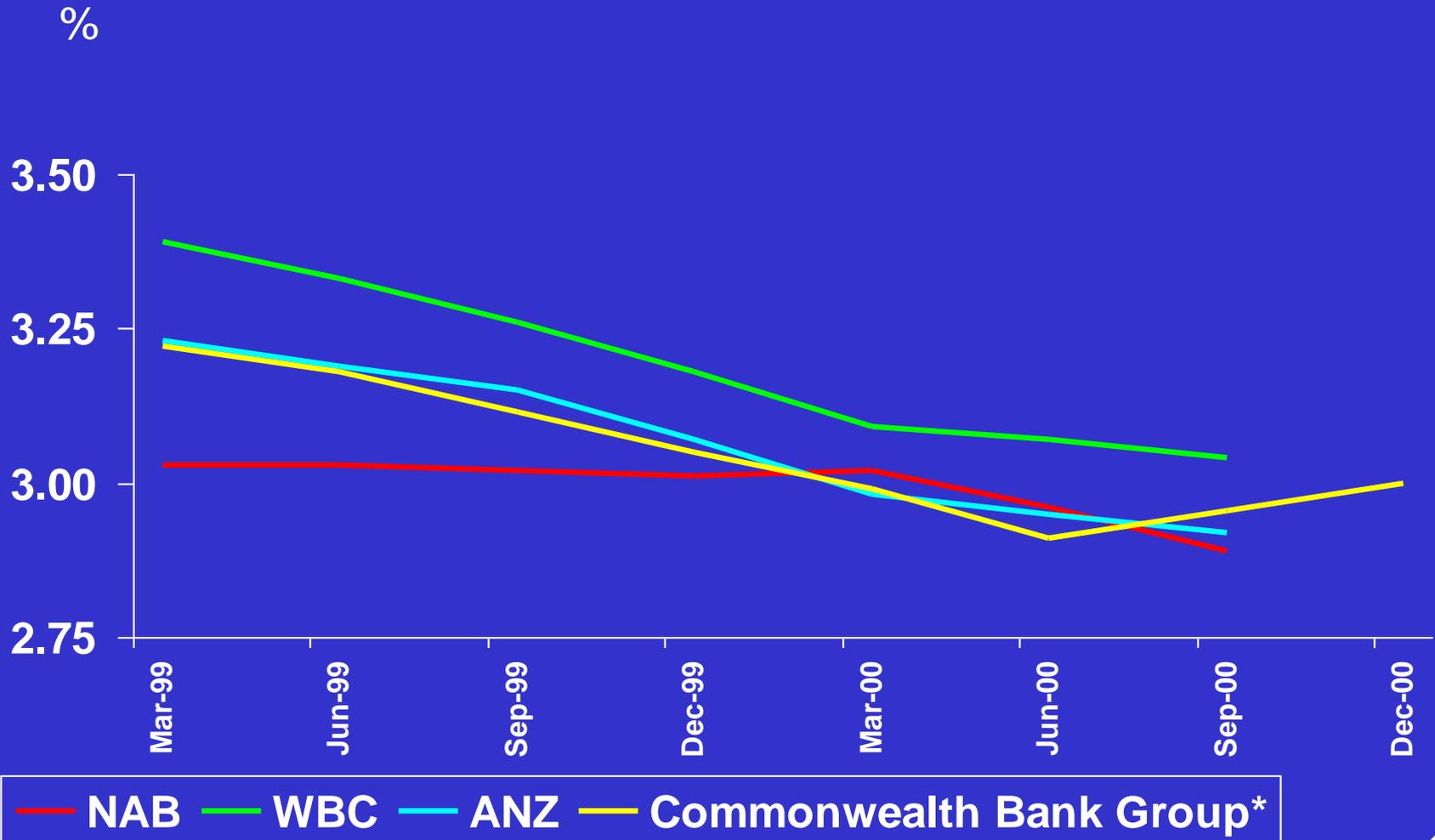
## ASB Group

### New Zealand

	<u>Jun</u> <u>2000</u>	<u>Dec</u> <u>2000</u>
Retail Lending	15%	16%
Retail Deposits	18%	18.5%
Credit Cards	12%	13.8%
Retail Funds Management	3.75%	4.7% est.
Main Bank Share	15%	16%



# Domestic Net Interest Margins



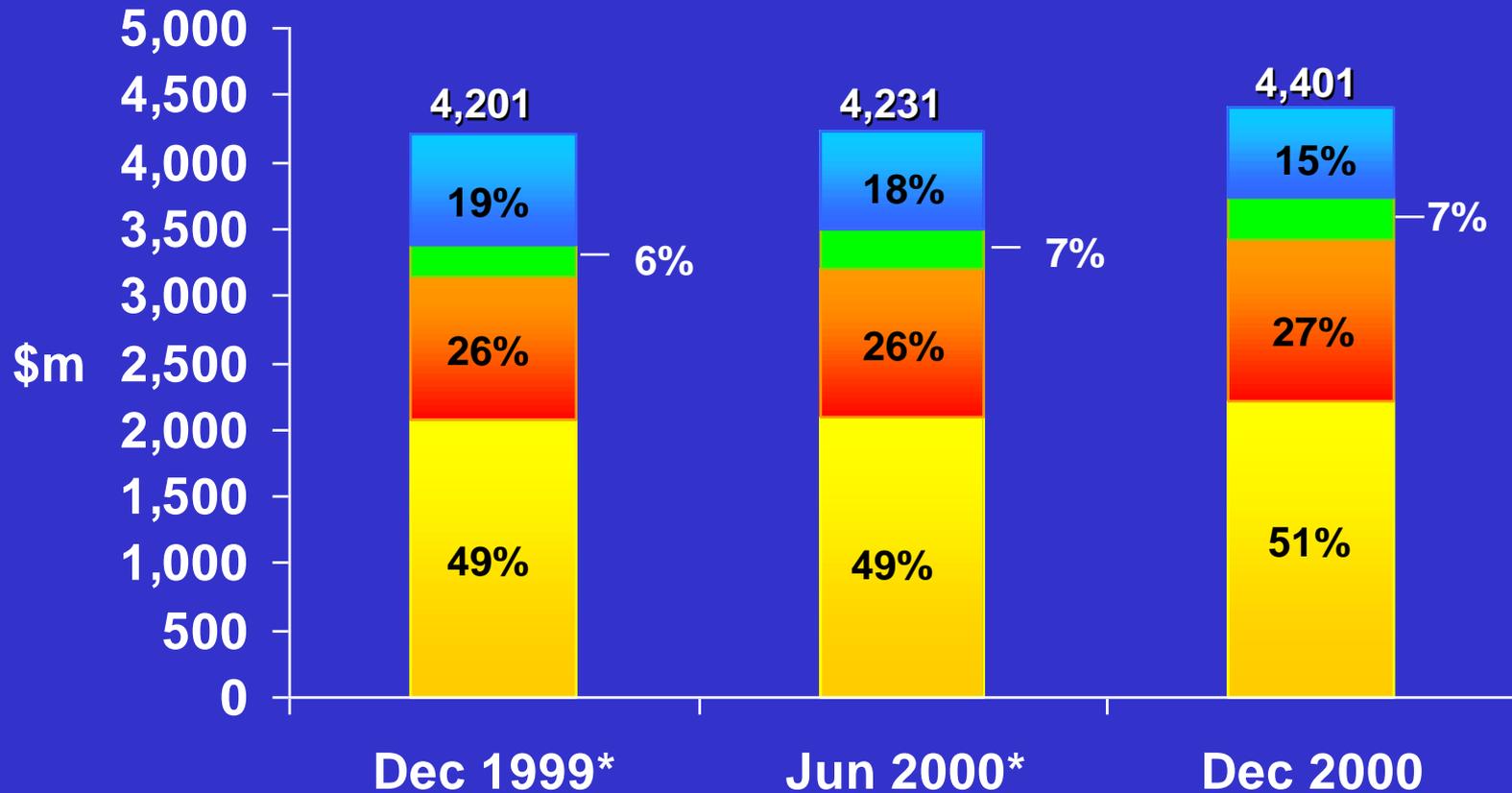
\* Proforma



# Income and Expenditure



# Operating Income



\* Proforma



# Banking

- **Strong growth in interest income**
- **Other Banking Operating Income**
  - Commission and other fees, up 14%
  - Trading Income, up 22%
  - Lending Fees, up 4%

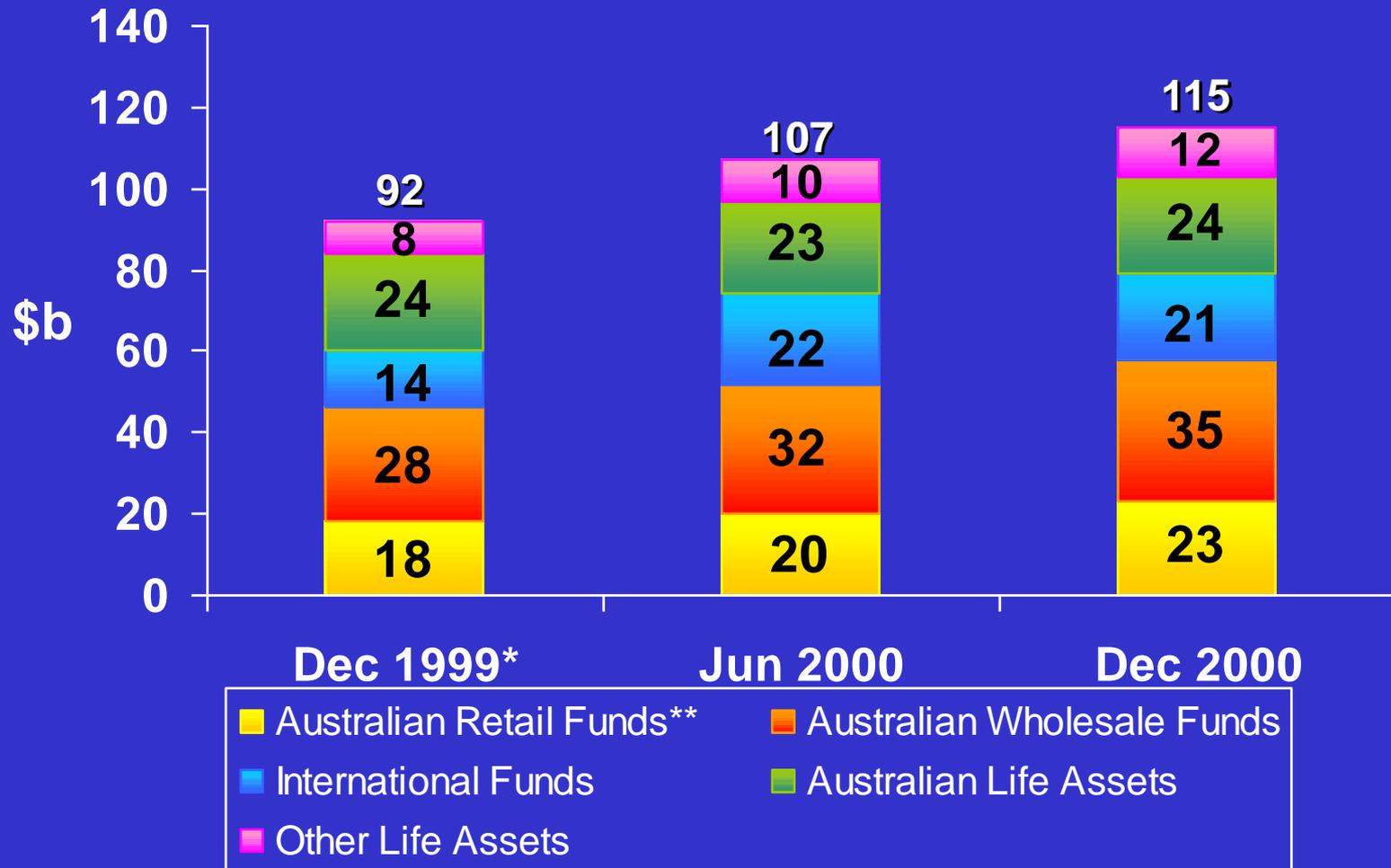
# Funds Management

	31/12/99*	30/06/00*	31/12/00
	\$M	\$M	\$M
Operating income	255	318	340
Operating expenses	186	224	224
Operating profit before tax	69	94	116
Income tax expense	21	31	38
<b>Operating profit after tax</b>	<b>48</b>	<b>63</b>	<b>78</b>

\* Proforma



# Funds Management



\* Proforma \*\* Includes listed property trusts

# Life Insurance

## Sources of life insurance operating profit (excluding abnormals)

	31/12/99*	30/6/00*	31/12/00
	\$M	\$M	\$M
<b>The Margin on Services operating profit after tax is represented by :</b>			
Planned profit margins	103	122	128
Experience Variation	(12)	(8)	(33)
New business / losses reversal of capitalised losses	11	2	(3)
Operating margins	102	116	92
Investment earnings on assets in excess of policy liabilities	91	52	68
Other	-	2	(4)
<b>Operating profit after income tax</b>	<b>193</b>	<b>170</b>	<b>156</b>

\* Proforma



# Life Insurance

## Investment Earnings

Target investment mix is 50 : 50 growth : income

As at December 2000

- 38% is directly invested in equity markets
- 12% is invested in property

Overall earnings were adversely impacted by poor equity returns for the period.

- net earnings on shareholder assets of \$21m versus \$91m for the same period in 1999
- Aust \$28m vs \$66m      NZ \$1m vs \$7m      Asia (-\$8m) vs \$18m

While returns have been poor, they have been in line with market indices

- (-3%) return on All Ords index [~50% of total share exposure]
- 3% return on Dow Jones index [~20% of total share exposure]
- (-3%) return on Euro top 300 [10% of total share exposure]



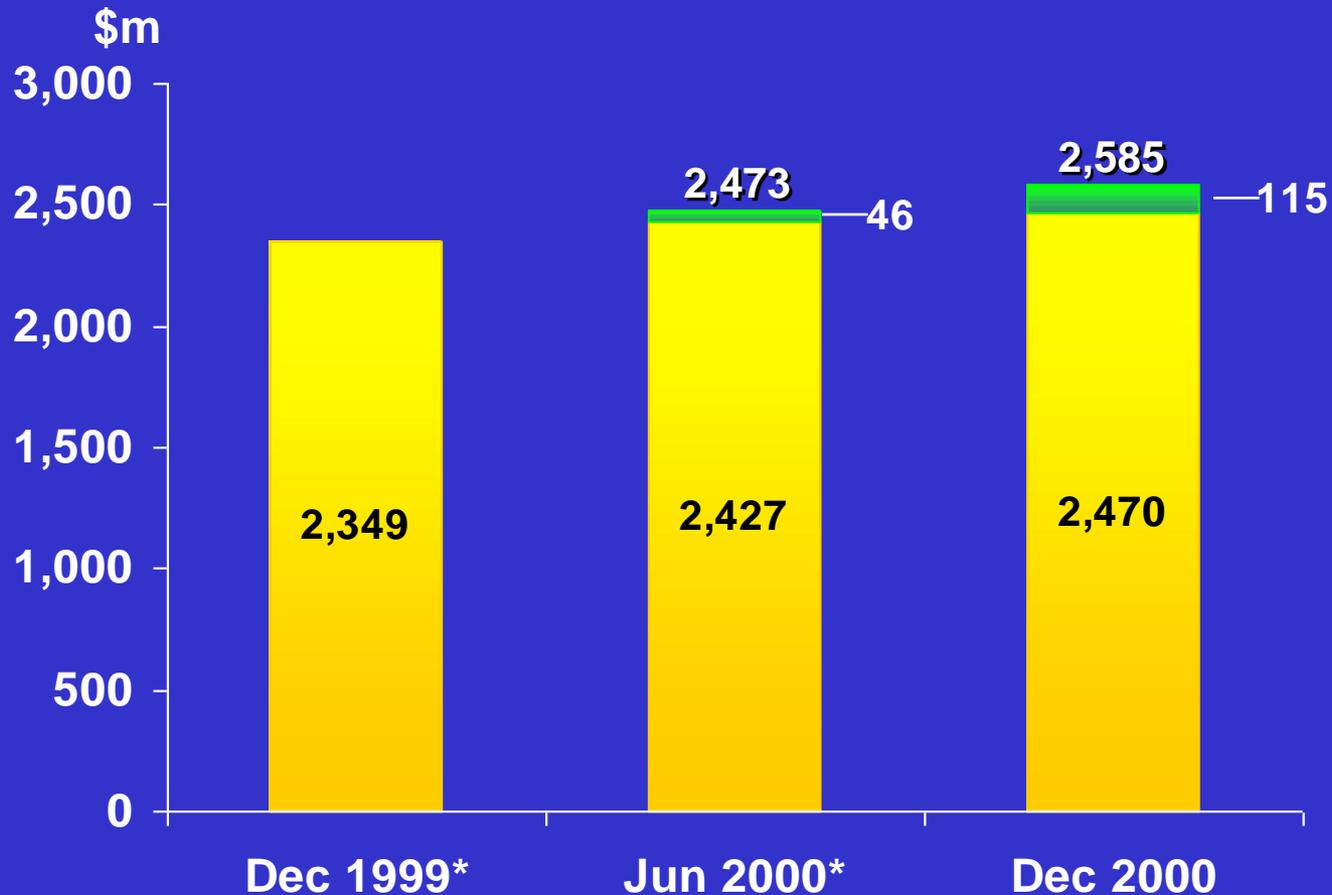
# Appraisal Value Uplift

	\$m
Life Business	
Australia	62
New Zealand	12
Asia	-
Funds Management	<u>115</u>
<b>Appraisal Value Uplift</b>	<u><b>189</b></u>

As at 31 December 2000



# Operating Expense Analysis

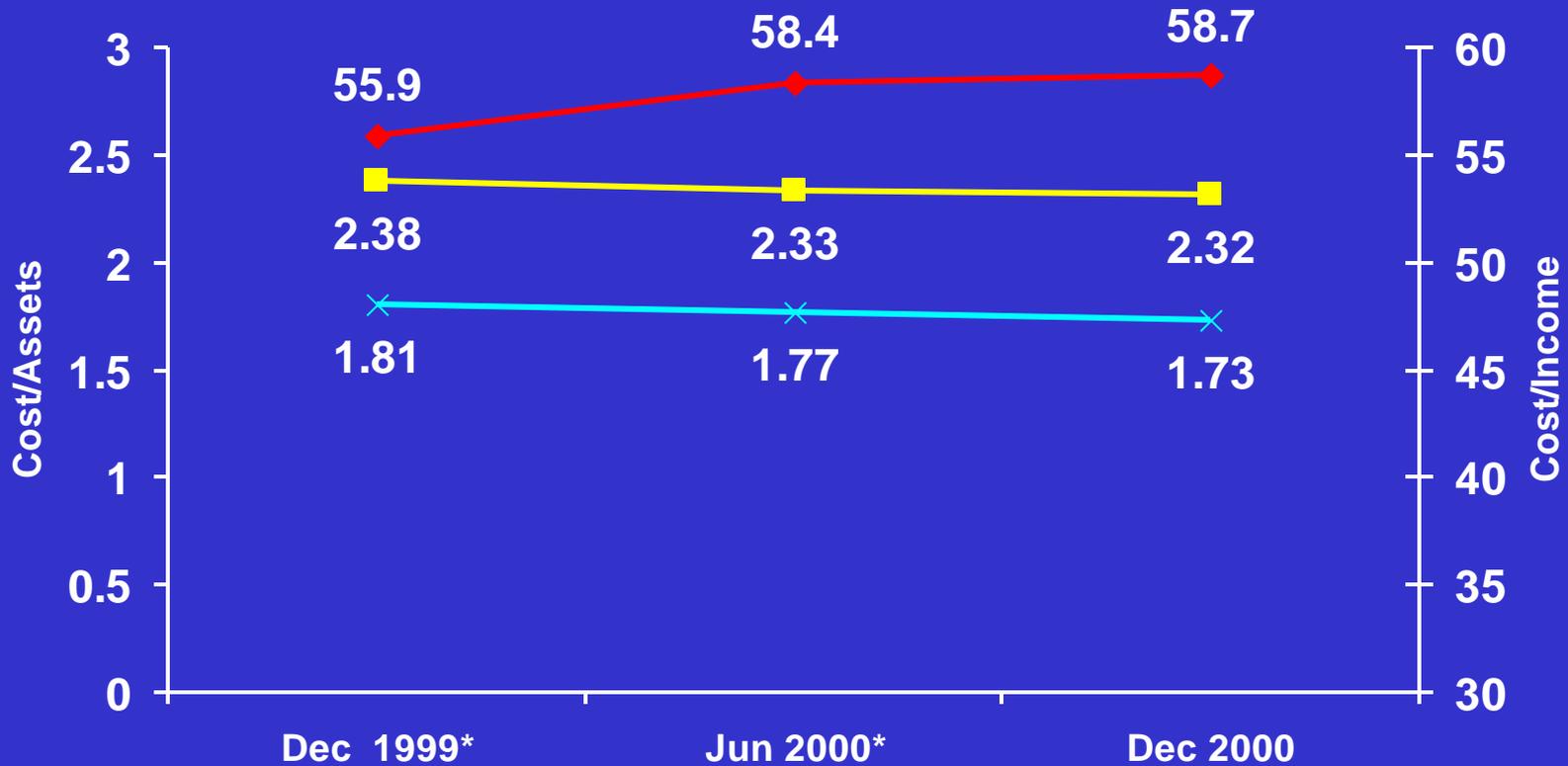


■ Existing Operations ■ Business acquisitions and GST

\* Proforma



# Cost Ratios



- Cost to Average Balance Sheet Assets
- × Cost to Avg. Balance Sheet Assets & FUM
- ◆ Cost to Income

\* Proforma



# **Goodwill**

## **Asset Quality**



# Goodwill

## Goodwill amortisation

HY  
31/12/00  
\$m

Colonial Acquisition

136

ASB Group – Acquisition of Minority

3

State Bank Victoria

20

Other Group Entities

4

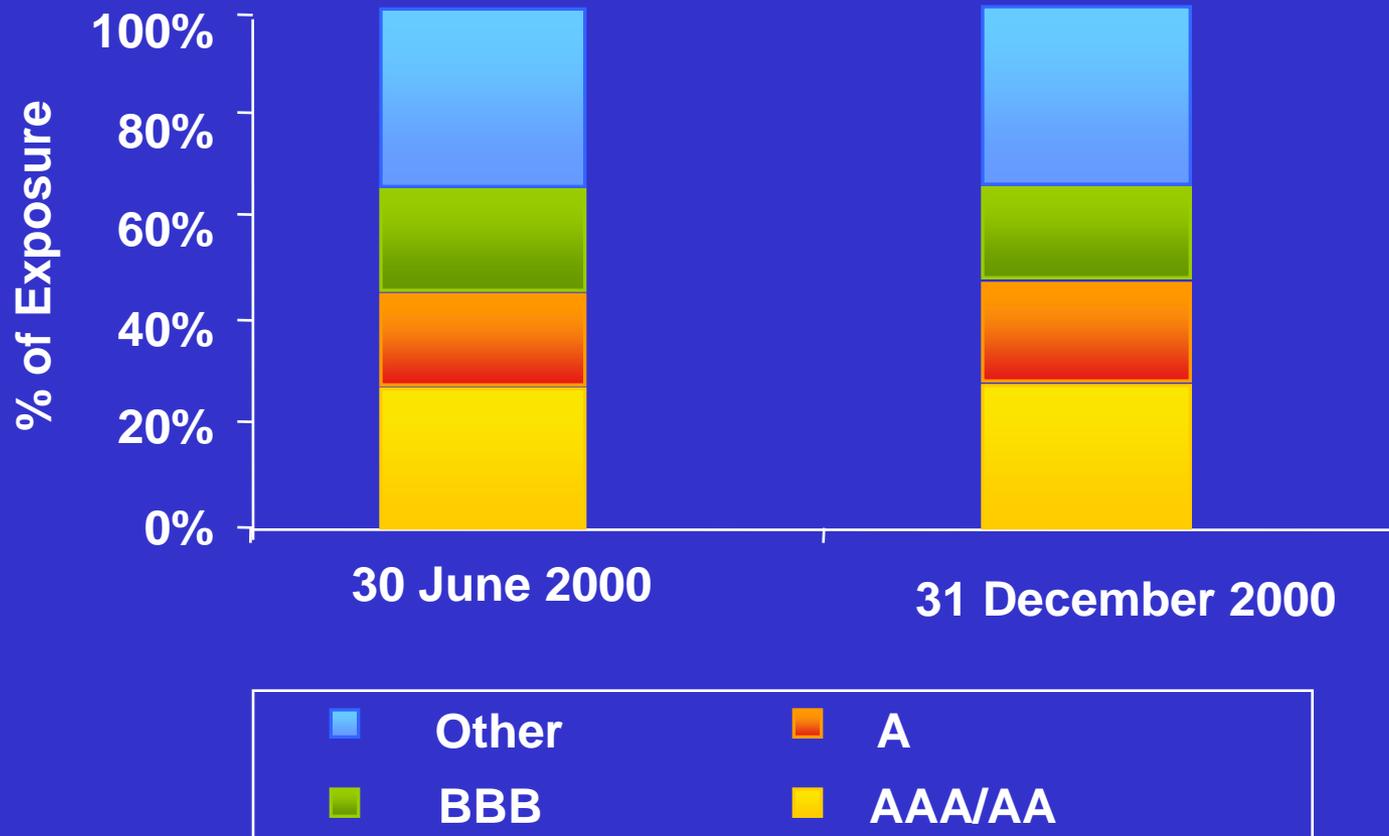
Total

163



# Credit Risk

## Total Risk Rated Exposures

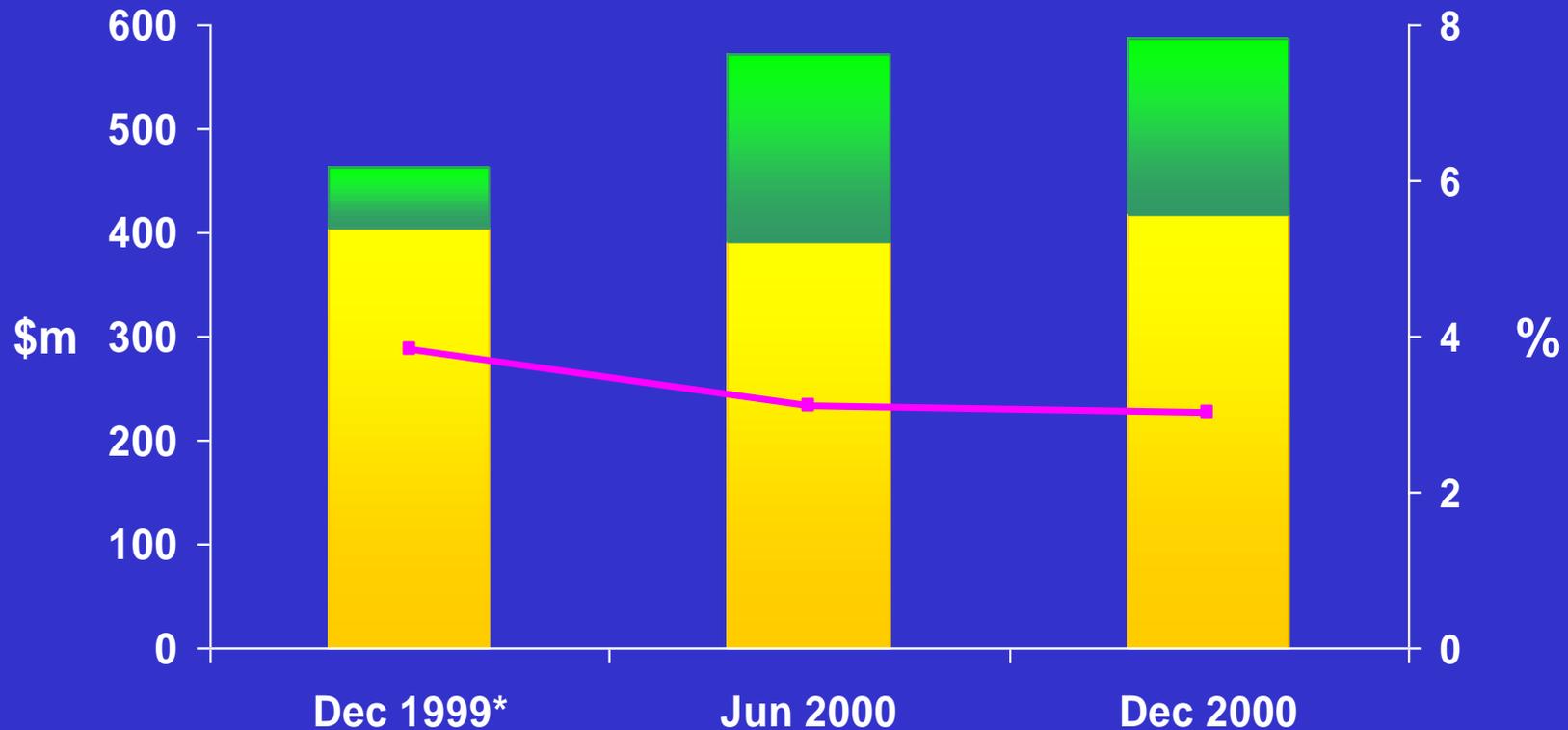


# Aggregate Provisions



\* Includes Colonial

# Net Impaired Assets



- Commonwealth Bank Group (Other Countries)
- Commonwealth Bank Group (Australia)
- Net Impaired assets as % of Total Shareholder Equity (axis on right)

\* Commonwealth Bank Group excluding Colonial

# Colonial Merger



# Integration Expenditure

## Restructure Provision

	Provision 30/06/00 \$m	Expenditure Half Year Ended 31/12/00 \$m	Provision 31/12/00 \$m
Restructuring Costs			
Colonial	294	62	232
Commonwealth Bank	106	41	65
<b>Total restructuring costs (pre tax)</b>	<b>400</b>	<b>103</b>	<b>297</b>



# Integration Related Staff Movements

	Business Case	Merger		Movement
	Jan-00	Jun-00	Dec-00	Jan to Dec
<b>Total Staff</b>	<b>40,018</b>	<b>39,575</b>	<b>38,028</b>	<b>(1,990)</b>
<b>Total Integration Mvt</b>		<b>(178)</b>	<b>(1,003)</b>	<b>(1,181)</b>
<b>Retrenchments</b>		<b>(129)</b>	<b>(441)</b>	<b>(570)</b>
<b>Franchise Staff</b>		<b>(56)</b>	<b>(51)</b>	<b>(107)</b>
<b>Other Colonial Net Change</b>		<b>7</b>	<b>(183)</b>	<b>(176)</b>
				<b>(853)</b>
<b>EDS Migration</b>			<b>(328)</b>	<b>(328)</b>
				<b>(1,181)</b>



# Retrenchment Costs and Estimated Staff Synergies

## Commonwealth Group\*

	<u>Total \$m</u>
<b>One-off Retrenchment Costs</b>	<b>50</b>
<b>Annualised Synergies</b>	<b>75</b>
<b>FY2000-2001 Staff Synergies (estimate)</b>	<b>60</b>

\* As at 31 December 2000

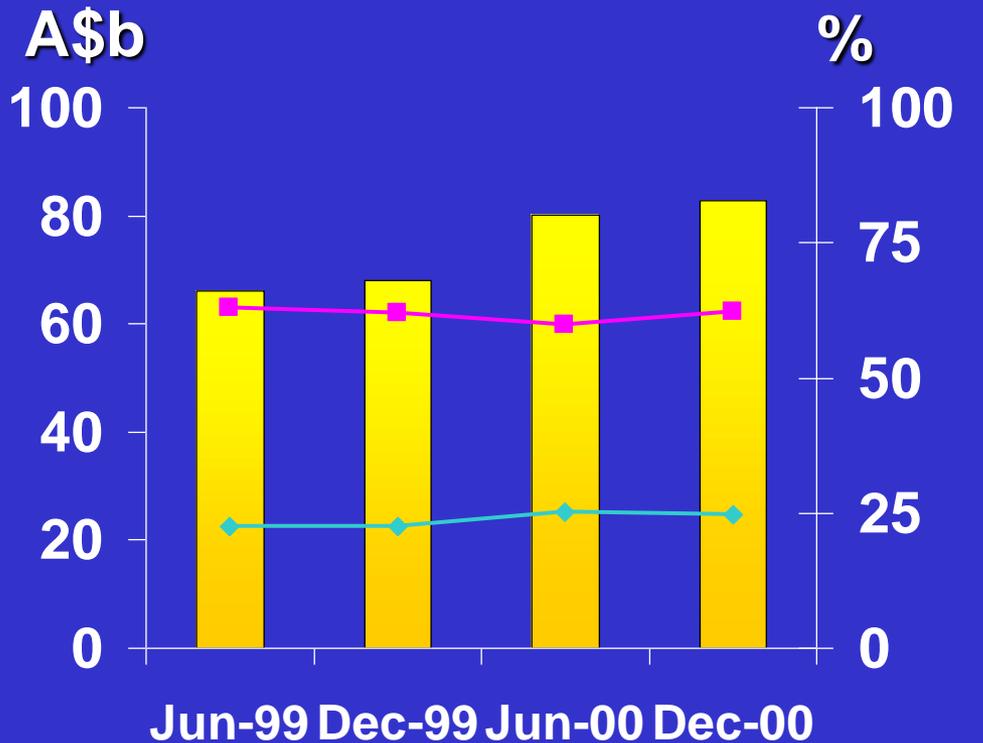


# Funding and Capital



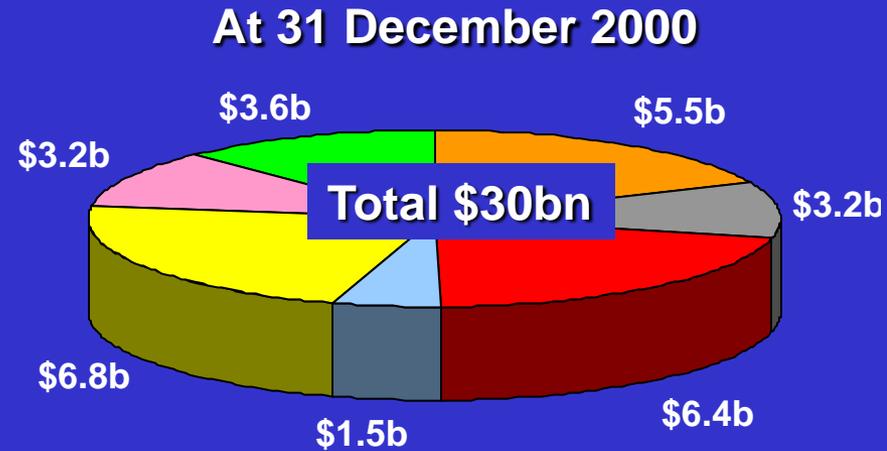
# Funding Sources

## Retail



- Total Retail Deposits (LHS)
- ◆ Market Share of Retail Deposits (RHS)
- Retail Funding % (RHS)

## Wholesale



- Offshore - Public
  - Offshore - Private
  - Domestic - Public
  - Domestic - Private
  - USCP
  - ECP
  - NCD
- Long Term 54%
- Short Term 46%



# Funding Initiatives

## “Comnets” Issue

- **A\$750 m Fixed Rate Bonds**
- **The Group’s first integrated wholesale & retail transaction launched in Aust mkt**
- **Orders taken online via ComSec**
- **Minimum parcel size \$5000**
- **ASX listing & quotation**

## Japanese Retail Bond Issues

- **A\$450m of retail issues over the last 12 months**
- **Participation by over 30,000 retail investors**
- **Registered with the Japanese Ministry of Finance**
- **Most cost-effective source of long term AUD borrowings**

## Global Mortgage Backed Security

- **Two Global deals totalling A\$4b over the last 12 months**
- **SEC registered regular global benchmark issuance**
- **Benchmark for other Aust. MBS issues**
- **Further Global MBS expected during 2001**

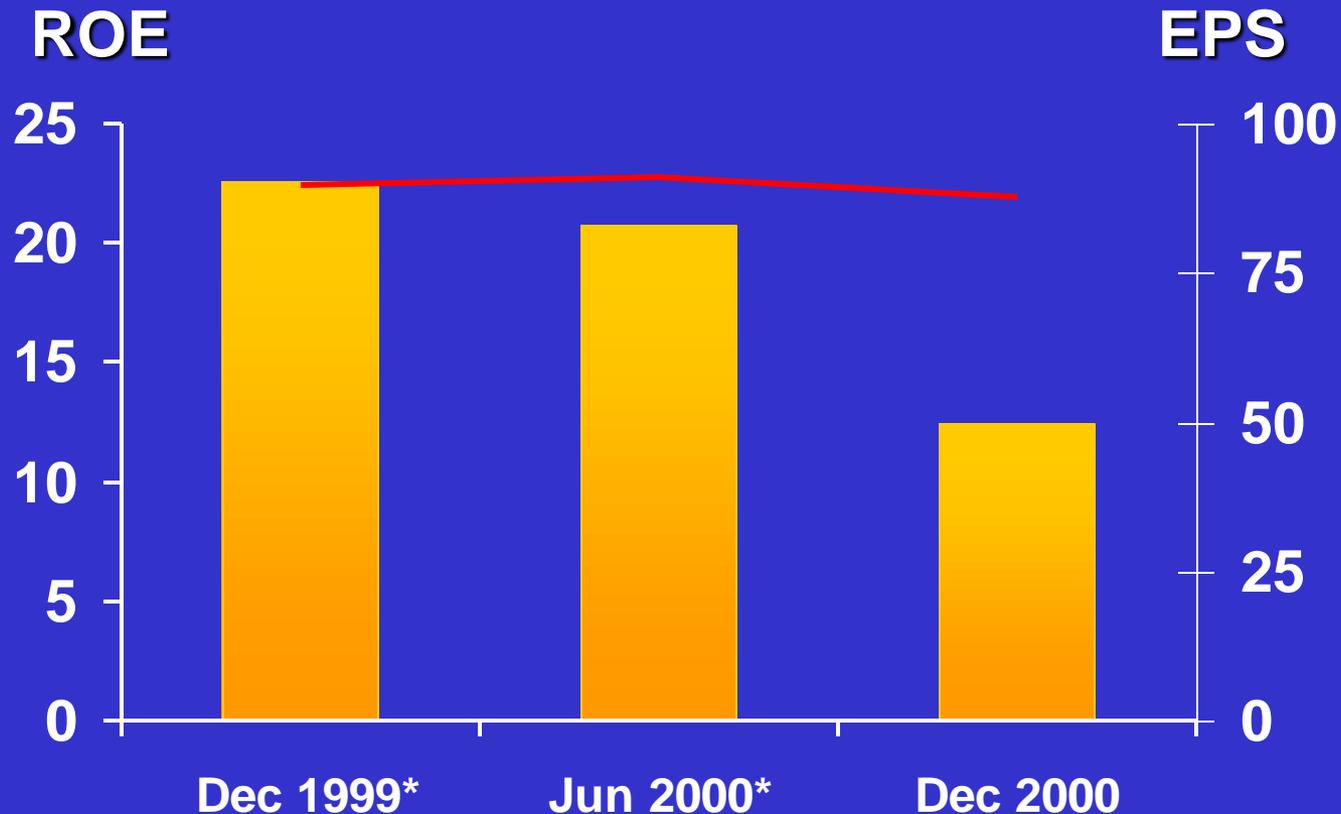


# Capital Adequacy

	30 Jun 00	31 Dec 00
Gross Tier I	18,265	18,409
Less Goodwill	(5,905)	(6,007)
Preference Shares	(86)	(39)
intangible component of investment in non- consolidated subsidiaries	<u>(2,656)</u>	<u>(3,449)</u>
Net Tier 1	9,618	8,914
<i>Tier 1 Ratio</i>	7.49%	6.71%
Upper Tier 2	1,292	1,346
Lower Tier 2	<u>4,805</u>	<u>4,456</u>
Total Tier 1 and Tier 2	15,715	14,716
Less Investment in non consolidated subsidiaries net of intangible component deducted from Tier 1	(2,528)	(2,169)
Other	<u>(669)</u>	<u>(109)</u>
Total Capital	<u>12,518</u>	<u>12,438</u>
<i>Total Capital Ratio</i>	9.75%	9.37%



# ROE and EPS



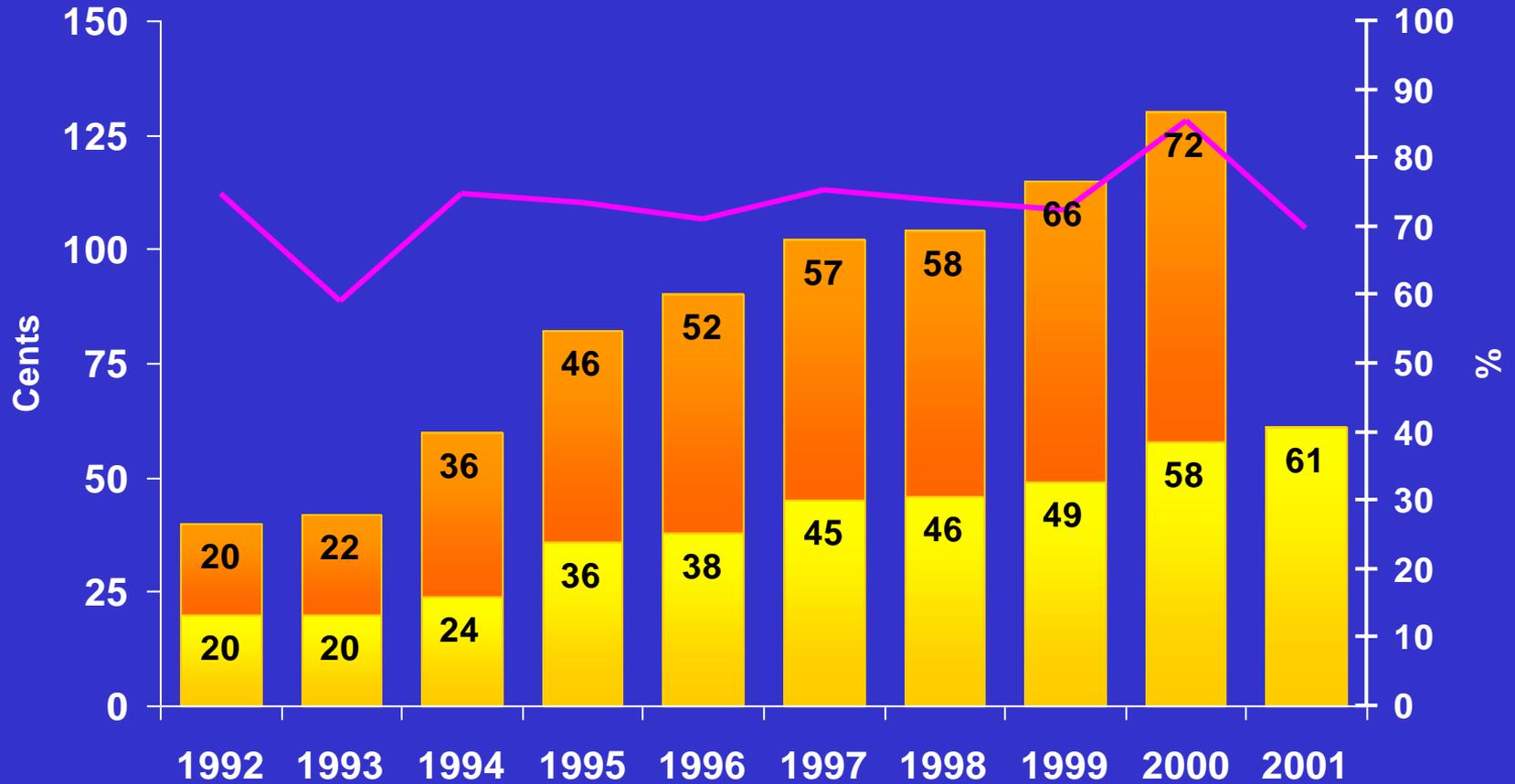
■ ROE - Cash Basis

— EPS ("Cash" Earnings)

\* As reported in prior profit announcements (i.e. not proforma)



# Annual Dividends



■ First Half

■ Second Half

— Payout Ratio



# Capital Management Strategy

- **\$200 million on market share buy-back announced 24 October 2000**
  - 785,173 shares acquired for \$23.4 million (weighted average buy-back price \$29.86)
  - Programme deferred January 2001
- **Off market share buy-back of up to \$700 million March 2001**
  - Final size of the buy-back subject to take up of new preference share issue\*
  - Scale back if value of shares offered exceed \$700 million
  - Will reduce shares on issue by approximately 23 million
  - Allows distribution of surplus franking and enhances EPS
  - The buy-back price has a capital component of \$10 with the balance to be a fully franked dividend

\* See next slide

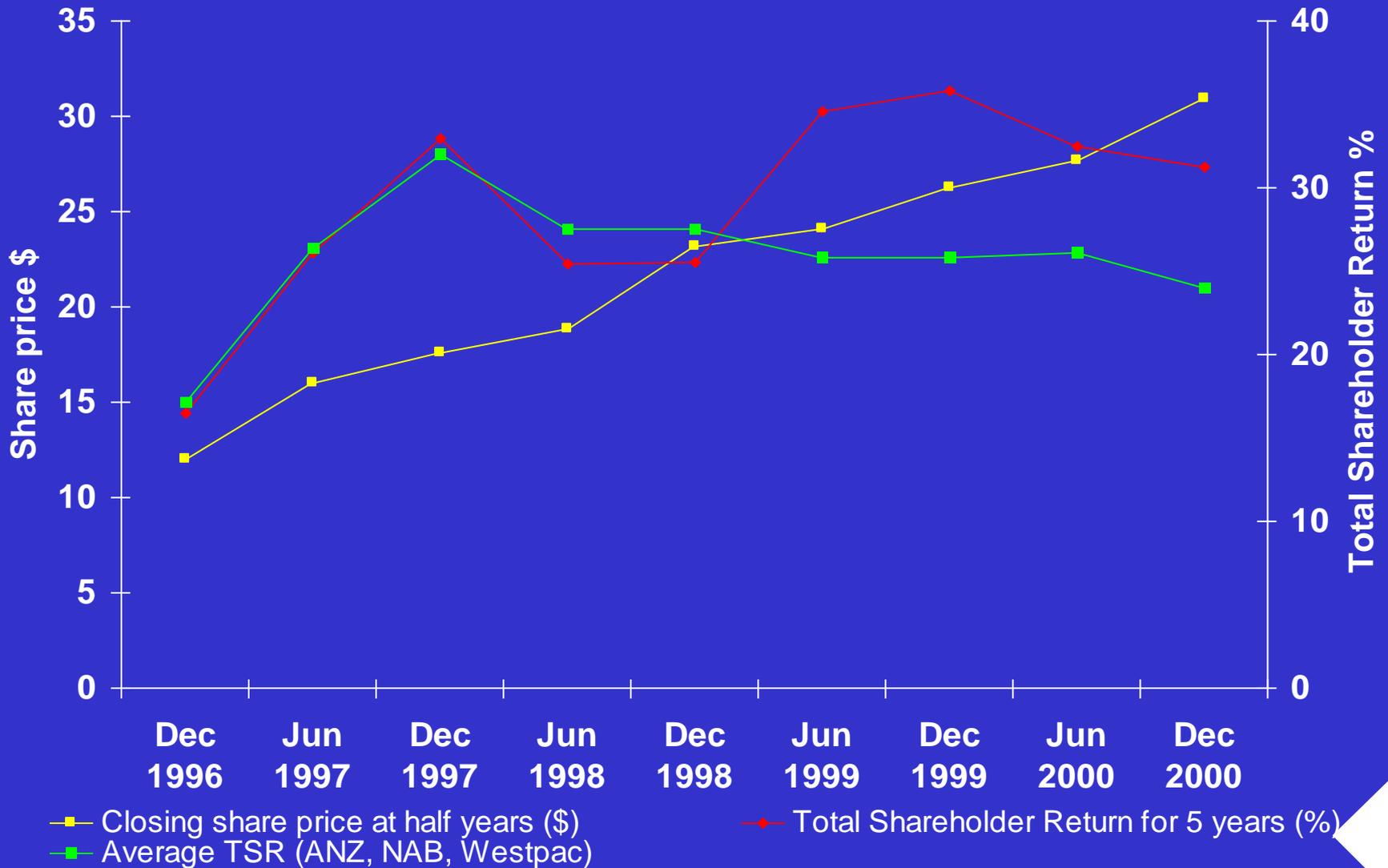


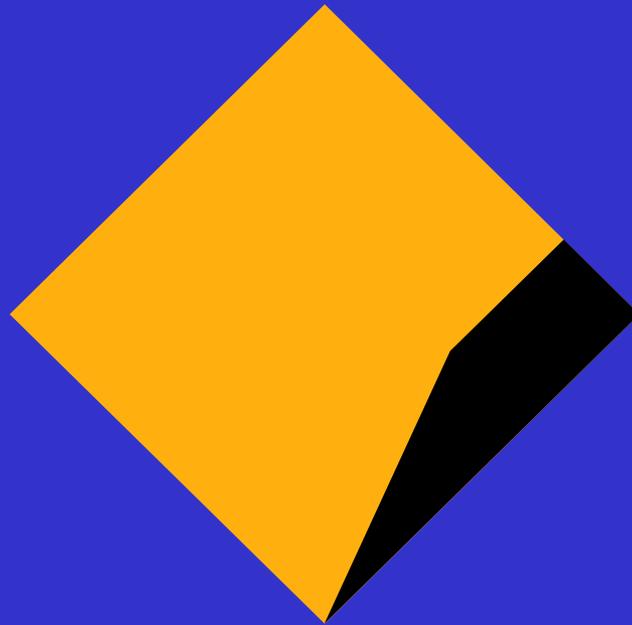
# Capital Management Strategy

- **Preference Share Issue of \$700 million in April 2001**
  - Qualifies as Tier 1 capital
  - Listed on the ASX
  - Non-cumulative floating rate dividend for the first five years based off the Bank Bill rate
  - Expected to be fully franked
  - Dividends payable quarterly
  - Investor flexibility to exit their investment at the Issue Price on each Rollover date from the fifth year
  - Rated A- / a1 / A+ (Standard & Poor's / Moody's / Fitch IBCA)



# Summary





**Commonwealth** Bank

**Presentation of Half Year Results**

**13 February 2001**

**[www.commbank.com.au](http://www.commbank.com.au)**