

29 July 2003 Strategy Briefing - Investments & Insurance Presentations

Title Slide: Commonwealth Bank Investments & Insurance Services

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, 29 July 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: Discussion Outline

This morning I will be providing you with an overview of:

- Our Investments and Insurance Services (IIS) business model and the advantages it gives us
- Some of the key recent achievements of our businesses
- An overview of our forward strategies

Peter Beck and John Pearce will then provide you with more detail on these topics within their own businesses - CommInsure and Colonial First State Investments (CFSI).

Slide 5: IIS organisational structure

Group Executive, Investment and Insurance Services - Stuart Grimshaw

Direct Reports:

- Colonial First State Investments - John Pearce
- Colonial First State Property - Geoff McWilliam
- First State International - Tom Waring
- Commonwealth & Colonial Products - Grahame Petersen
- CommInsure - Peter Beck
- Financial Planning & Advice Services - Acting - Jerome Blejje
- Finance - Michael Cant
- Business Development - Rob De Luca
- Risk Management & Compliance - Jim Evans
- Human Resources - Sue Mather

Slide 6: Key Messages

I want you to take away four key messages from the presentation today.

We generate significant value from the strong capabilities we have in each element of the wealth management value chain. However we believe our end to end presence creates additional value in itself.

We are implementing a number of initiatives that will build on the scale, efficiency and other strengths we have in our manufacturing operations to drive revenue and profit growth.

We continue to improve our multi-channel distribution capabilities. A key focus for us is to build on our distribution strengths to meet the investment and insurance needs of more of the CBA's banking customer base.

We recognise that platform capabilities have become an area through which competitive advantage is achieved. One of our priorities is to build our platform capabilities, leveraging the scale and efficiency of our technology.

Slide 7: We have strengths across the value chain and benefit from an end to end presence

We have many market-leading capabilities within our IIS businesses, and these span the wealth management value chain.

In terms of performance, we have a proven track record in investment management across all major asset classes, and we have recently experienced market leading in-flows in master trusts with FirstChoice.

We also hold a powerful position in many markets, being the largest fund manager, the largest player in life insurance, and have a strong position in the property market.

While we enjoy a leading market position in many areas, there are also many opportunities for further growth.

We have distribution strength across both our 3rd party IFA (independent financial advisor) channel (~16,000 relationships), our bank planners (~730 planners) and the advisers within our dealership groups (~430). However we have a substantial opportunity to meet more of the investment and insurance needs of our banking customers (both retail customers and businesses).

Our end to end value chain presence means that scale advantages, technology infrastructure and capabilities, and other strengths can be leveraged across the value chain to create competitive advantage and capture new opportunities. The scale and efficiency of our technology underpins the competitive pricing and features of FirstChoice.

We have also recently made organisational changes to better position us to realise more of the scale and other benefits of our end to end presence by operating in a more integrated and coordinated way. Improved integration and coordination extends to the way IIS interacts and interfaces with the broader CBA Group.

Note - RBS (Retail Banking Services), PFS (Premium Financial Services), IBS (Institutional and Business Services), IFS (International Financial Services)

Slide 8: There are a number of notable recent achievements across IIS

Over the last year we have finalised the integration of Commonwealth Investment Management (CIM) with the First State Investments team. This program, which was delivered on time and within budget, involved merging and rationalising the investment, back office and administration functions, and migrating \$19b of funds under management (FUM) from CIM, with negligible FUM lost during the process.

We have created a team in IIS that focuses on product and systems rationalisation to achieve efficiencies while ensuring that customer and FUM "leakage" is minimised. Good progress has been made since establishing the team in 2002 - with 3 systems decommissioned to date, and more to follow over the coming years.

A highlight in our life insurance business was the achievement of the number 1 market share position - with 15.3%, in December 2002 (Source: Plan for Life December 2002). Peter Beck will discuss in more detail what helped us achieve this result, including the growth in sales to our banking customers.

For Colonial First State Property, funds under management have increased over the year from \$11b to \$14.2b, with the successful completion of the Gandel transaction providing a significant fund contribution.

Since its launch in May 2002, the success of FirstChoice has exceeded our expectations. John Pearce will talk in more detail about some of the drivers of this success, which include its competitive pricing, simplicity, and the innovative mandate structure. Total funds under administration (FUA) at June 2003 was \$3.2b, with CFS acting as the asset manager on around 60% of new funds flow into FirstChoice, and FirstChoice continuing to capture a leading share of gross mastertrust flows.

Slide 9: Our broad strategic agenda will deliver benefits over short to long term horizons

In the current environment, we believe that success will depend on:

- Realising the benefits of scale
- Driving further efficiencies
- Developing market-leading platform, product and customer service capabilities
- The ability to leverage distribution

Our strategic agenda reflects these broad competitive imperatives:

Our focus over the short term is to equip our planners and advisers with the front-end tools

needed to improve their productivity and competitiveness. At the same time, particularly in the current environment, it is critical that we realise the efficiency opportunities inherent in businesses with our scale. We have a program of product and system rationalisation, and other initiatives, to achieve this.

Looking forward, we expect IIS will generate additional revenue through meeting the investment and insurance needs of more of our banking customers. We will be looking to increase planner numbers and productivity to do this.

There are attractive profit pools for those who can develop leading product and platform capabilities built on understanding customer and adviser needs, and through the cost-effective use of technology. We are increasing our focus in these areas to defend and strengthen our current standing as a provider of innovative products and services.

We also expect attractive returns over the medium to longer term from a portfolio of prudent investment options we're currently cultivating, including in international funds management.

Slide 10: Significant margin is captured through our manufacturing capability

Our leading manufacturing capabilities allow us to capture a greater proportion of the total wealth management margin than would otherwise be the case.

The example used to illustrate this here is for managed investments, with a margin range representing experience across the industry.

The advantages of the end to end model are that we capture manufacturing and administration margin in addition to distribution margin, and our strengths or successes in one element, for example distribution, can be leveraged to capture margin in other elements of the value chain. However we have the flexibility to offer our services on a stand-alone basis as well as an integrated basis. As a leading manufacturer, we are able to capture asset management margin through competitor distribution channels (ie CFS managed funds on competitors mastertrust platforms).

Slide 11: We are extending and leveraging our strengths in distribution

We have scale and "balance" across 3rd party IFA distribution relationships, our branch planners, and the advisers in our dealership groups, and we are continuing to build on these strengths.

Our distribution support services team, Financial Planning & Advice Services (FPAS), has been established to focus on improving distribution through CBA channels.

FPAS are uniquely positioned, as the central distribution point into bank channels, to leverage a knowledge of both customers' investment and insurance needs, and specialist product knowledge, to improve our distribution capabilities and increase sales penetration into the bank.

As mentioned before, this is a substantial opportunity. Its size reflects the strengths inherent in both the distribution network and leading market shares of the CBA, and the leading manufacturing capabilities of IIS. Planner capacity and productivity improvements are a key focus for IIS, and FPAS in particular, going forward.

To date we have achieved reasonable penetration, but the opportunity for further growth is clear, and the economics of sales into our internal channels is highly attractive.

A growing proportion of new fund inflows and premiums are sourced through the banking network, with strong internal flows achieved over the last year:

~31% of new CFS flows

~42% new life business sales

(FPAS also has a relationship with 430 "aligned" advisers within the IIS dealership groups. These are not shown on the above slide, which focuses on those planners that service the Bank's customers.)

Slide 12: Rationalising products and systems will allow us to realise further efficiencies

As mentioned earlier, in 2002 we established a team focused on rationalising products and systems across IIS while retaining customers. This is particularly important in the current environment where more frequent regulatory change creates significant system upgrade costs.

Measures of success encompass not just the cost efficiencies realised, but also the retention of customers and FUM, as well as customer service level improvements.

While this program is still building momentum, the results to date have been pleasing, and the forward rationalisation agenda is expected to deliver substantial total accumulated benefits over the coming

years.

Some of the smaller systems have been the first to be rationalised, and the skills acquired through this process are resulting in an increased rate of progress of rationalisation going forward.

Slide 13: Discussion Outline - Peter Beck, Managing Director, CommInsure

Slide 14: The insurance industry outlook has changed

The insurance industry is a mature market, but with low penetration levels.

It has been a time of surprises and uncertainty in the insurance industry resulting from the compound effects of:

Natural disasters: Canberra bushfires
Terror: Bali, September 11
Corporate Failure: HIH
Investment Downturn: Poor market returns

'Winners' need scale for efficiency, good governance, stability and access to distribution.

Product, platform and staff capabilities must seamlessly integrate to deliver convenient, efficient service.

A service focus, innovation and simplicity are the keys to success.

CommInsure's method of operation reflects a 'small business culture with big business scale and efficiency'.

Slide 15: Progress against stated strategies

Significant progress has been made since CommInsure's strategy was first outlined to the market in May 2002.

CommInsure's key objective was to reach the No1 market share position in life insurance. This was achieved in December 2002.

Progress was made to varying degrees in all areas. The remaining challenges set the agenda for the 03/04 year.

I cover most of these areas in the following slides. However, to touch briefly on those areas not covered:

Brand
New 'Look and Feel' developed
Collateral branded CommInsure
Service
Call centres amalgamated
Staff cross skilling begun
Technology
Have commenced rationalising systems, and moving towards web-enabled processes and straight through processing

Slide 16: We have achieved significant scale and efficiency in our life business

Market share targets have been met during the year. CommInsure is the leading Australian Life Risk Insurer, as measured by:

New Business (when compared on a consistent basis)
In-force premiums

Our success is underpinned by a number of factors, including:

Repricing - includes Income Protection, Group Risk, Annuities and General Insurance Business
Product innovation and comprehensive product range - including cashback, booster benefits, loyalty benefits, flexible commission

We have achieved significant efficiencies across the life business through:

- Amalgamation of the life companies
- Process improvement
- End to end business
- Single CommInsure brand
- Product rationalisation
- Improved retention

Our multi-channel distribution - including

- Bank branch network
- Direct telemarketing (Life Insurance)
- Direct internet (Home and Contents sales)
- Third party - both owned dealerships, and external dealerships

Slide 17: Our distribution channel strengths underpin our performance

We have a continuing focus on defending and strengthening our third party relationships - its importance being demonstrated by the 58% of new life sales and re-rates delivered through this channel over the 02/03 year.

At the same time, we are pursuing a multi-channel distribution strategy. Channel diversification is a strategic objective within CommInsure. The goal is to grow sales through reaching a broader range of customers, and more closely aligning product features with customer needs/preferences, and channel characteristics.

While good progress has been made to date on CommInsure sales to our banking customers, a significant opportunity exists for further growth in bank branch and direct channels. Greater effort has been made to embed insurance sales processes across the bank where we believe "natural" cross-sell opportunities exist
~40% of new home loan sales in the branch network result in Home and Contents sales
~15% of new home loan sales in the branch network result in mortgage protection sales

A further example of growth in sales to Bank customers is for life insurance, where sales increased from 28% to 42% over the last year for our direct and branch network distribution.

Slide 18: We have also achieved solid growth across our broad range of protection products

CommInsure holds

- A strong position in all categories of Life Insurance
- A profitable and growing niche in Home and Contents

Strong growth has been achieved in all product categories; with exceptional growth in re-badged Motor (off a small base).

We have not aggressively pursued annuities as there has been some irrational pricing in the market. However a degree of pricing rationality does appear to be returning.

The overall Home and Contents market share is based on June 2002 APRA Figures - latest internal estimate is of a 5.6% market share.

Other Cover includes small business insurance, pleasurecraft, caravan and trailer insurance.

All products are offered under the CommInsure brand.

Slide 19: Further opportunities exist to enhance the efficiency and scale of our Insurance business

We intend to achieve business growth through:

- Competitive, rational pricing
- Leveraging our strengths across all distribution channels, with one of the key areas of focus being capturing the opportunity to meet the insurance needs of more of our banking customers
- More closely align product features to customer needs and channel characteristics
- Continuing to build direct sales capabilities

Deliver efficiencies by driving down costs through:

Process improvements including re-engineering of our claims management and administration processes
Moving to integrated technology solutions that enable straight through processing
High performing teams

Continue to build capabilities by:

Developing an insurance platform that enables simple, convenient interactions with advisers and customers
Enhancing products through bundled and customised solutions delivering "straight forward" insurance
Further developing a pervasive customer service culture

CommInsure will continue to provide straight forward insurance solutions to our customers.

Slide 20: Discussion Outline - John Pearce, Chief Executive Officer, Colonial First State

Slide 21 : A tough new era for funds management

Industry Outlook

A maturing industry:

- Slowing, but favourable, long term growth
- Lower investment returns
- Concentration of power
- Growth of platforms
- Institutionalisation of distribution
- Increased regulatory focus

Implications

Industry shake up
Scale is critical
Picking investment management winners difficult
Potential for margin squeeze
Requires cost focus as well as revenue
Importance of broad based distribution
Commoditisation – difficult to differentiate
Greater activism among consumers / investors / 'others'

The "Winners"

Larger players, particularly those with distribution networks, who maintain profitability by:

- Leveraging scale to drive down costs
- Maintaining revenues through:
 - Offering compelling customer propositions that leverage their portfolios of businesses; and
 - Differentiating themselves based on brand, service and performance

High performing specialised / niche manufacturers will also thrive.

Slide 22: Our business model

Colonial First State's (CFS's) success has often been attributed to success as an investment manager, with a particular emphasis on Australian equities.

This view of CFS is far too narrow.

Breadth of products extend across all mainstream asset classes.
Leading masterfund.
Distribution breadth and depth.

Service and administration capability.

On top of the above, there are the intangible strengths of people and execution capability.

Slide 23: Colonial First State has a broad, well positioned product suite

Our investment management capabilities are broad, in terms of asset class and investment style, and we maintain an ongoing commitment to innovation (eg 452 Capital and FirstChoice).

Overall, we are well positioned for market changes and shifts in customer preference, and to achieve strong revenue growth across our product portfolio. Our scale also enables us to drive profit from lower margin products.

Our large market share in Australian equities has raised concerns about our growth prospects. However, there are significant growth opportunities in other asset classes, platforms, and even in other styles within Australian equities.

Slide 24: CFS has a distribution network with breadth and scale

The IFA channel remains extremely important, continuing to capture a large share of retail investment assets, and representing an existing and well established strength of CFS.

Traction with IFAs is an important indicator that the product range and service proposition is passing the "acid" test.

However we recognise that over the short to medium term we also have an opportunity to significantly increase sales through the bank channel. While the results we have achieved to date are impressive, particularly for FirstChoice, now sourcing ~36% of sales via the bank network, the remaining opportunity is large, and will contribute to strong revenue growth going forward.

Slide 25: Our brand and customer service ratings continue to be strong

One of the strengths of CFS is our pervasive service culture:

Service is a key focus for both our front and back office teams, including all support units, and service metrics are applied across all areas
It's also a prominent & explicit consideration in our product development activities - eg FirstChoice

Our commitment to customer service has been recognised by the industry:

Ranked first in Assirt Service Level Survey for fund managers for last 2 years
Ranked first in RetireInvest survey for past 3 years

Based on independent research, the Colonial First State brand is perceived by advisers and customers alike as a leading wealth management brand with superior customer service and an innovative culture.

Slide 26: FirstChoice has been a "killer application" in the market

As I mentioned briefly in my introduction, technology is playing an increasingly important role in the wealth management industry as a key competitive differentiator.

Over the past 2 years we have maintained a focus on developing market-leading capabilities in this area

FirstChoice, a master trust launched in May 2002, has achieved market-leading growth since launch, reaching \$3.2b in FUA in June this year, topping platform flows for December and March quarters.

The success of FirstChoice was based on the ability of the CFS team to recognise a need in the market for a simple, competitively priced product, as well as the clear competitive advantages that the innovative mandate structure delivers.

Importantly, FirstChoice was not developed as a standalone business. It leverages the existing infrastructure used for all other asset classes. It was delivered cheaply, and effectively gave us scale on day one.

We will use FirstChoice as a base for future growth in the platforms area, with FirstChoice Employer Super, launched in September 2002, being one of the first extensions.

Avanteos complements our platform capabilities within IIS, creating expanded "wrap options"

and giving us exposure to the growth in the wholesale wrap market.

Slide 27: The FirstChoice mandate structure has a number of benefits over a traditional masterfund

FirstChoice utilises straight through processing between CFS and managers by acting as a centralised custodian. A traditional masterfund has typically manual (fixed) communication between the platform and each manager (and their respective custodian).

Under FirstChoice, CFS remains the legal owner / administrator of the fund. For a traditional masterfund, the investment is typically through a wholesale trust. Under-performing managers cannot be removed without redeeming investors. A mandate structure combined with our scale gives us pricing power.

Finally, in terms of administration, in a traditional masterfund there is a dependency upon the service levels of each manager for unit prices, reporting etc, with "weakest link" risk resulting in inconsistent service levels.

Slide 28: We have favourable platform economics due to our end to end presence

A picture of the typical FirstChoice value chain – there will be slight variations for different asset classes. The power of the model emanates from our ability to extract value across all parts of the value chain.

It's important to note that the economics of investment management on its own is very favourable, due to our scale across all asset classes and our single unit registry and set of processes.

Within our platform an investment management capability significantly increases the returns, particularly given that about 61% of flows are into house product.

It's also important to note that our investment management capability gives us access to the distribution channels of our competitors.

This example is provided to demonstrate the value created through having an investment management and administration capability to drive further revenue from our platform business.

CFS is able to leverage the success of this product in the distribution component of the wealth management value chain by capturing a significant proportion of margin throughout the other value chain elements (administration and asset management).

Slide 29: We are building our platform capabilities to further drive market advantage

The gap in our current product suite is a platform offering which is fully integrated with the adviser workbench and other Group product.

Avanteos, which to date has only operated as a wholesale provider, provides us with "wrap" options.

Integration will be a strong focus for our platform development agenda, with an initial focus on interfacing our technology platform with desktop planning software to give a seamless service to advisers and planners.

Technology integration is also an enabler for a number of other capabilities we plan to offer including providing advisers with transactional access. In addition, our solutions will remain flexible and able to be integrated and interface with a range of the technology components, including the "front-ends" for advisers, that are provided by ourselves or others.

The integration theme also applies to the range of financial services encompassed within our future platform offering, which will be extended beyond investments to equities trading, insurance and banking - and supported consolidated and customised reporting. A consolidated view of the customer will provide us with cross sell and bundling options.

In summary, I believe CFS is well positioned for continued growth. We have a broad product portfolio, significant distribution strength across 3rd party, bank planner and dealership group adviser relationships, and a culture that continues to deliver market-leading customer service. We are pursuing a number of strategies to strengthen our position in each of these areas. We recognise the growing importance of platforms in our market, and will leverage the success of FirstChoice to further build our platform capabilities.

Slide 30: Discussion Outline - Conclusion: Stuart Grimshaw

Slide 31: Key Messages

I want to re-emphasise some of the points you've heard as they relate to the key messages I spoke about at the start of this presentation.

In terms of the value of our end to end value chain presence:

- This provides the opportunity to capture more margin
- We are able to leverage strength in one value chain element more broadly across the value chain to increase margin/revenue. FirstChoice provides a clear example of how we are able to leverage existing technology and scale for competitive advantage, and capture asset management margin.

Our manufacturing strengths continue to create significant benefits for us. These businesses have scale, and a key focus for us is to more fully realise these scale and other efficiency benefits through initiatives including the product and systems rationalisation program and technology integration.

We continue to pursue a multi-channel distribution strategy, enhancing the distribution capabilities across our 3rd party IFA, bank planner and dealership group adviser relationships. Capturing the investments and insurance needs of more of our banking customers is a significant opportunity for us, and we have an adviser and planner development program that will significantly increase our planner capacity and productivity.

Given the growth of the platform market and its increasing strategic importance, one of our key priorities will be to further development our platform capabilities, building on the success of FirstChoice. An initial areas of focus will be developing front-end tools for our planners and advisers.