

# Retail Banking Services Market Update



22 November 2007

Commonwealth Bank of Australia ACN 123 123 124

# Disclaimer

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The material that follows is a presentation of general background information about the Bank's activities current at the date of the presentation, 22 November 2007. 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.

# Our team



**Group Executive**

Ross  
McEwan



**Chief Information Officer**

Adam  
Bennett



**Chief Financial Officer**

Shayne  
Bryant



**Retail Products**

Michael  
Cant



**Retail Sales**

Grahame  
Carney



**Third Party Banking**

Kathy  
Cummings



**Chief Risk Officer**

David  
Grafton



**Credit Cards**

Stephen  
Karpin



**Group Sales & Service**

Fred  
Pollock



**Direct Channels & Operations**

Vittoria  
Shortt





# Today

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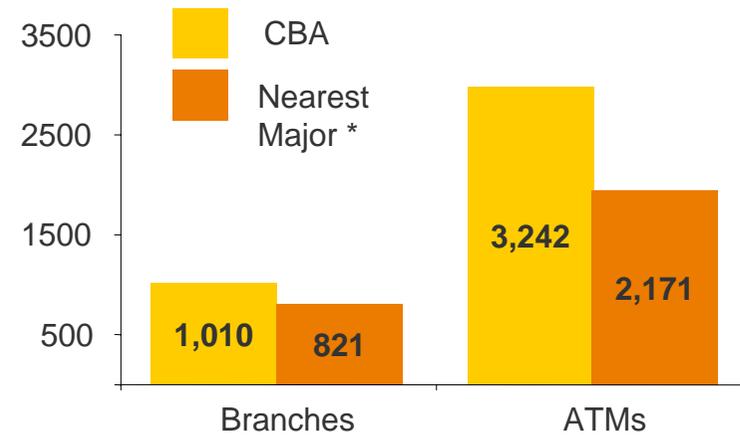
- 
- **Our journey** Ross McEwan
  - **Revitalising our distribution** Grahame Carney
  - **Enhancing our product performance** Michael Cant
  - **Simplifying our operations** Vittoria Shortt
  - **Managing risk** David Grafton
  - **Key messages** Ross McEwan
  - **Ask us** Panel



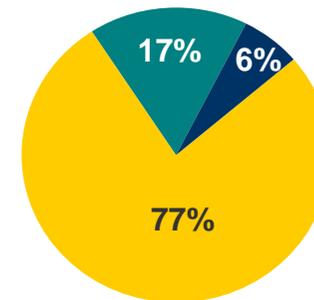


# Size and potential

- Largest retail bank in Australia
- 40% of Group NPAT
- ~9 million customers
- Over 16,000 people
  - ~80% customer-facing
- Easily the largest and most accessible distribution network



## Our People



■ Customer Facing ■ Retail Operations ■ Support Office

\* Source: APRA June 07





# Australia's most convenient bank

## Branches



**1,010  
sites**

## ATMs



**3,242  
terminals**

## Australia Post



**3,800  
agencies**

## Brokers



**9,300  
brokers**

## EFTPOS



**171,100  
machines**

## NetBank



**2 million  
active  
customers**

## Call Centres



**120 million  
calls pa**

Channel figures are approximate



# Clear vision and strategy

## Group Vision

To be Australia's finest financial services organisation through excelling in customer service

## Retail Bank Strategy

To make it easy for customers

To meet their needs every time

So we can do more business with them

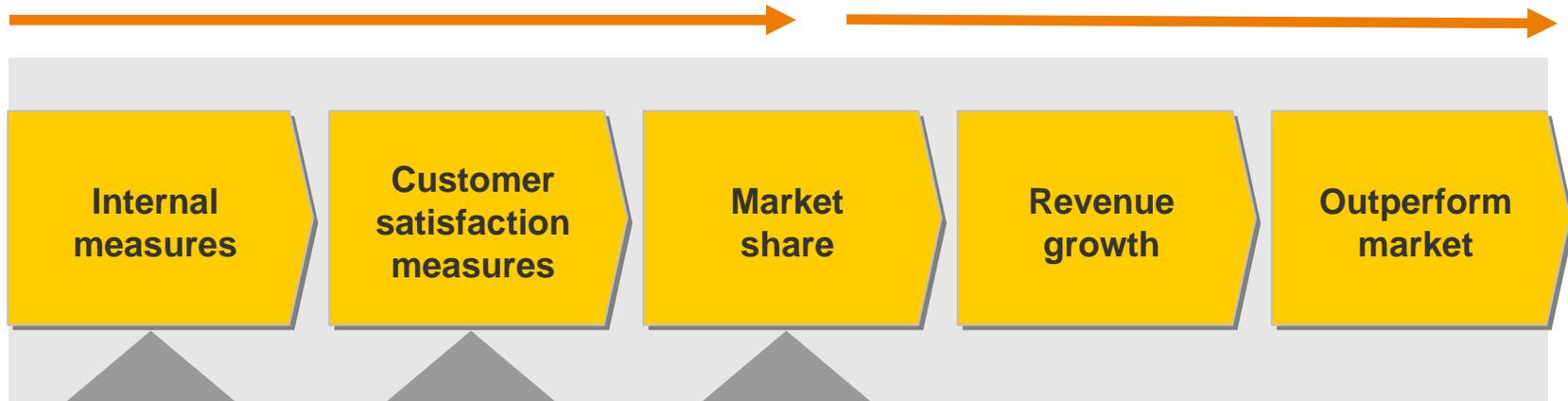




# On track

The journey so far

Going forward



✓ Engagement

✓ Roy Morgan

✓ Home loans

✓ Safety

✓ Customer surveys

✓ Deposits

✓ Culture survey

✓ Compliments

✓ Complaints





# Good progress

## Making it easier

- Extended branch trading
- Branch redesign and upgrade
- NetBank enhancements
- Simple home loans

## Meeting customer needs

- New network operating model
- Award winning products
- Specialist capability in branches

## Doing more business

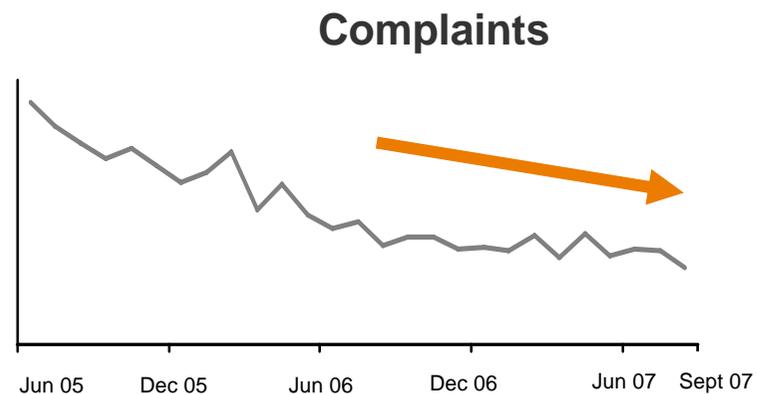
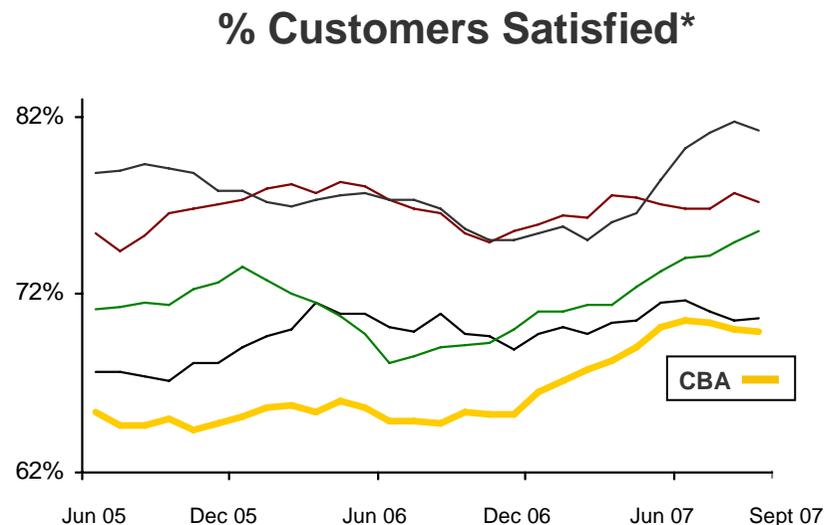
- Needs analysis mastery training
- Cross-sell and referral emphasis
- Leverage CommSee





# Our customers are happier

- ▀ Customer satisfaction\* at 10 year high
  
- ▀ Complaints down 43% in 2007 and continuing to trend lower
  
- ▀ Compliments up 69% last 12 months



\* Roy Morgan

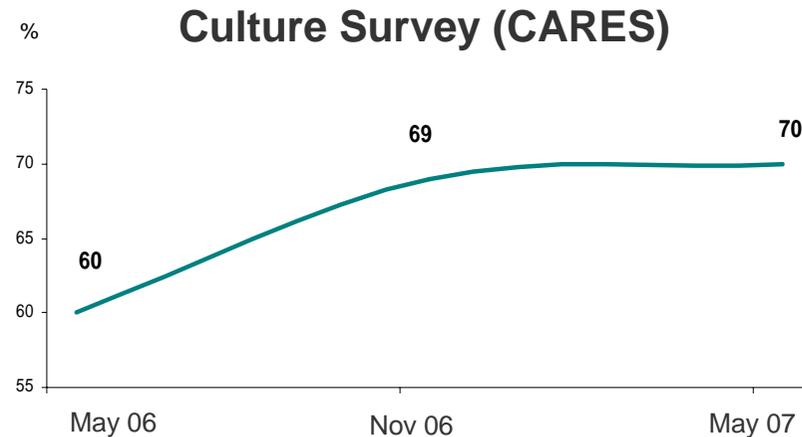


# Our people are more engaged

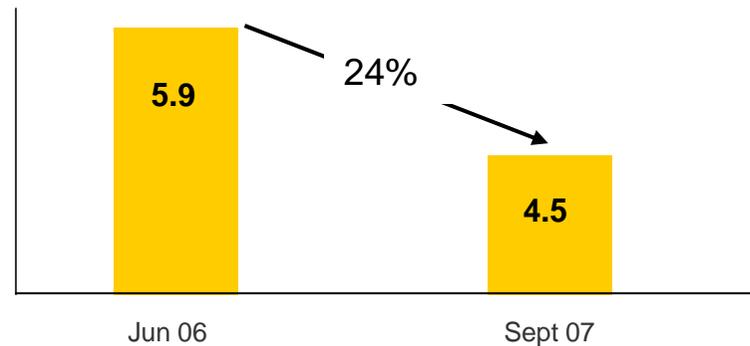
■ Culture survey trending higher

■ Safety incidents falling

■ Turnover stable in tight labour market



**Safety<sup>^</sup>**  
(Claims Frequency Rate)



<sup>^</sup> claims per 1 million hours worked





# Market share improving

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## Movements since December 2006

Market Share*	bps	
Home Loans	+17	↑
Personal Loans	Steady	
Credit Cards	-84	
Deposits	+19	↑

Six consecutive monthly increases

Gaining 30% share of net system growth

\* Source: APRA/RBA September 07



# Priorities

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**People**

**Customers**

**Revenue**

**Leverage Scale**





# Today

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- 
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# Why change?

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- Ensure lending capability in every branch
- Better leverage our distribution advantage
- Greater empowerment
- Enhance career progression





# New network operating model

1,010 branches  
▼  
One size fits all



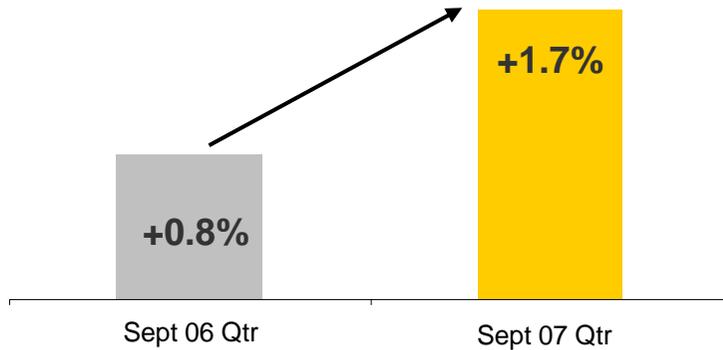
Tier	Branches	Contribution to total branch revenue
1	150	
2	350	
3	350	
4	160	



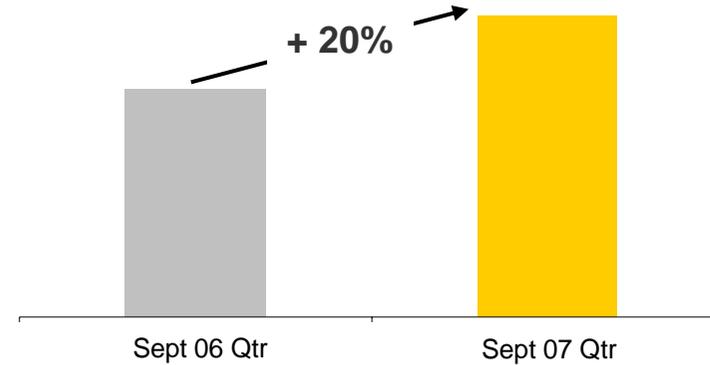
# Early Tier 1 results encouraging

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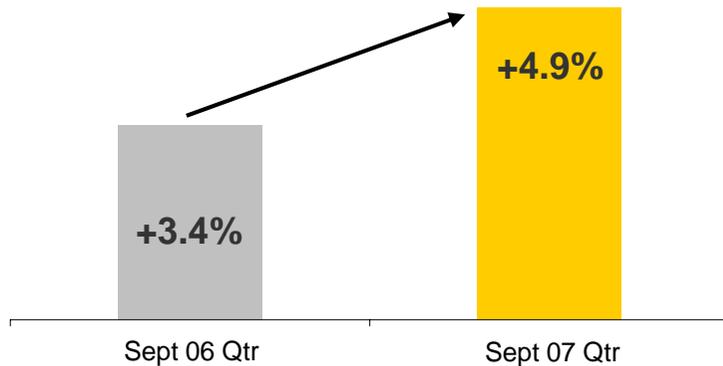
## Home Loan Balance Growth



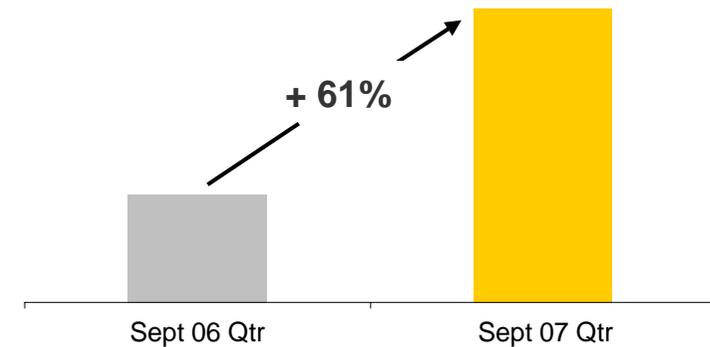
## Home Loan Sales



## Deposit Balance Growth



## Insurance Cross-Sell





# Revitalising our branches

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- New branch design
- Trial branches completed
  - Planned for FY08
    - 70 redesigns
    - 60 upgrades
  - Further selective expansion
- Supported by specific training
  - Aligned to new environment
  - New behaviours
  - Customer engagement





# Extended trading

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- 67 sites open on Saturday
- 16 sites open on Sunday – more planned
- Extended Christmas trading





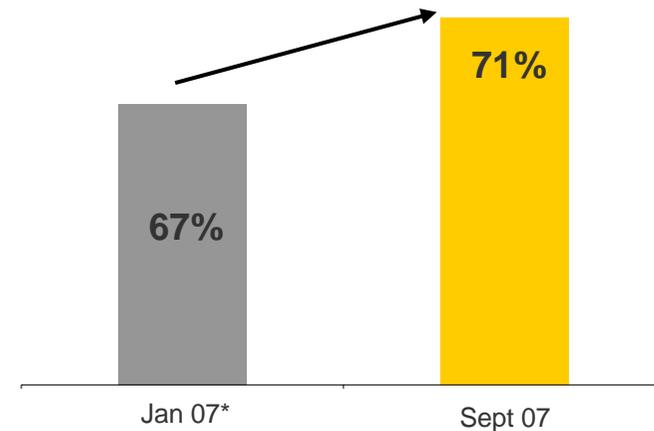
# Customer experience

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## Regular customer experience surveys

- Conducted independently by Roy Morgan
- Every branch
- Every week
- 10 point scale (0 lowest, 10 highest)
- Results part of KPIs – only 9 and 10 ratings count
- 71% of customers rate branch experience 9 or 10
- Customers at new design branches – 100% advocacy

Branch Customer Experience Survey % Advocates



\* New methodology implemented





# Enhancing cross-sell

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- Our largest opportunity

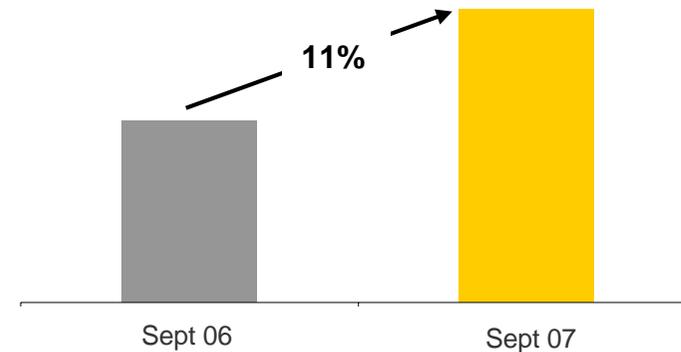
- ~9 million customers
- Target 20% increase on FY07

- Needs analysis training

- “Know it, do it, coach it”
- 6,700 “Masters”

- Extra sales capability in branches

## Converted Referrals



## Specialists in Branches

Business Bankers	149
Personal Lenders	550
Branch Insurance Representatives	130
Financial Planners	710





# Key messages

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- Revitalising our frontline – tapping our potential
- Tiered branches – a more focused approach
- Enhancing the customer experience
- Cross-sell emphasis
- Early results encouraging





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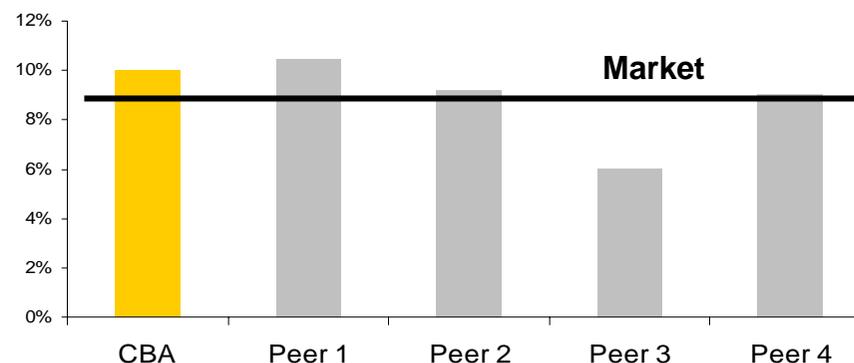




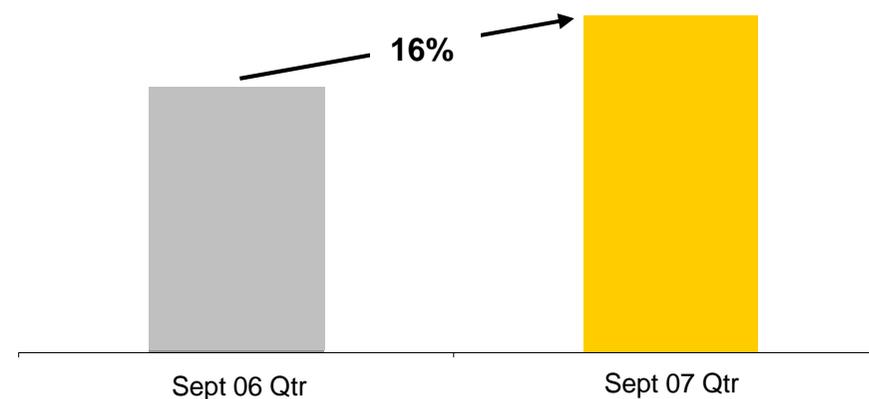
# Home loan book in good shape

- Strong growth in balances and fundings
- Six consecutive months of market share growth
- Improving run-off rates
- High quality risk profile
- Flight to quality/major banks
- Process transformation offers significant upside

### Home Loan Balance Growth\*



### Total Fundings (\$m)



\* Source: APRA Dec 06 to Sept 07 (9 months)

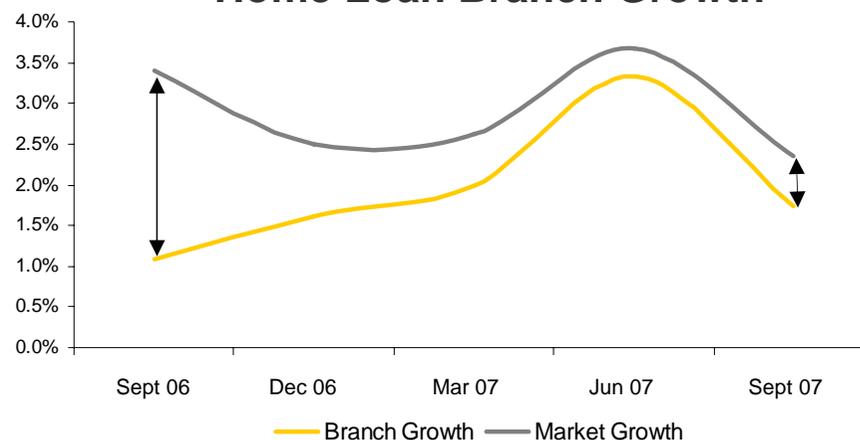




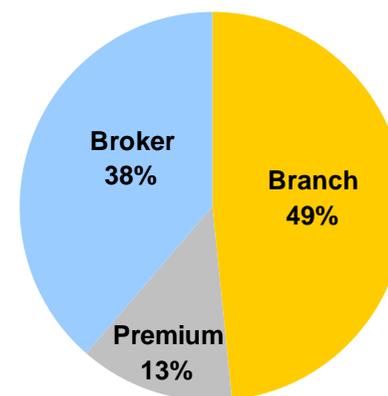
# Growth across channels

- Strong fundings in both proprietary and broker channels
- Proprietary
  - Investing in our lending capability
  - Branch balance growth tracking closer to market
- Broker
  - #1 lender in broker market
  - Good business quality

### Home Loan Branch Growth



### Fundings by Channel\*



\* Sept 07 Quarter





# Relative funding advantage

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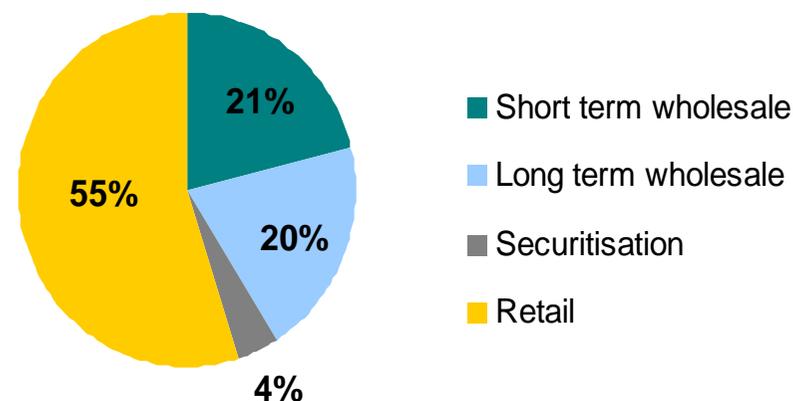
Clear #1 deposit franchise - 29% share\*

Diversified funding mix

Deposits 55% of Group funding

Little reliance on securitisation

Source of Funding ^



\* Source: APRA Sept 07

^ As at 30 June 2007

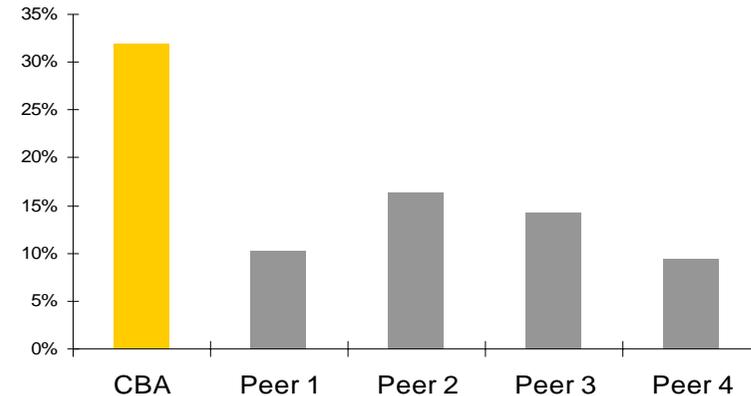




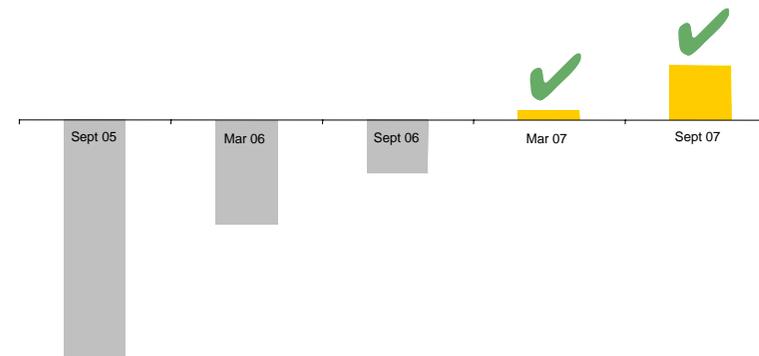
# Strong deposit growth

- Significant turnaround in balances and net account growth
- Growing share despite aggressive price competition
- More competitive products and pricing
- Branch P&L driving focus on deposits
- Sales and service program having an impact

### Share of Market Balance Growth\*



### Transaction Net Account Growth



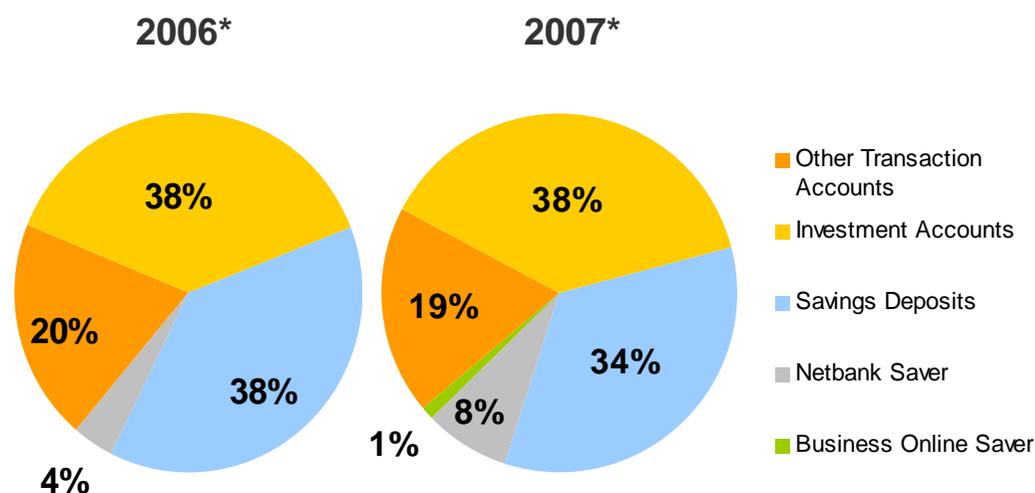
\* Source: APRA Dec 06 – Sept 07 (9 months)



# Effectively managing back book substitution

- Gradual shift in portfolio mix
- Modest substitution to date
- Good volume of external funds
- Use of segmented offers
- Overall deposits margin holding up

Percentage of Total Deposit Balances



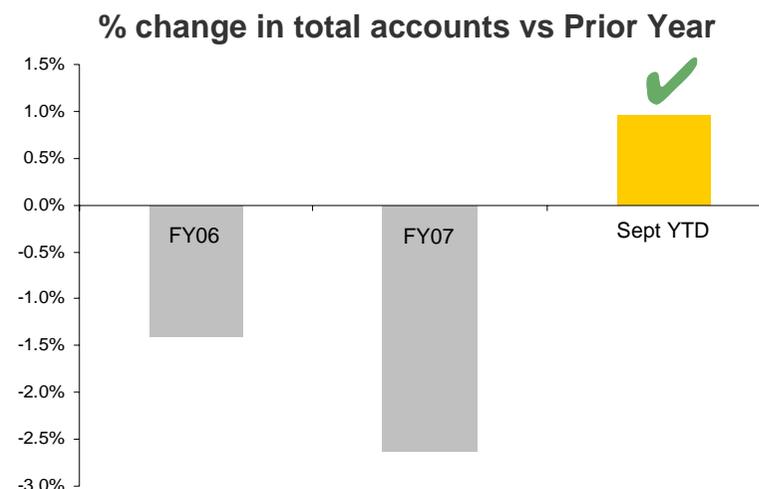
\* As at 30 June



# Upside potential in consumer finance

- Credit cards – upside potential
  - Return to net account growth
  - Product mix well balanced
  - Focus on profitable growth
- Personal loans – improved profitability
  - Improved credit quality
  - 2004/05 portfolio running off
  - Increasing margin

## Credit Cards



- Platinum Awards Card
- Gold Awards Card
- Low Rate Card





# Key messages

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- Reinvestment in our core franchise
- Successfully managing the volume/margin trade off

- Portfolio quality remains high



- Momentum in our key product lines





# Today

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- |                                   |                 |
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| <b>Simplifying our operations</b> | Vittoria Shortt |
| Managing risk                     | David Grafton   |
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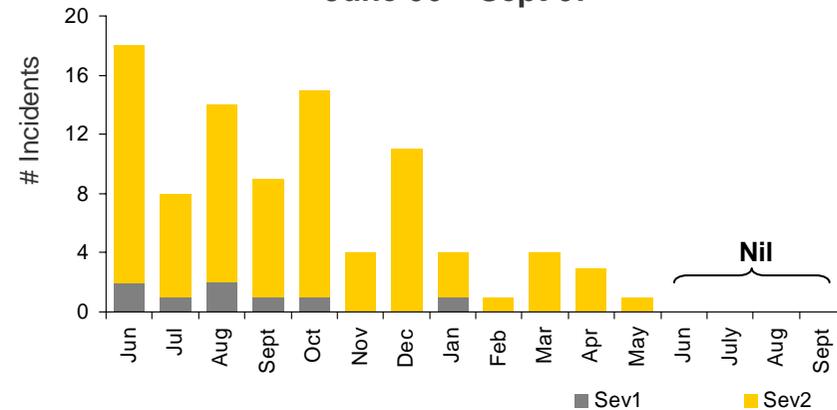


# IT stability and enhancements

- IT platform stability improving
- Continued investment in IT and cost optimisation
- Key platform enhancements
  - NetBank
  - Call Centre IVR upgrade
  - Credit Card system upgrade

Severity 1 and 2 Incidents Repeated\*

June 06 – Sept 07



\* Includes all Severity 1 and 2 IT incidents (excluding those caused by other financial institutions)



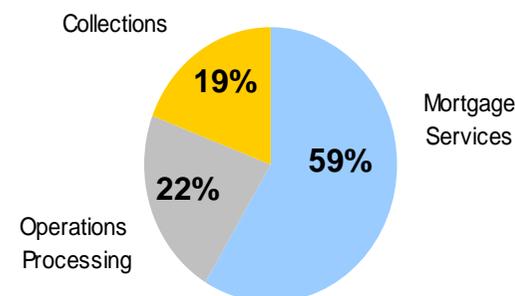


# Retail operations

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- Supporting the Bank's retail front-line
- 2,700 people
  - Mortgage Services
  - Operations Processing
  - Collections
- Focus on continuous improvement
  - Simple processes
  - Efficiency
  - Automation
  - Centres of functional excellence
  - Quality

## Retail Operations Support Staff



### Key Metrics

- 100,000 customer interactions per day
- 5m transactions per day
- 110m statements per year
- 500,000 items processed per day
- 5m cards issued per year

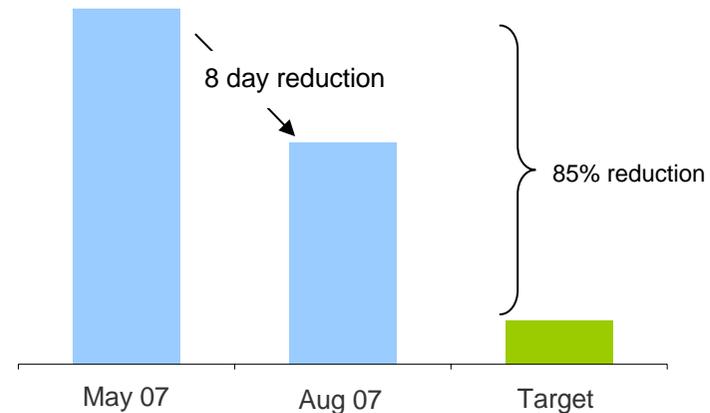




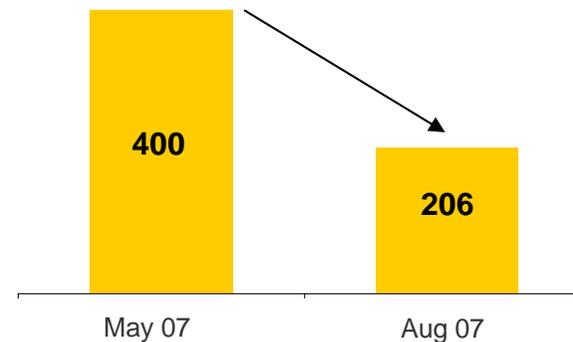
# Simple home loans

- Process and system improvement
- Targeting significant reduction in lead time to fund
- Significant customer and efficiency benefits
- Eliminated middle office from branch network
- National rollout of efficiency program

Application to 'Ready-to-Fund' Lead Time



Middle Office Support Roles





# Key messages

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- Improve customer experience
- Leverage scale in systems & processes
- Stability of IT systems
- Enhancements and new platforms





# Today

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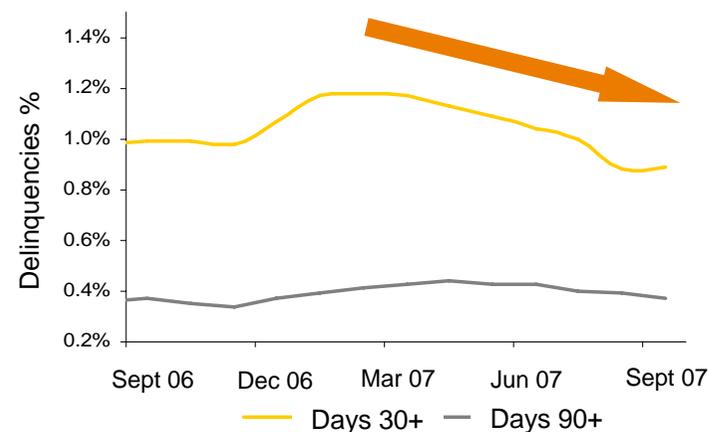




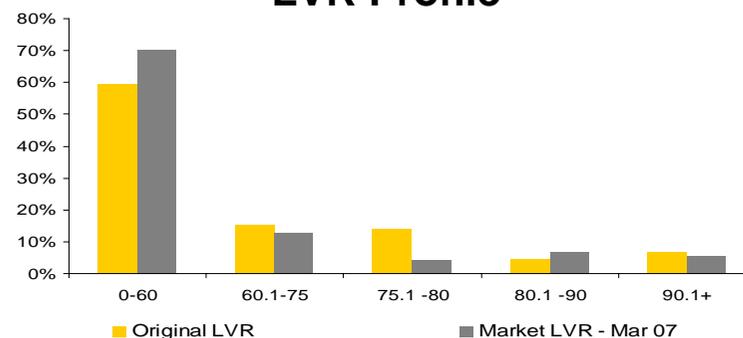
# Home loans – portfolio quality

- Portfolio credit quality remains sound
- Delinquencies improving
- Portfolio LVR at 50%
- No 'sub prime' lending
- Collections focus on higher risk loans

### Home Loan Arrears



### LVR Profile\*



\*Australian Owner Occupied and Investment Housing only, excludes Lines of Credit Loans as at 31 Dec 06 and Market Value at March 07  
Market Values marked against the APM database





# Home loan stress testing

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- Overall portfolio showing little signs of stress
- Stable expected losses over past 12 months
- Regular stress testing – losses under APRA extreme stress scenario \$300m (~3 months home loan net interest earnings)
- Policies and procedures to assist customers in difficulty





# Consumer finance – portfolio quality

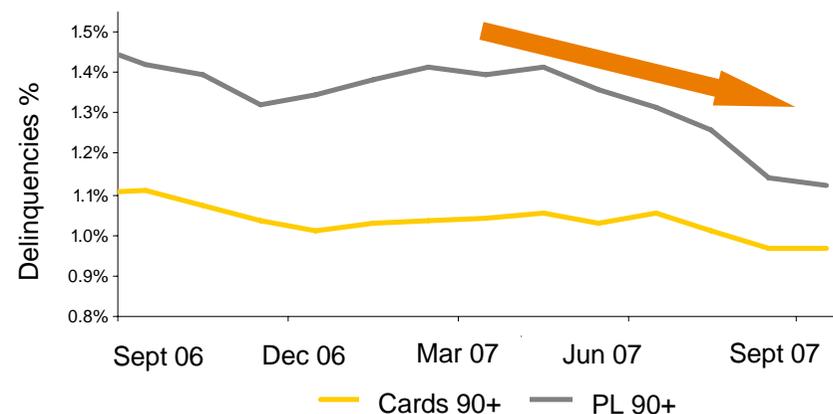
## Credit cards

- Strong credit quality maintained
- Improving quality in new loan book

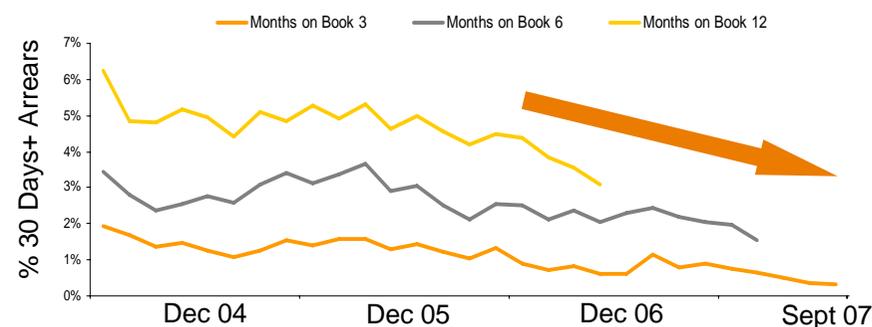
## Personal loans

- Continued improvement in credit quality
- Older poorer quality book replaced by better quality accounts
- New scorecard delivering higher business volumes at same level of risk

### Consumer Finance Arrears



### Personal Loans Arrears





# Responsible lending

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- The Australian Law Reform Commission (ALRC) recommending changes
- The Bank is in favour of sharing credit stress data – responsible lending
- Result in:
  - Better credit decisions
  - Opens mainstream credit to currently marginalised groups
- Recommendations to government from ALRC (March 2008)

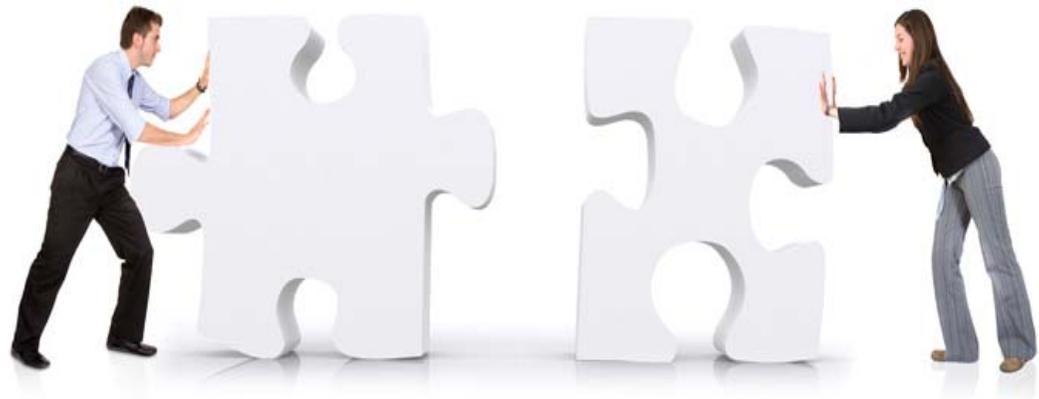




# Key messages

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- Portfolio quality remains sound
- Positive arrears trends
- Little signs of stress in home loan book





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# Key messages

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- Continuation of a clear vision and strategy
- Size and scale – a unique competitive advantage
- Key priorities
  - Engaged people
  - Customer satisfaction
  - Revenue
  - Leverage scale more effectively
- Early results encouraging





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# Panel



**Group Executive**

Ross McEwan



**Chief Risk Officer**

David Grafton



**Retail Sales**

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**Direct Channels & Operations**

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