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# **Investor Half Day**

**Investment and Insurance Services Division**

**19 October 2004**



# 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, 19 October 2004. 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.



# Discussion Outline

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- |                                                                                     |                                                                       |
|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| ■ <b>Stuart Grimshaw</b><br>Group Executive<br>Investment & Insurance Services      | Key Achievements,<br>Strategic Direction and<br>Distribution Overview |
| ■ <b>John Pearce</b><br>Chief Executive Officer<br>Colonial First State             | Asset Management and Platform<br>Overview                             |
| ■ <b>Peter Beck</b><br>Managing Director<br>CommInsure                              | Insurance Overview                                                    |
| ■ <b>Michael Cant</b><br>Chief Financial Officer<br>Investment & Insurance Services | Financial Performance                                                 |
| ■ <b>Stuart Grimshaw</b><br>Group Executive<br>Investment & Insurance Services      | Conclusion                                                            |



# Market trends shaping the wealth management industry

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## Funds Management:

- Decline of retail and the rise of platform
- Margin squeeze
- Slowing, but healthy projected growth in funds management
- Rising popularity of blend and model portfolios

## Insurance:

- Strong long-term growth
- Rational approach to pricing
- Underinsurance and the need for further education

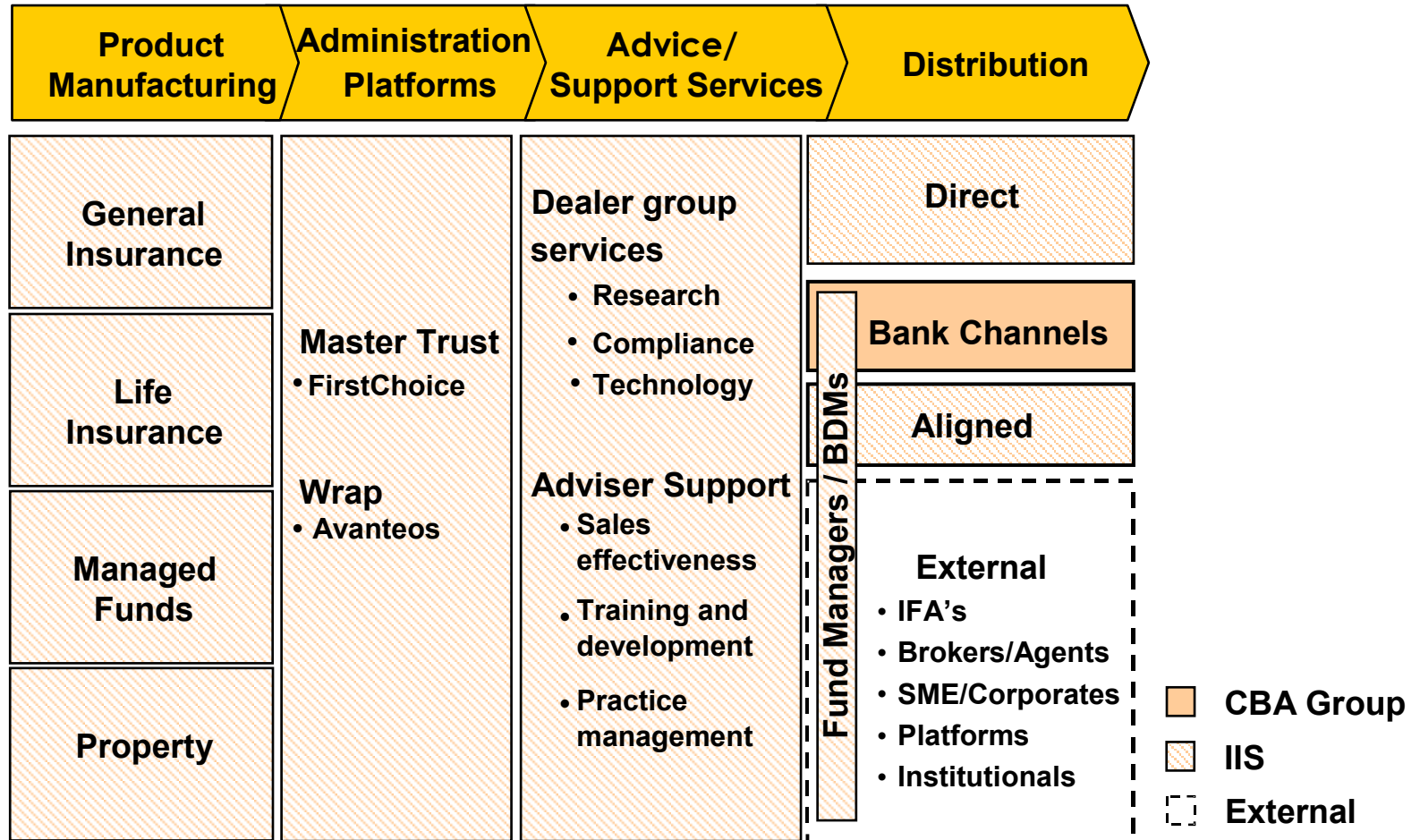
## Advice:

- Independence of advice
- Continuing consolidation of distribution
- Soft dollar benefits
- Quality of advice



# Our business model involves competing across all elements of the value chain

IIS products and services by value chain element



# Our strategy is to foster a leading wealth management business

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## Distribution

- Continue to strengthen and improve our multi-channel distribution capabilities

## Efficiency

- Focus on cost effective ways to deliver investment and insurance services

## Platform

- Build market leading platform capabilities and leverage the scale and efficiency of our technology

## Innovation

- Strengthen our standing as a provider of innovative products and services

## Service

- Continued focus on a world-class customer service culture

## Performance

- Lead in all parts of the wealth management value chain



# Recent achievements and current focus

## Distribution

- Centre for Adviser Development
- Launch of Enterprise<sup>121</sup>
- Increased productivity and number of planners

## Efficiency

- IIS organisational restructure
- Legacy rationalisation program on target
- Cost to income ratio improvement

## Platform

- Market leading platform inflows through FirstChoice
- Growth in Avanteos net flows since acquisition
- FirstChoice enhancements

## Innovation

- Launch of 5D
- Boutique alliances
- Launch of new Commlnsure products

## Service

- Award winning service
- Commlnsure service quality improvement

## Performance

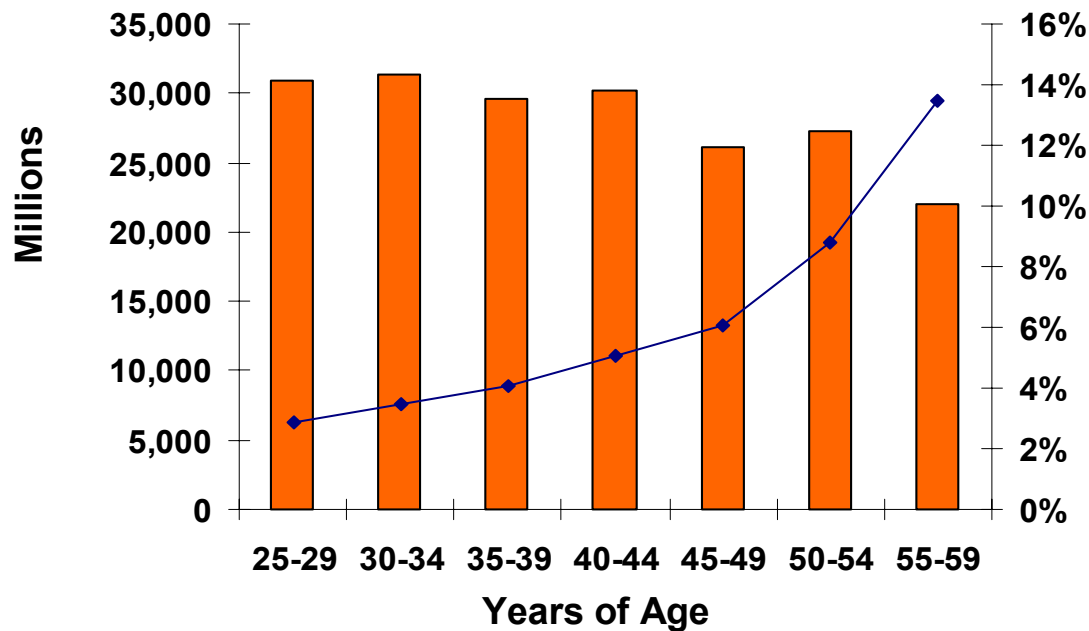
- Strong FUM flows in First State International
- Commlnsure strong financial results
- Fixed Interest and Credit and Global Resources fund performance



# Distribution challenges and opportunities

## Retirement Savings Gap by Age

August 2003



- Retirement Savings Gap for Males
- Additional Contribution Required

Source: IFSA Retirement Savings Gap, August 2003;

## Challenges/ Opportunities:

- Ageing population with inadequate savings
- Choice for investors and advisers
- Growth in DIY products
- Regulatory environment:
  - Quality of advice
  - Greater fee transparency
  - Independence





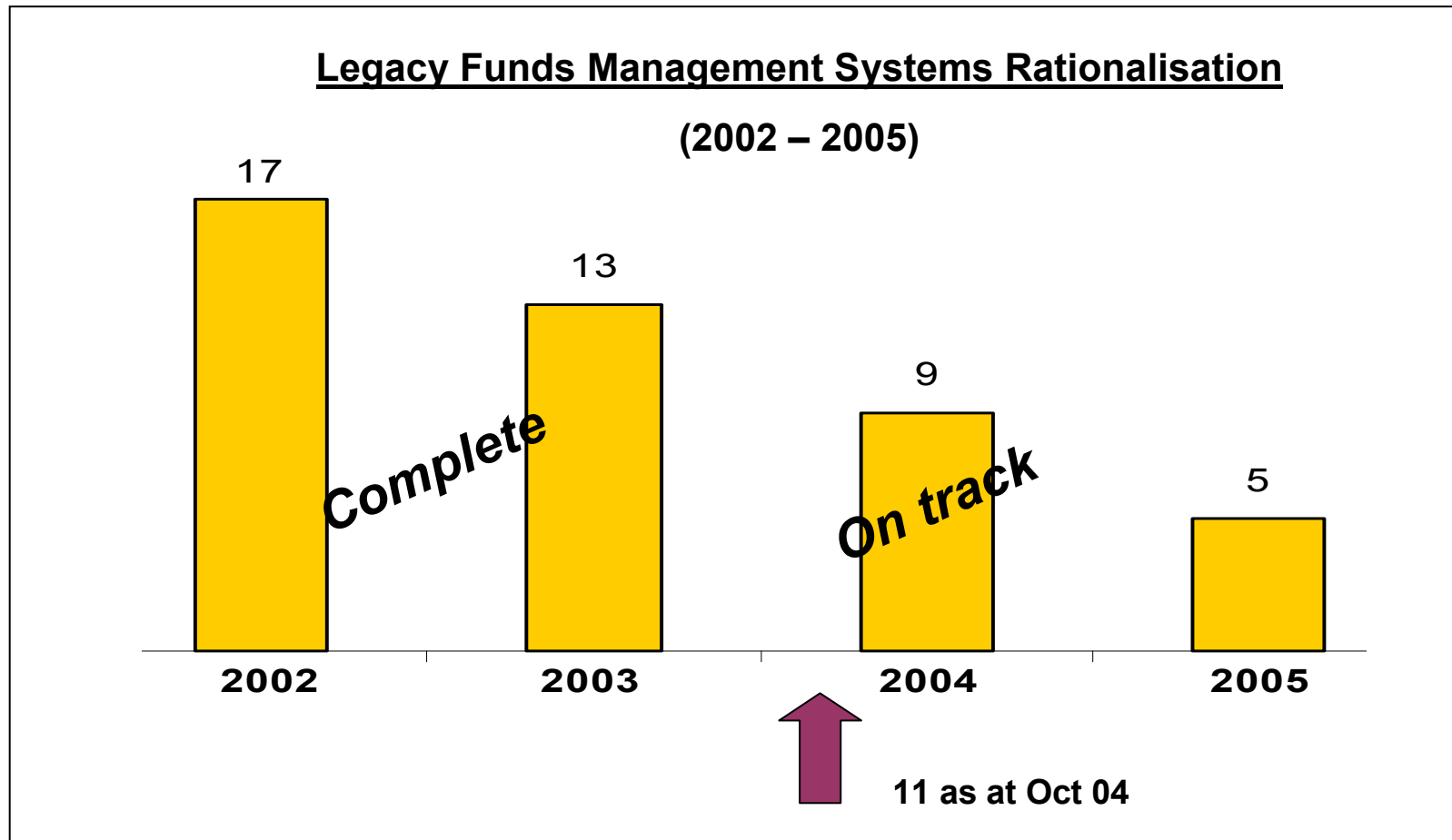
# We are continually strengthening our distribution footprint

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- **Centre for Adviser Development**
  - Over 200 trained
  - Feedback very positive
- **Launch of Enterprise<sup>121</sup>**
  - Opportunity in the market to offer advice, platform and dealership services to HNW practices.
- **Increased productivity of network advisers**
  - 26% improvement
- **Recruitment of advisers**
  - Network and aligned



# Legacy system rationalisation is on track



Source: Internal Projections. Policy Administration Systems rationalisation by calendar year end



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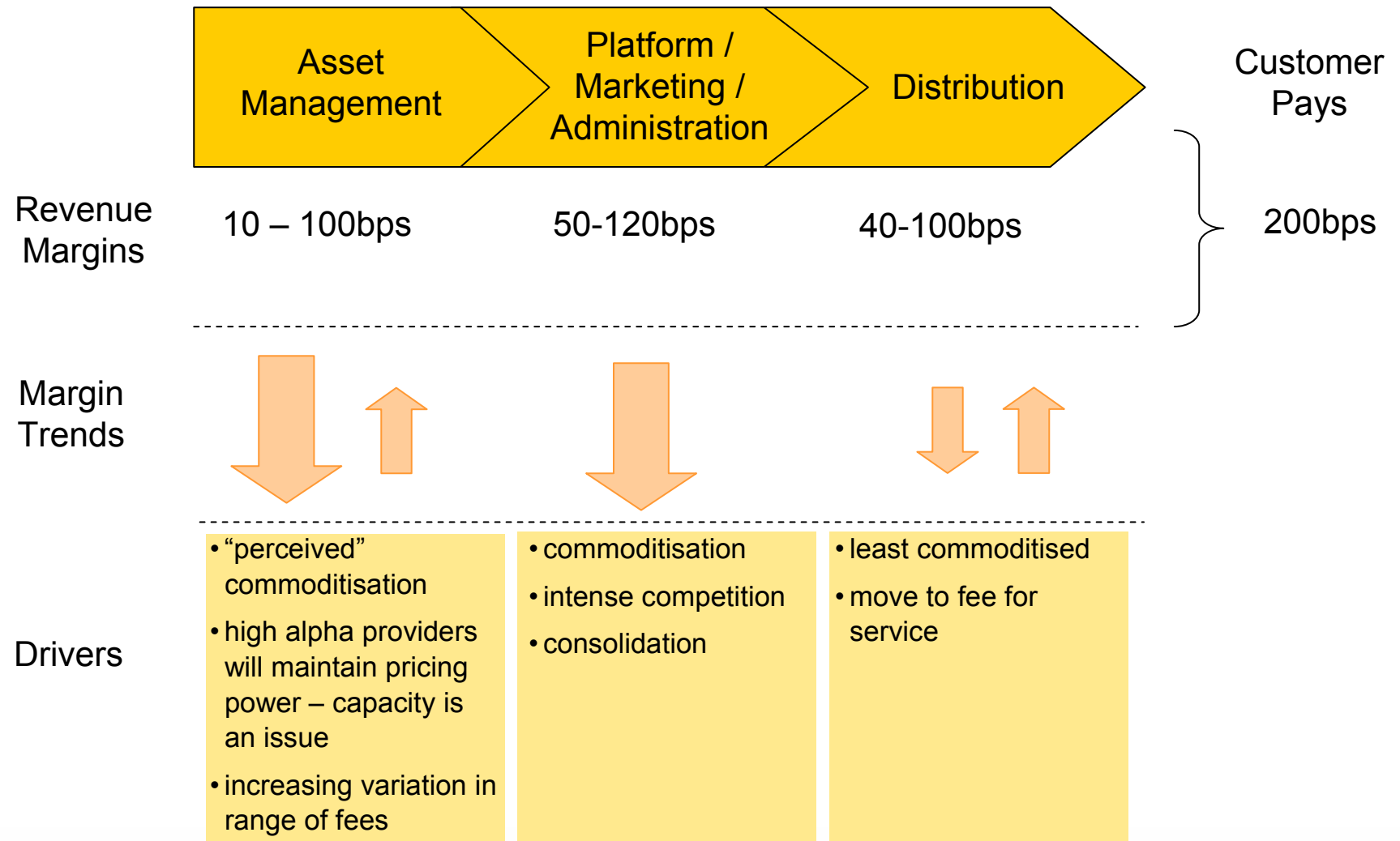
# Outline

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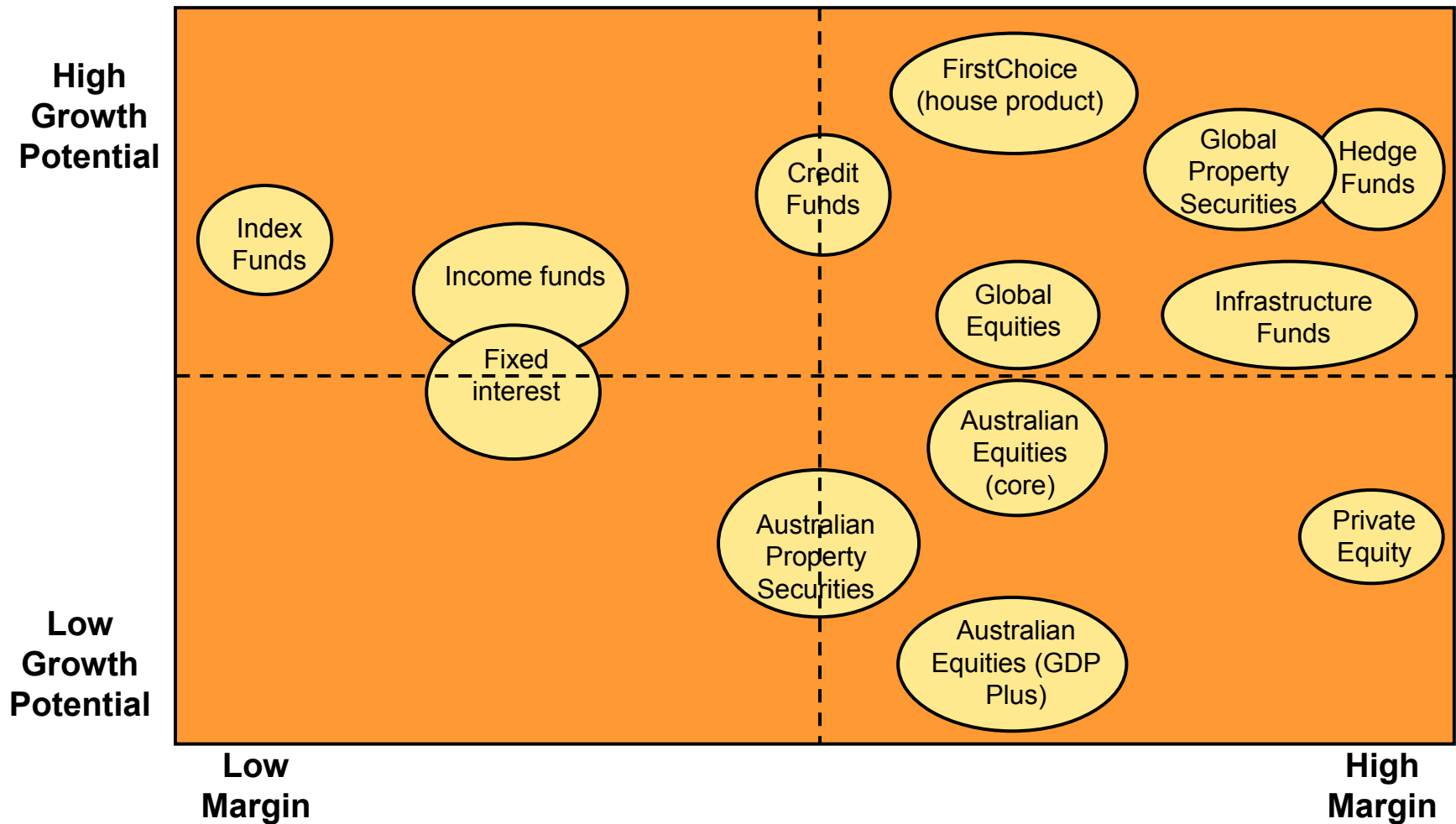
- The value chain
- Asset management
- Platforms



# The only segment with universal downward pressure in margins is platforms / administration.



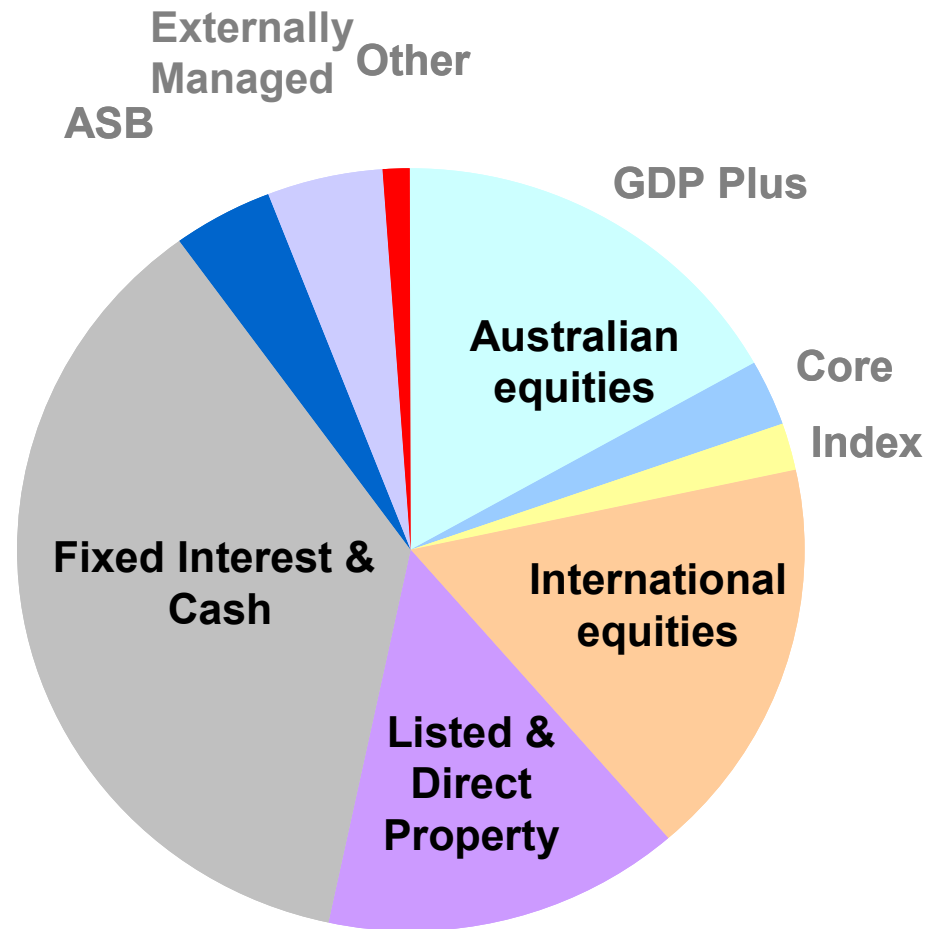
# Our diversified asset management base provides growth opportunities.



Source: CBA Internal Analysis and Market Forecasts

# Australian Equities (GDP-Plus) is now only 17% of FUA

FUA: \$109.8bn  
as at June 2004



# Australian equity GDP+ investment performance in perspective.

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## Year by year out-performance

<i>Growth bias market</i>		<i>Value bias market</i>	
1997	12.04%	2001	7.71%
1998	4.41%	2002	-0.03%
1999	13.39%	2003	-0.07%
2000	7.48%	2004	-4.86%
4 Yr Avg.	9.10%	4 Yr Avg.	0.70%

Source: Wholesale Imputation Fund, excess performance before fees and taxes. Year to 30 June.





# Investment performance has been generally strong over the medium term.

Asset Class	Performance Vs Benchmark (1 yr)	Performance Vs Benchmark (3 yr)
Fixed Interest	✓	✓
Global Credit	✓	✓
Australian Equities GDP+ Large Cap	✗	✗
Australian Equities GDP+ Small Cap	✓	✓
Australian Equities Core Large Cap	✓	✓
Australian Equities Core Small Cap	✓	✓
Global Equities	✗	✗
Global Resources	✓	✓
Australian Listed Property	✗	✓
Global Listed Property	✓	✓
Hedge Funds	✓	✓
Infrastructure	✓	✓
Private Equity	✓	✓
Mortgage Funds	✓	✓



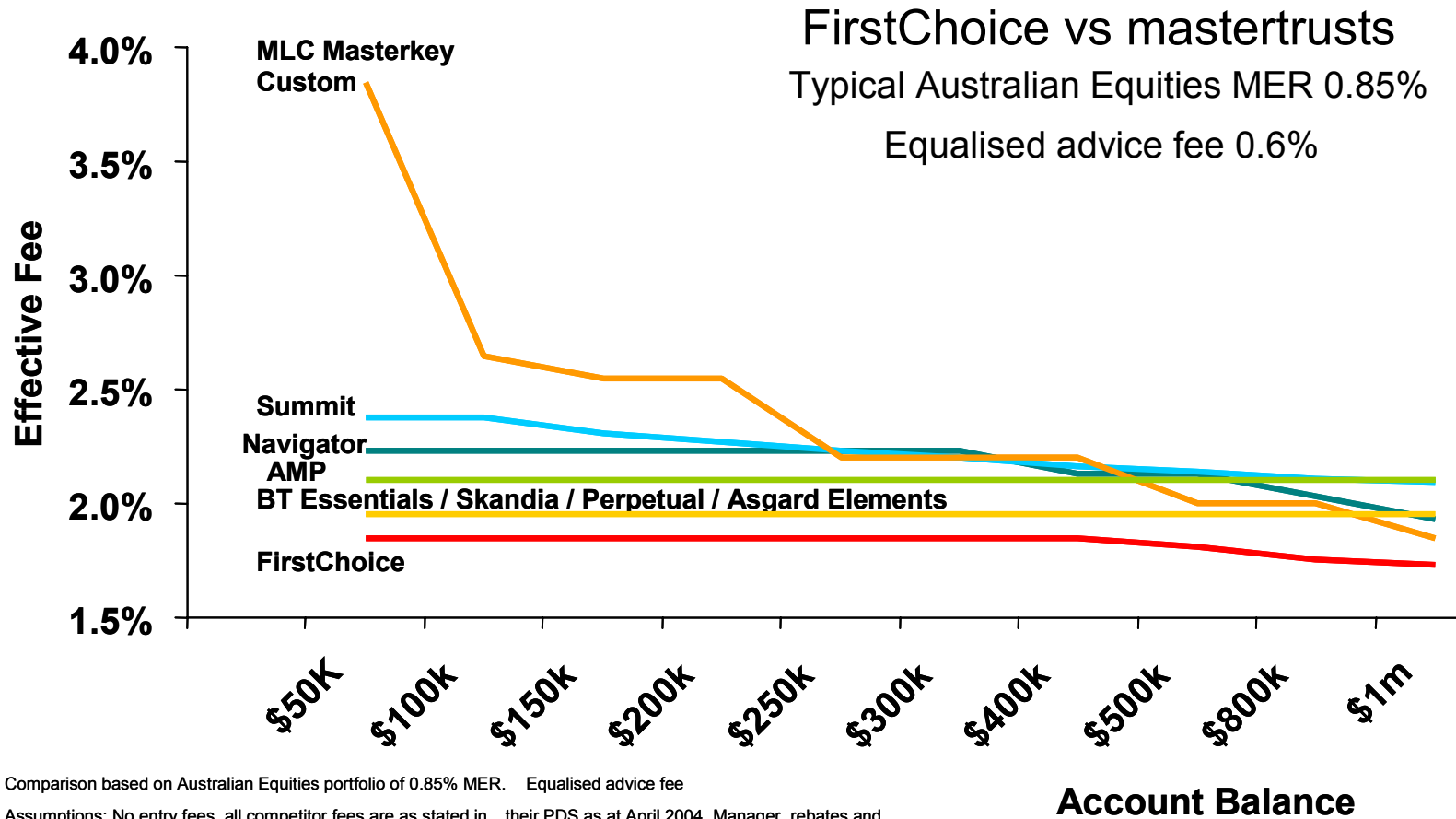
# Platform strategy

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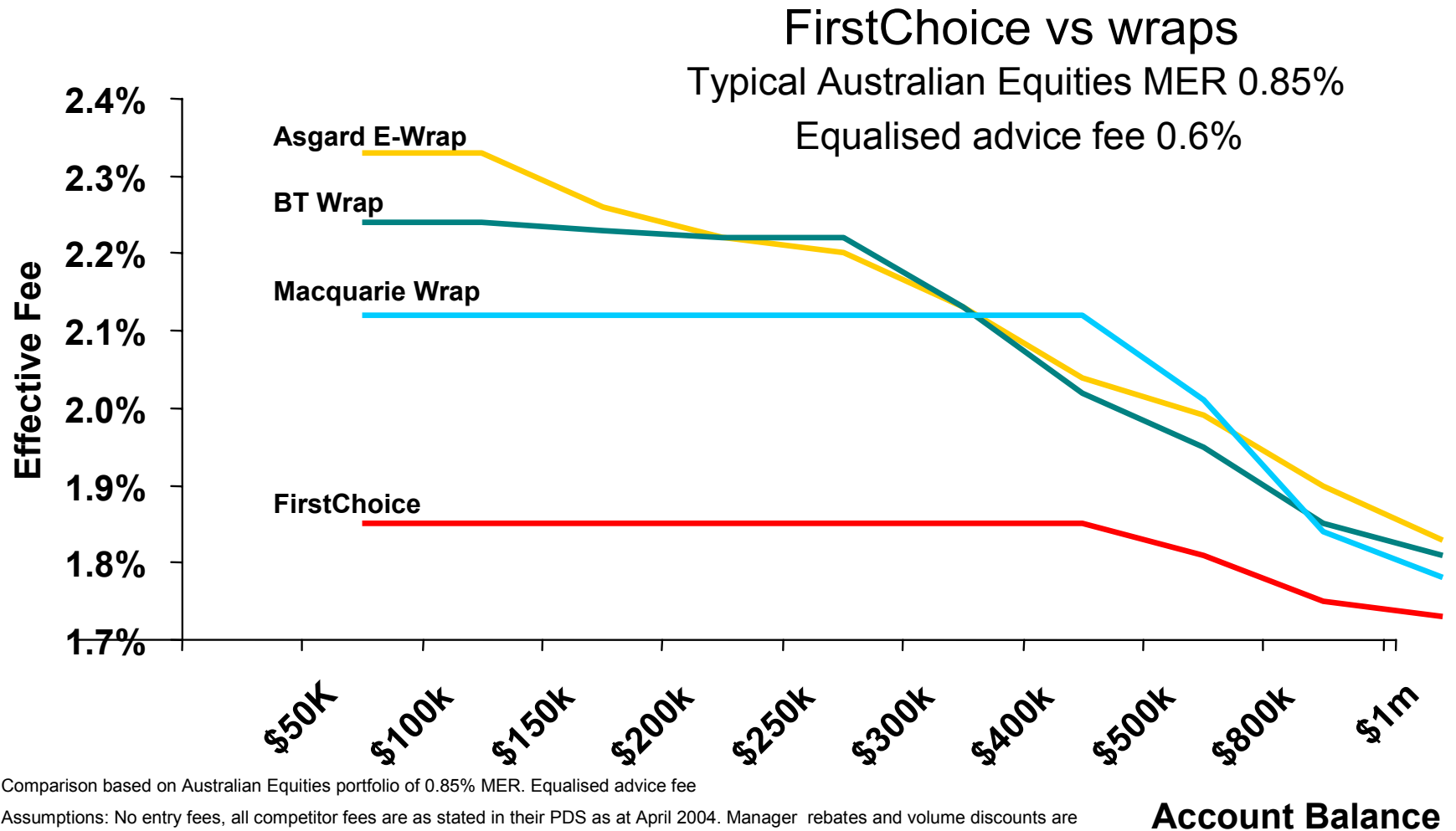
<b>Avanteos:</b>	White-label custodial wrap solution for wholesale platform market  - 'feature-rich' for high net-worth market
<b>FirstChoice:</b>	Non custodial masterfund for "Mass Market Retail"  Value proposition: <ol style="list-style-type: none"><li>1. Best value for money</li><li>2. Great service</li><li>3. Enough choice</li></ol>



# The Value Proposition - FirstChoice vs mastertrusts



# The Value Proposition - FirstChoice vs wraps



# How can we offer lower fees and still earn healthy margins?

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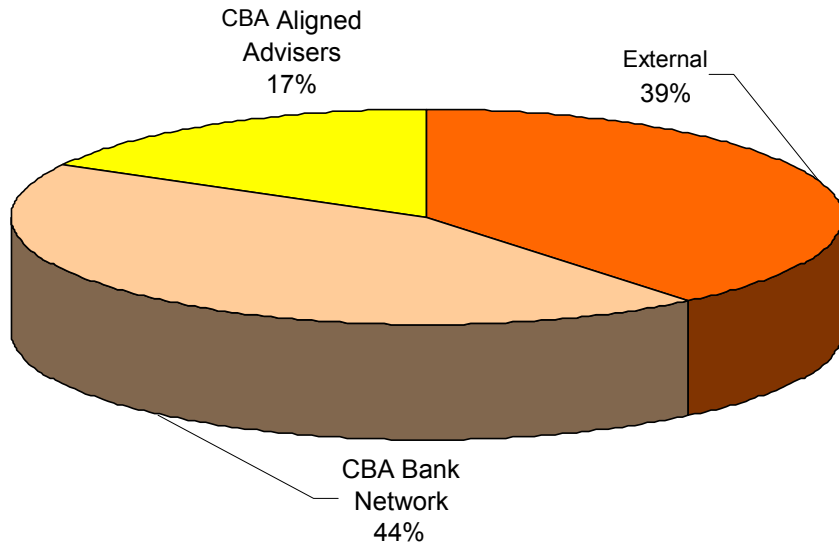
- Simple model catering to mass market
- Manufacturing margin capture
- Ability to leverage scale and administration efficiency
- Mandate structure



# FirstChoice: well diversified support and healthy CFS flows.

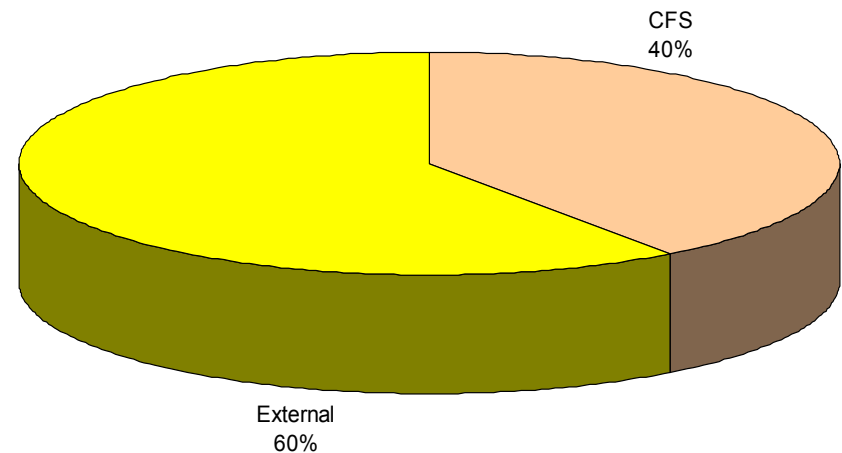
## Inflows:

### FirstChoice Split by Channel



## Managing the FUM:

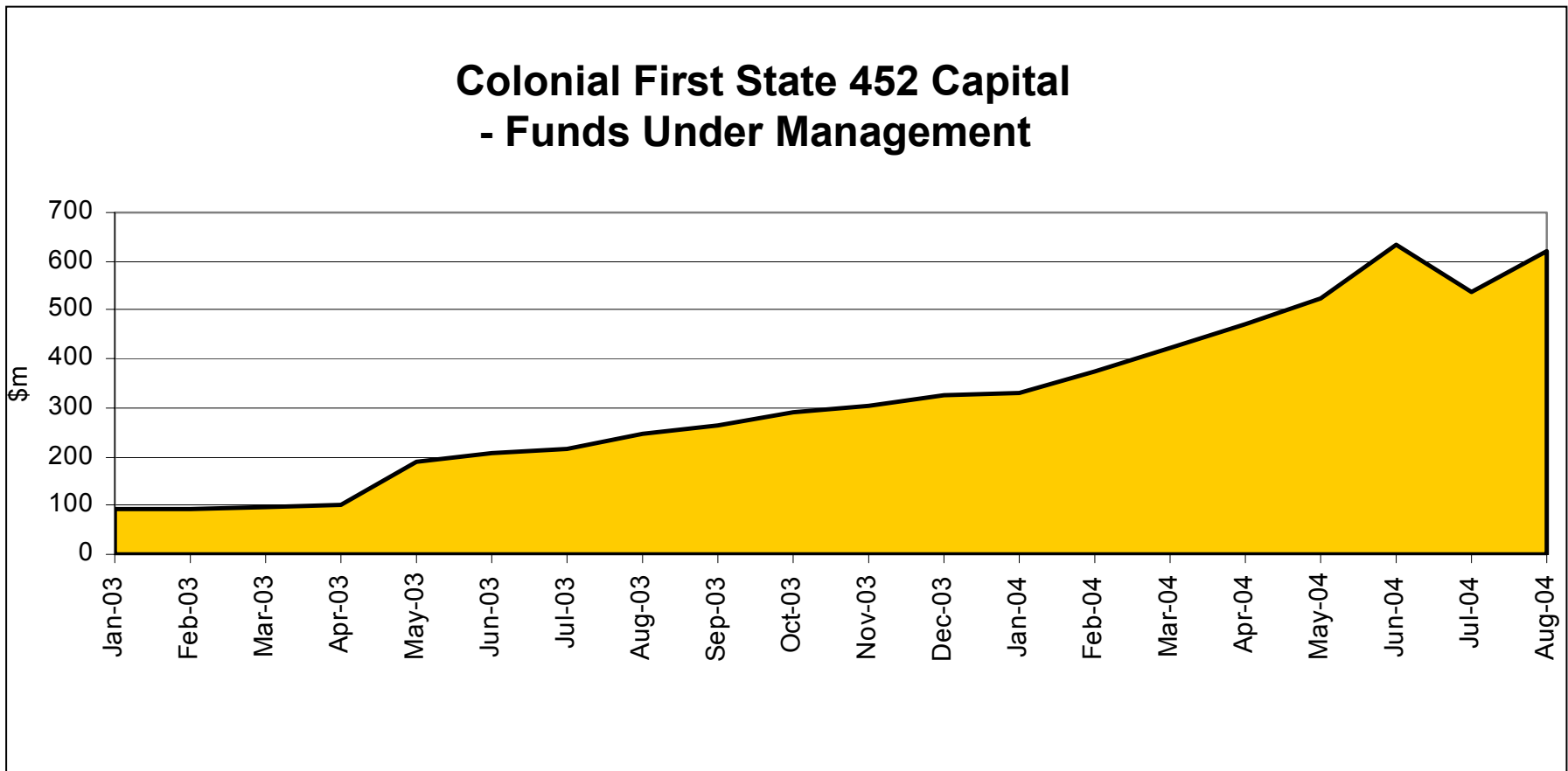
### FirstChoice Split Internal vs External



Source: internal data; channel split based on flows for 6 months ended 31 August 2004; Manager split based on FUA at 31 August 2004



# Boutique alliance strategy has delivered strong FUM growth.



Source: internal data, retail sourced FUM



# Conclusion – in a tough environment, we are very well positioned.

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<b>Asset Management</b>	<ul style="list-style-type: none"><li>■ Strong, well diversified, asset management capability with growth opportunities</li><li>■ 70% of sector funds outperformed their 3 year benchmark</li></ul>
<b>Platforms</b>	<ul style="list-style-type: none"><li>■ Combination of Avanteos and FirstChoice provides comprehensive admin capability</li><li>■ Superior value proposition has underpinned FirstChoice success</li><li>■ Boutique alliance strategy has been very successful</li></ul>



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# Agenda

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- Industry Trends and Issues
- Achievements
- Opportunities



# Summary

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Insurance underlying profit grew 107% last year. Further growth is a significant opportunity for the Group

## **In the 03/04 year the Insurance business:**

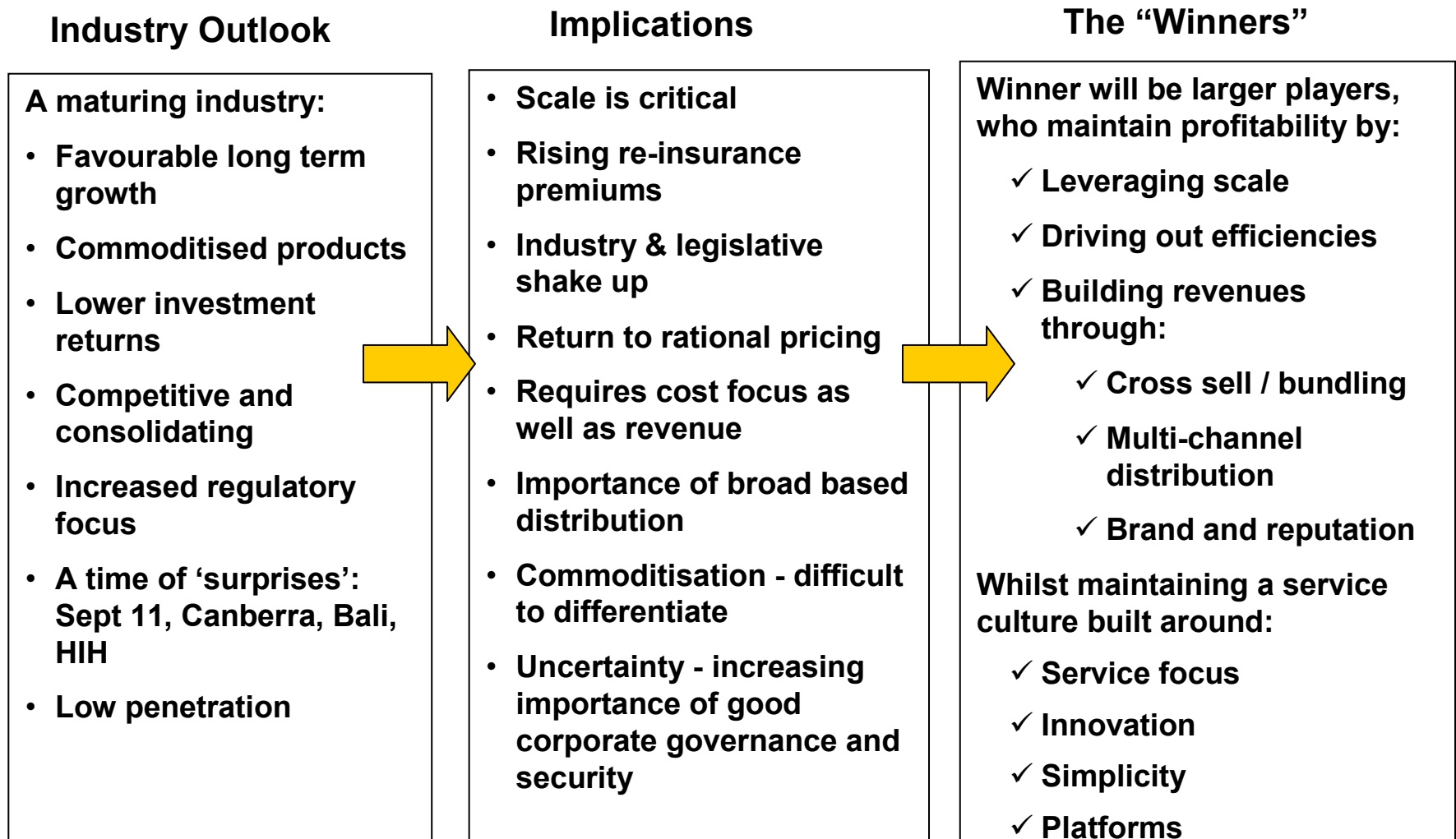
- Reduced Costs & Increased Profit
- Improved Service

## **Insurance represents an opportunity to:**

- Materially expand the Bank's business and support growth
- Deepen relationships / aid retention in the Bank's core banking portfolio
- Leverage distribution infrastructure & scale
- Significantly increase cross-sell

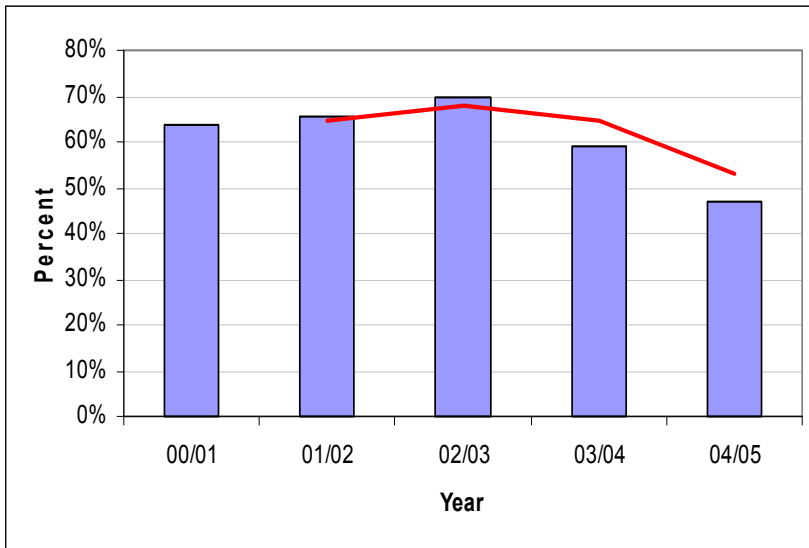


# The insurance industry outlook has improved as predicted last year

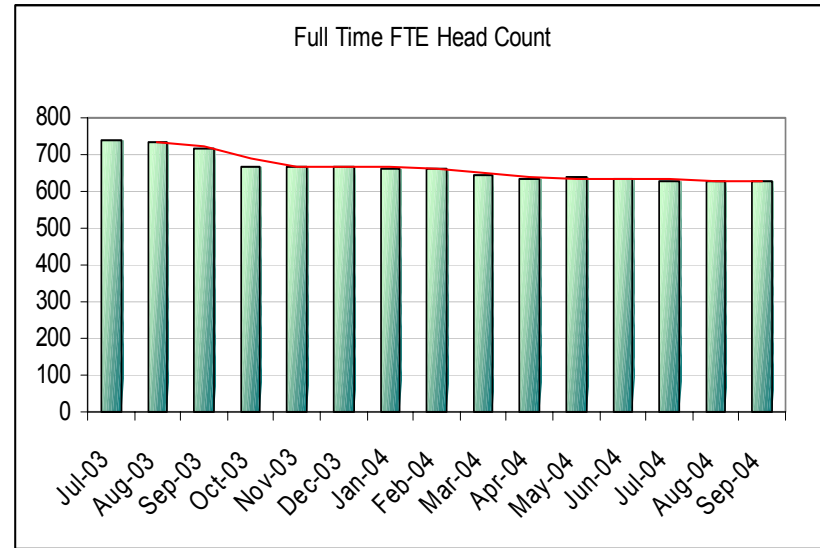


# Achievements

### Claims Cost (H&C)



### Staff Numbers



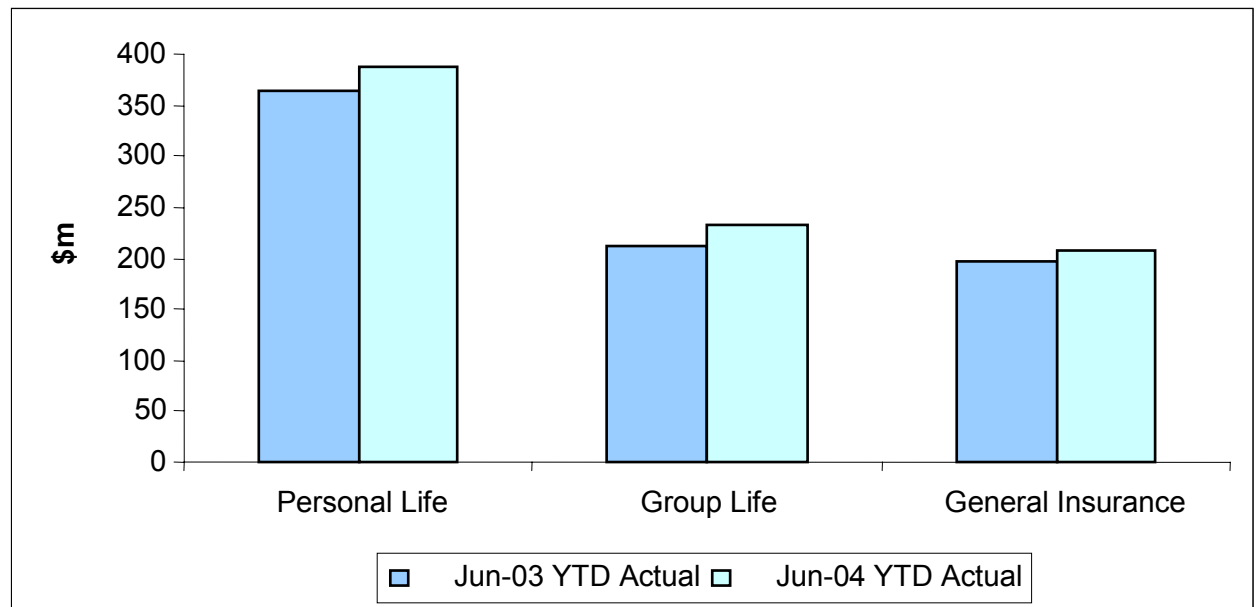
### Improvement in Service levels and strong staff engagement:

- Internal service level measures have improved by up to 20% over the last 18 months
- Staff cultural surveys measuring staff engagement and satisfaction across a range of areas have improved significantly over the last year



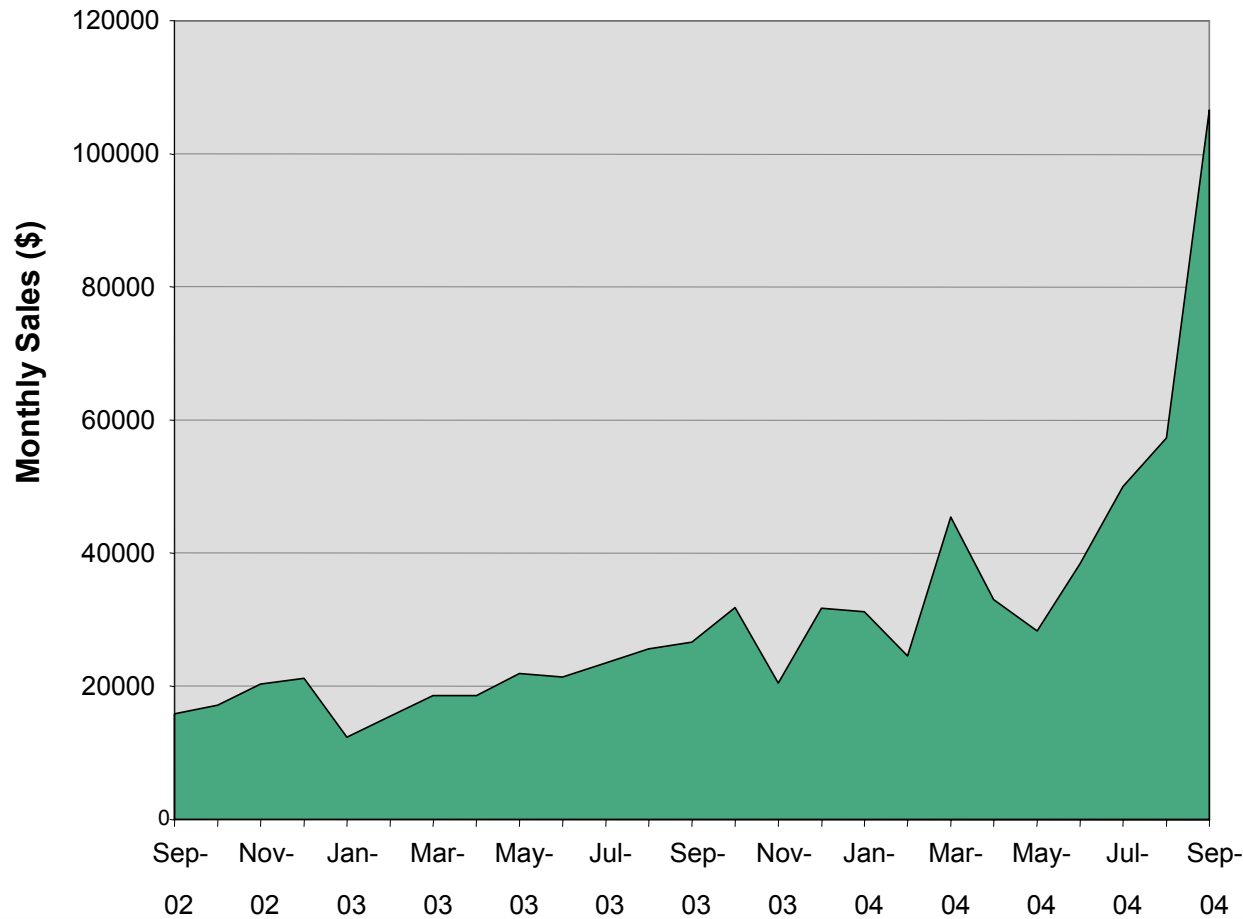
# Insurance Inforce Premiums (Australia) continue to grow

- Continued growth in network channel
- Strong GI premium growth with further upside
- Price increases on income protection impacted individual life sales
- Good growth in mastertrust segment
- Multiple product holders demonstrate increase retention across all portfolios



# Achievements - Annuity Sales - Leveraging a return to rational pricing and market opportunities.

Monthly Annuity Sales



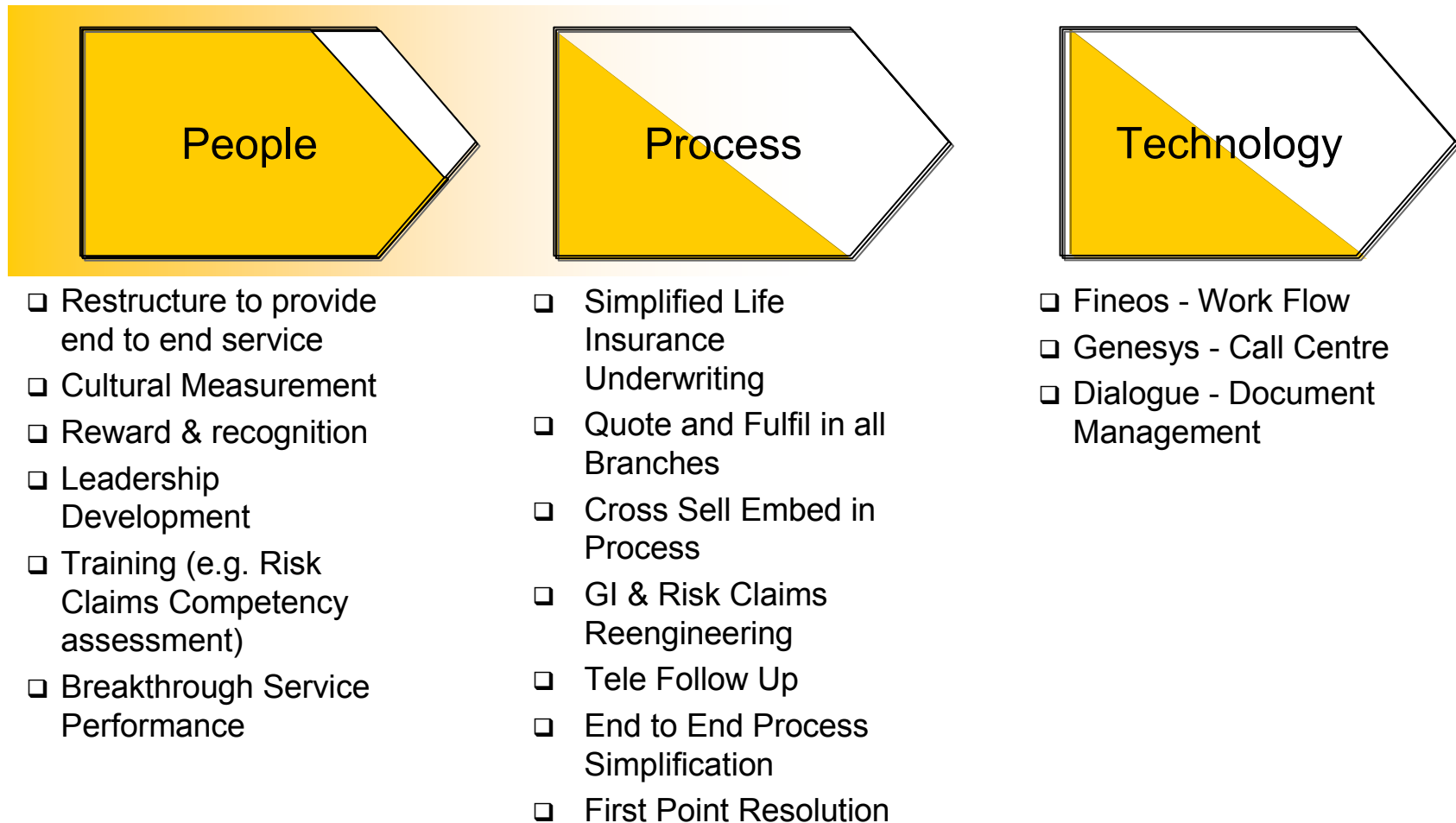
**Long Term Annuities**  
**Annuity Provider of the Year**  
**Gold Award 2003 Winner**  
 Plan For Life • IFA

**Short Term Annuities**  
**Annuity Provider of the Year**  
**Silver Award 2003 Winner**  
 Plan For Life • IFA

**Lifetime Annuities**  
**Annuity Provider of the Year**  
**Silver Award 2003 Winner**  
 Plan For Life • IFA

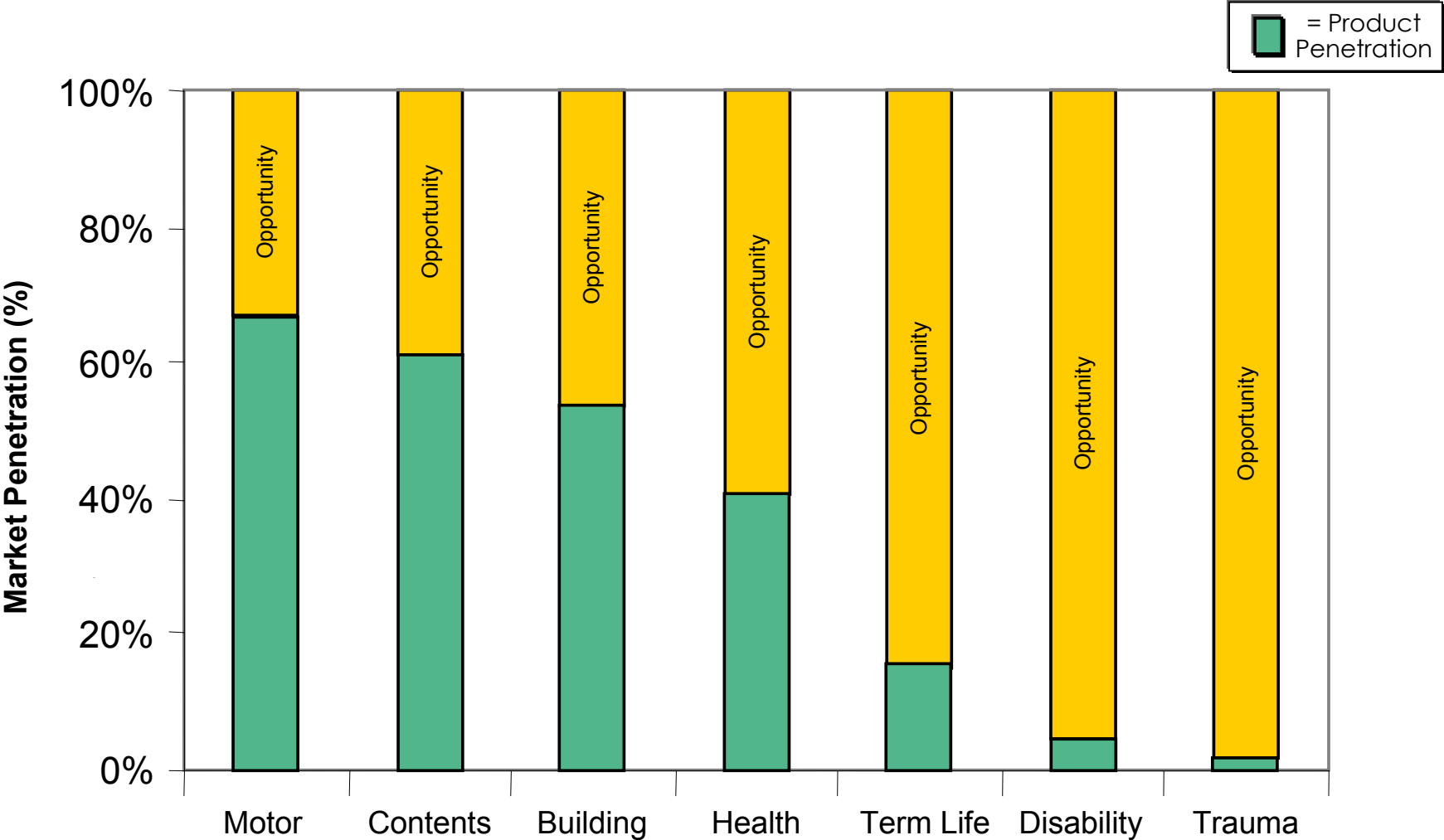
**Overall Winner**  
**Annuity Provider of the Year**  
**Silver Award 2003 Winner**  
 Plan For Life • IFA

# How is improvement being delivered





# Significant Revenue Opportunities - Product Penetration



# Insurance Cross Sell Opportunity

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- Home Loan Cross Sell - 36%
- Credit Card Cross Sell - 17%
- Managed Funds Cross Sell - 17%
- Savings & Transaction Cross Sell - 11%



# Conclusion

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- Significant progress was made in the 2003/ 2004 year
- Insurance represents a significant opportunity for the Group going forward



# Discussion Outline

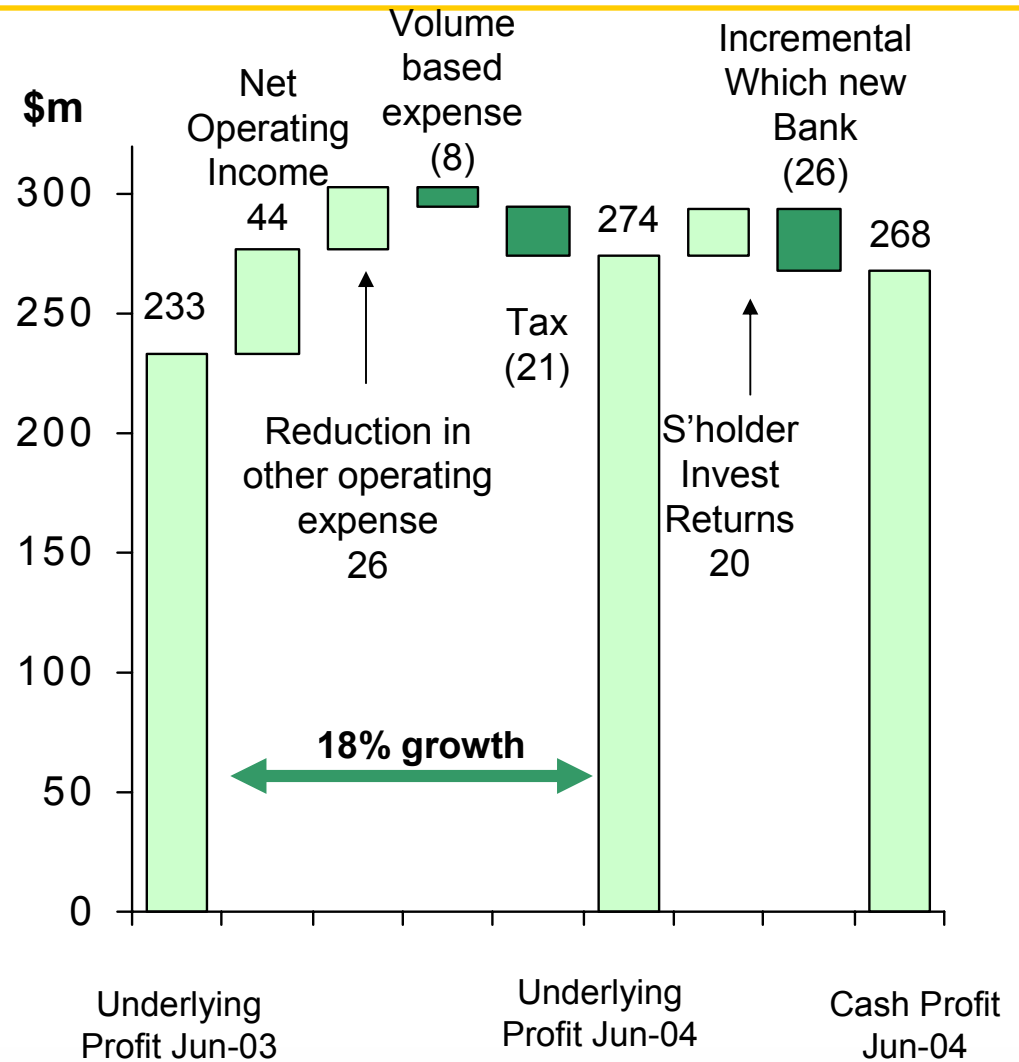
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# We saw an 18% growth in underlying profit for our Funds Management businesses

- Strong investment markets underpinned revenue growth
- Income to average FUA ratio maintained
- Focus on tight cost control resulted in operating expenses falling 2% year on year
- Revenue growth negatively impacted by FX movements and sale of custody business



# Significant improvement in Cost to Income Ratio

- Leverage to growing FUA
- Back-office efficiencies
- Support function rationalisation
- Rationalisation of UK product range
- Product rationalisation and system migration

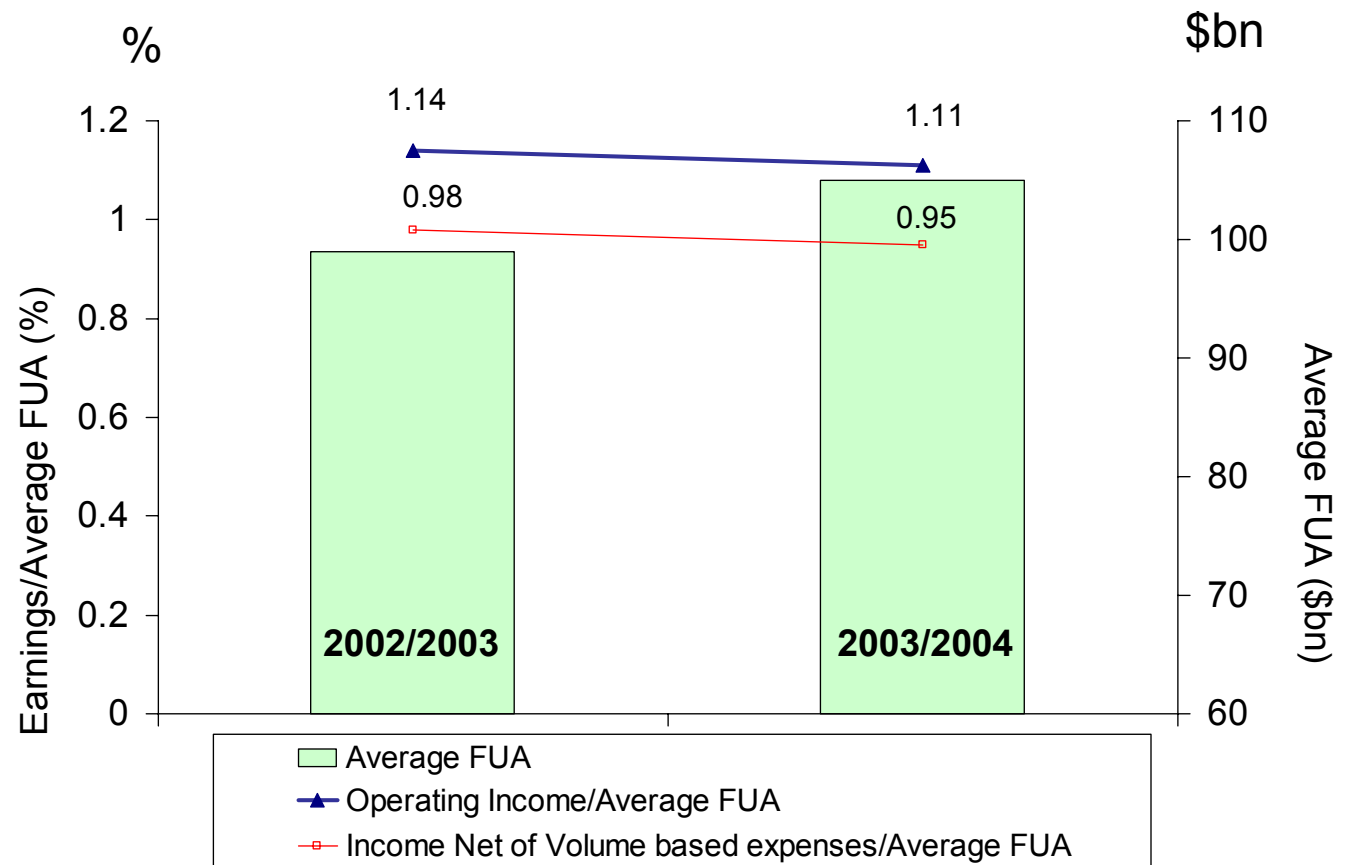


\*Excludes WnB Costs

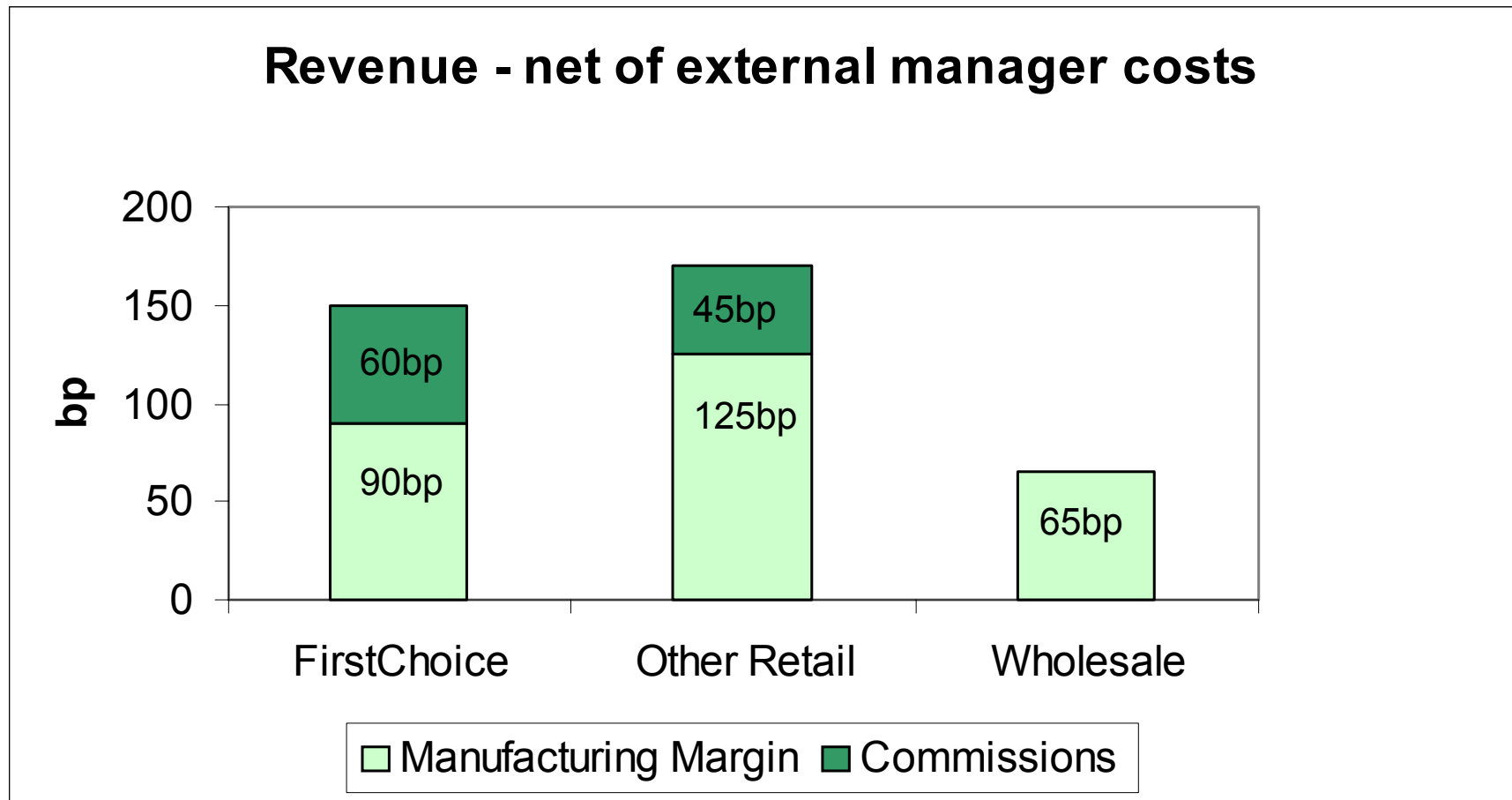


# Margins declined slightly

- Run off of higher margin legacy business
- Shift in mix of retail business toward platforms
- Increased payments to distributors
- Increase in margins in UK business



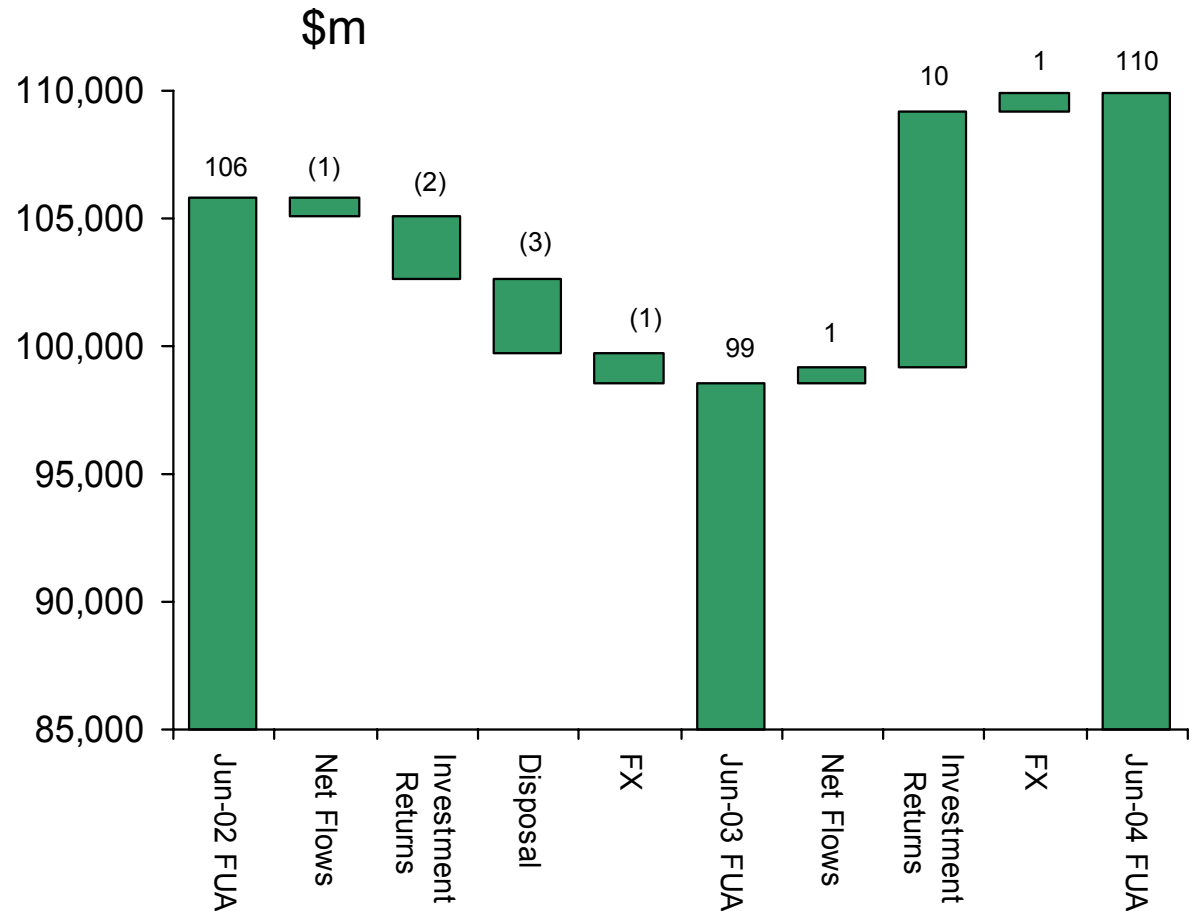
# FirstChoice margins are attractive, albeit less than our other retail products



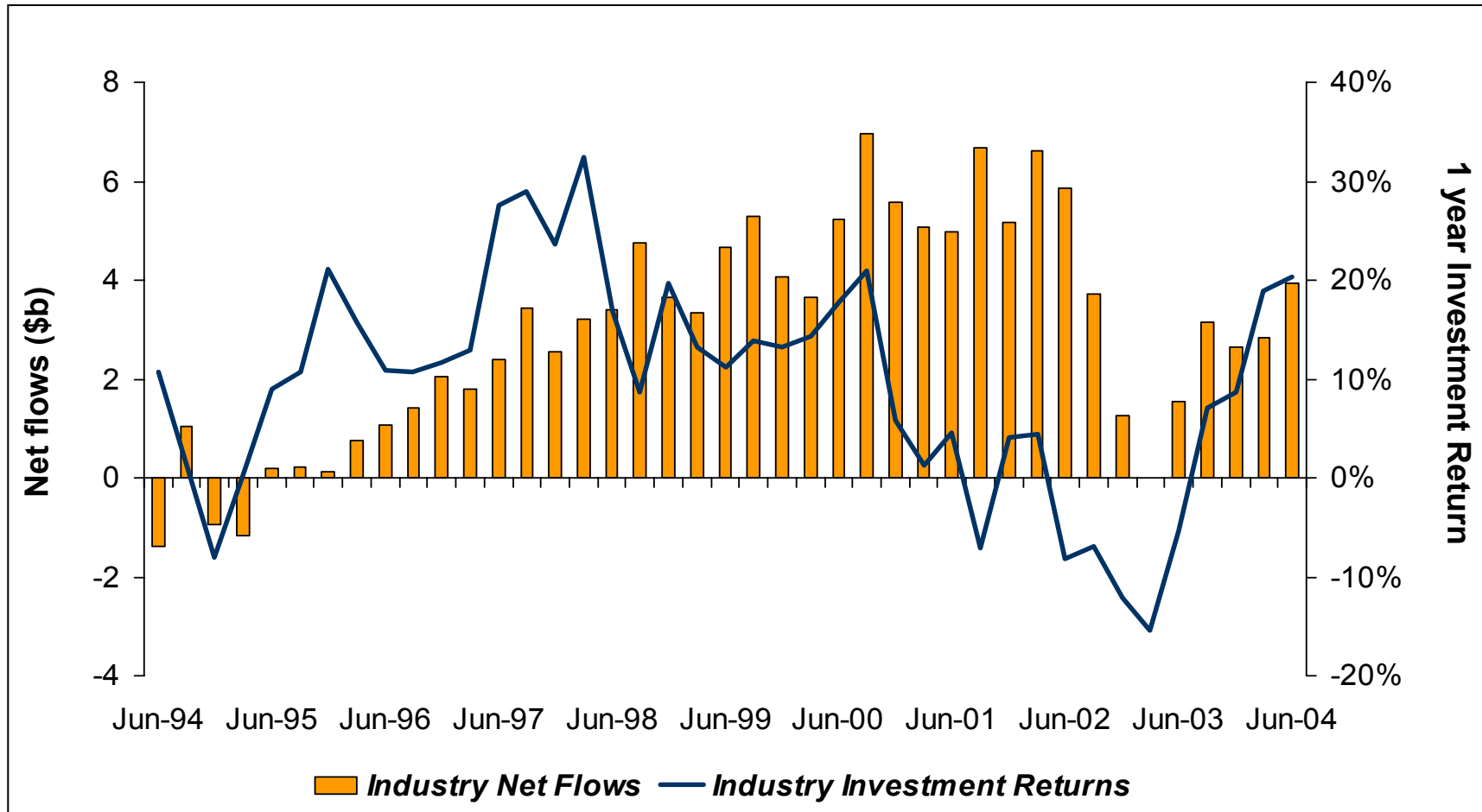


# Strong turnaround in FUA with 11% growth

- Strong turnaround in net flow position from 2003 underpinned by FirstChoice and International flows.
- Outflows driven by:
  - ⇒ Industry shift away from traditional balanced funds
  - ⇒ Legacy products
  - ⇒ Fund closures
  - ⇒ Performance of flagship funds
  - ⇒ Industry shift to platforms

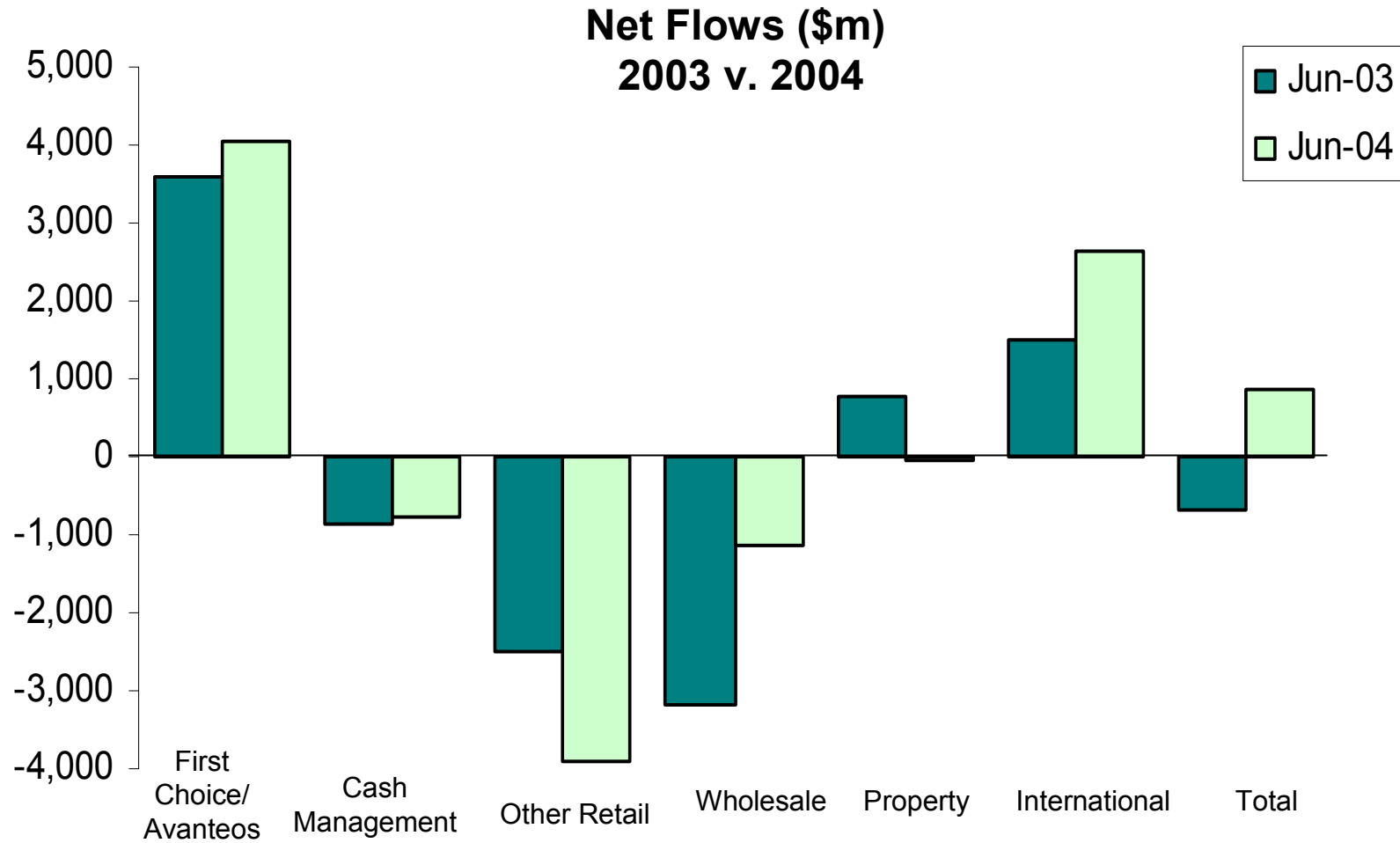


# Across the industry investment returns have improved and flows have responded, but not to previous levels.

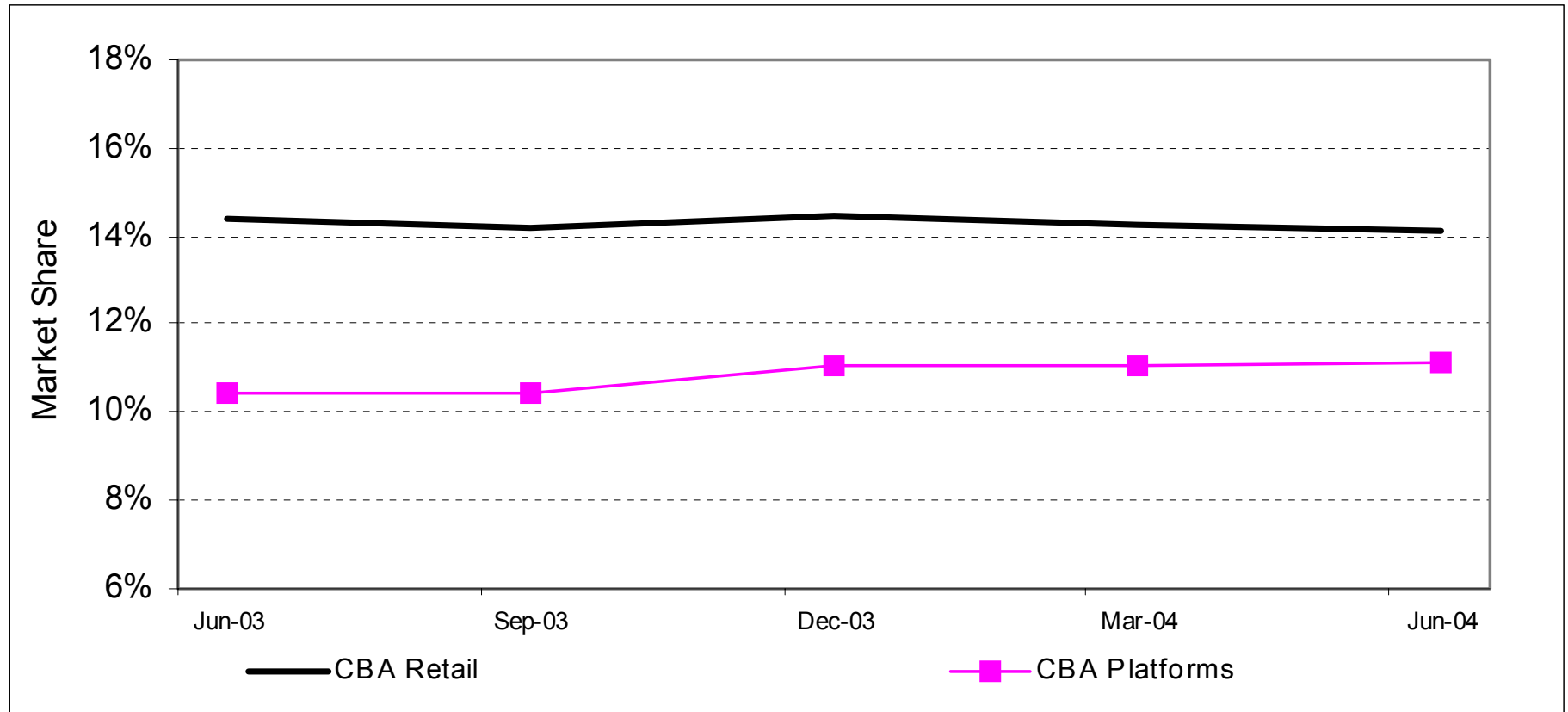


Source: Investment returns: rolling annual returns based on a composite index made up of Australian Shares (50%), International Shares (35%), Property Securities (15%)  
 Net flows: Plan for Life retail flows (ex-cash)

# Net Flows show turnaround in 2004



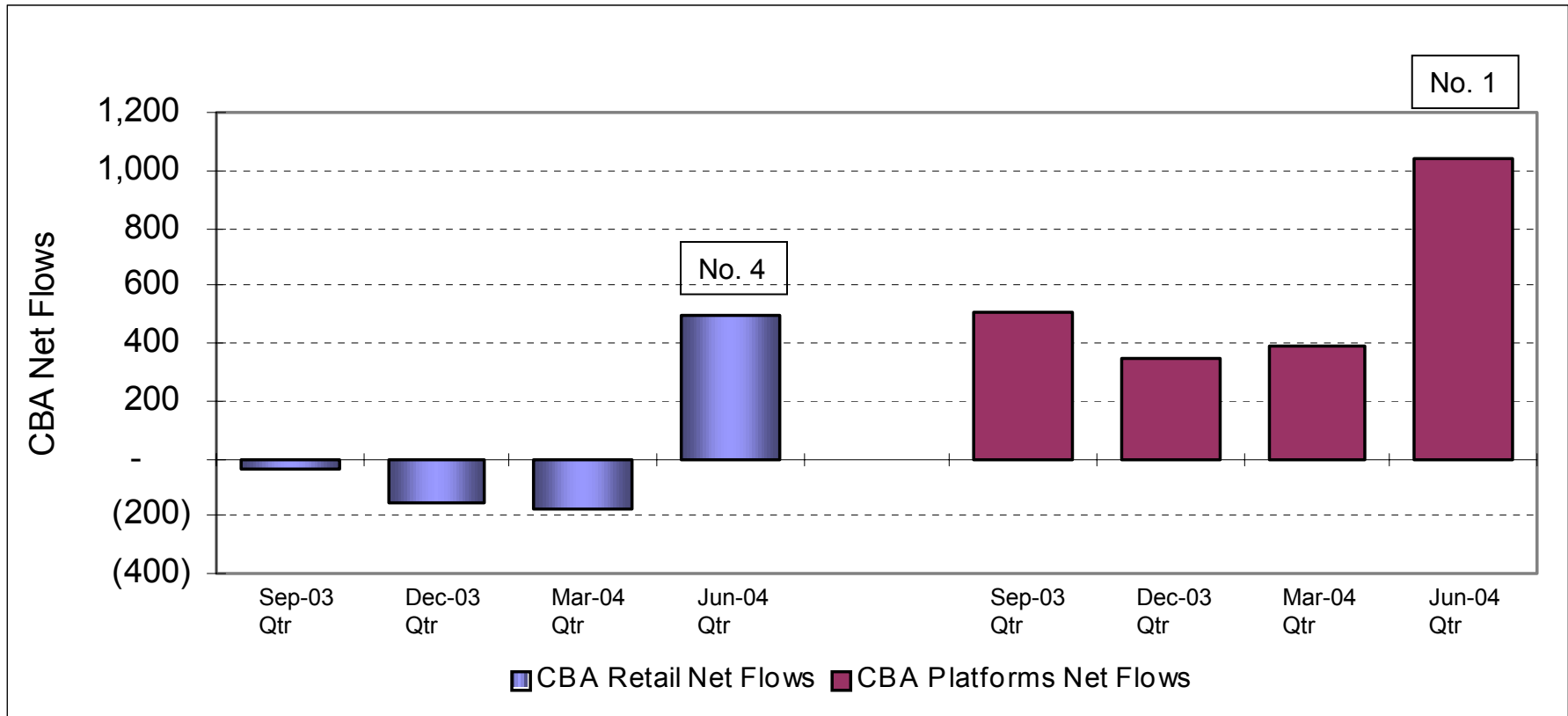
# We are gaining market share in the platform market



Source: Plan for Life, Fund Source Research



# We have experienced a very good June quarter



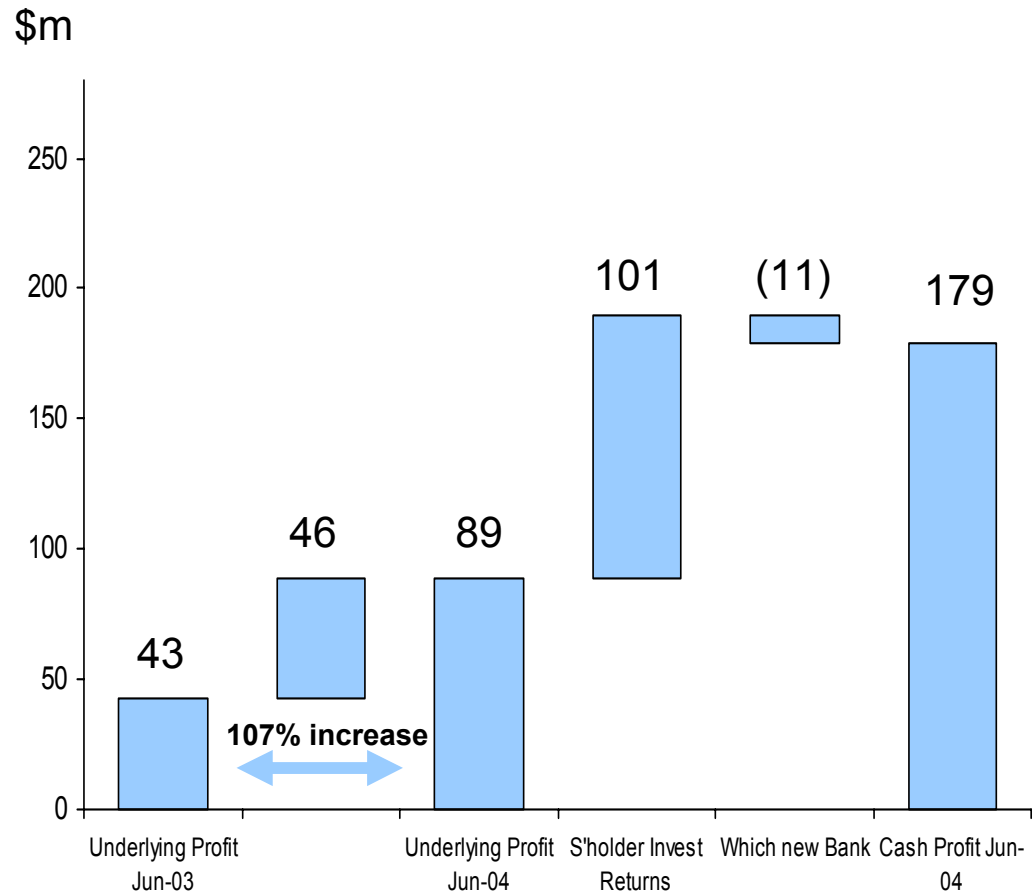
Source: Plan for Life, Fund Source Research



# Insurance - improved operating margins and strong investment returns

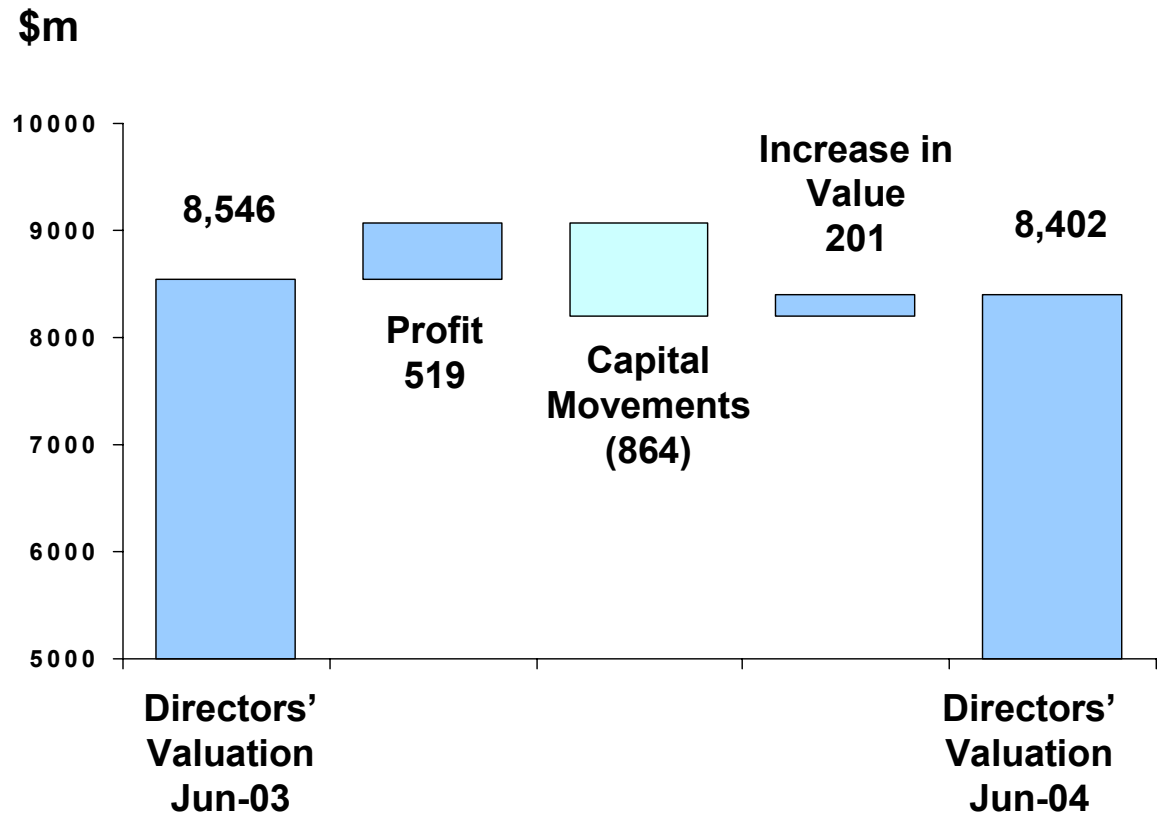
## Australia

- Market leader in life insurance in Australia
- 8% growth in risk inforce premiums
- Improved General Insurance claims ratio
- Tight expense controls – expenses flat
- Strong improvement in shareholder investment returns
- Improved margins on annuity business
- Portfolio re-pricing (in particular Disability and Wholesale Life)



# Business Valuation

- 16.2 x earnings multiple
- Uplift of \$201m
  - higher FUA
  - improved lapses
  - lower costs
  - More conservative future sales assumption
- Capital Reduction
  - change in asset allocation
  - reduction in capital adequacy margins



# Summary

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- Strong profit result
- Reduced capital
- Growth in overall business valuation





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# Significant opportunities to achieve strong growth

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## External/ market factors creating growth opportunities:

- Improved market returns
- Superannuation guarantee

## Internal opportunities to drive growth:

- Continuing product expansion and innovation
- Distribution capacity and productivity improvements
- Rationalisation and further efficiency gains
- Capital efficiency improvements



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# **Investor Half Day**

**Investment and Insurance Services Division**

**19 October 2004**

