# FSA update

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Financial Services Australia

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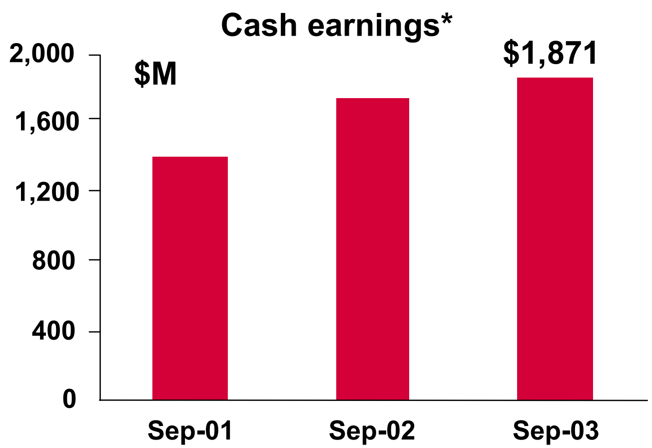
Financial solutions. For life.

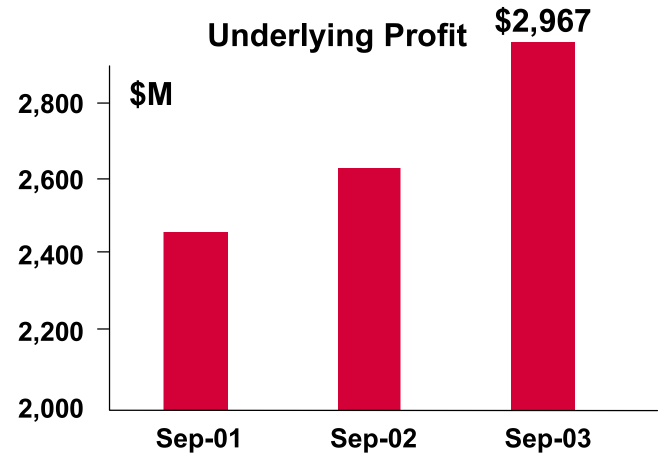
National

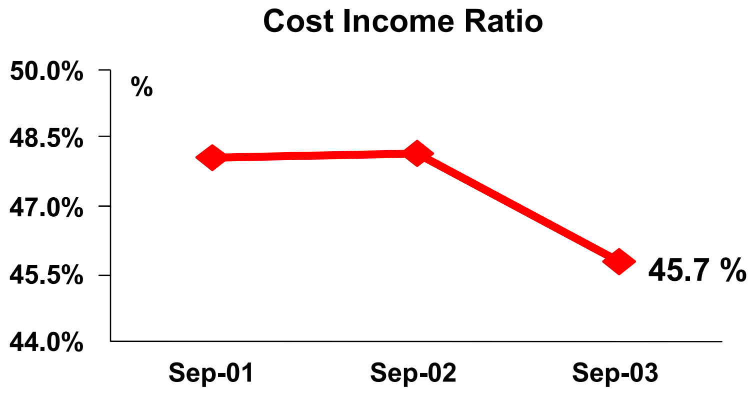
# Financial Performance – 30 Sept 2003

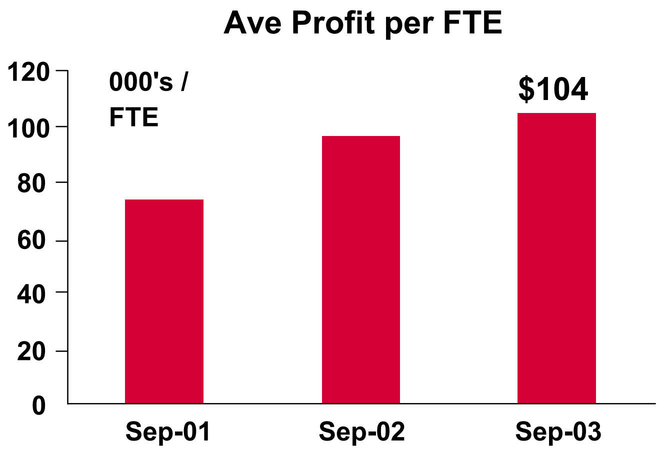
## Strong underlying profit up 12.5% to $2,967m




* before Significant Items



# Positioning for Growth - Update

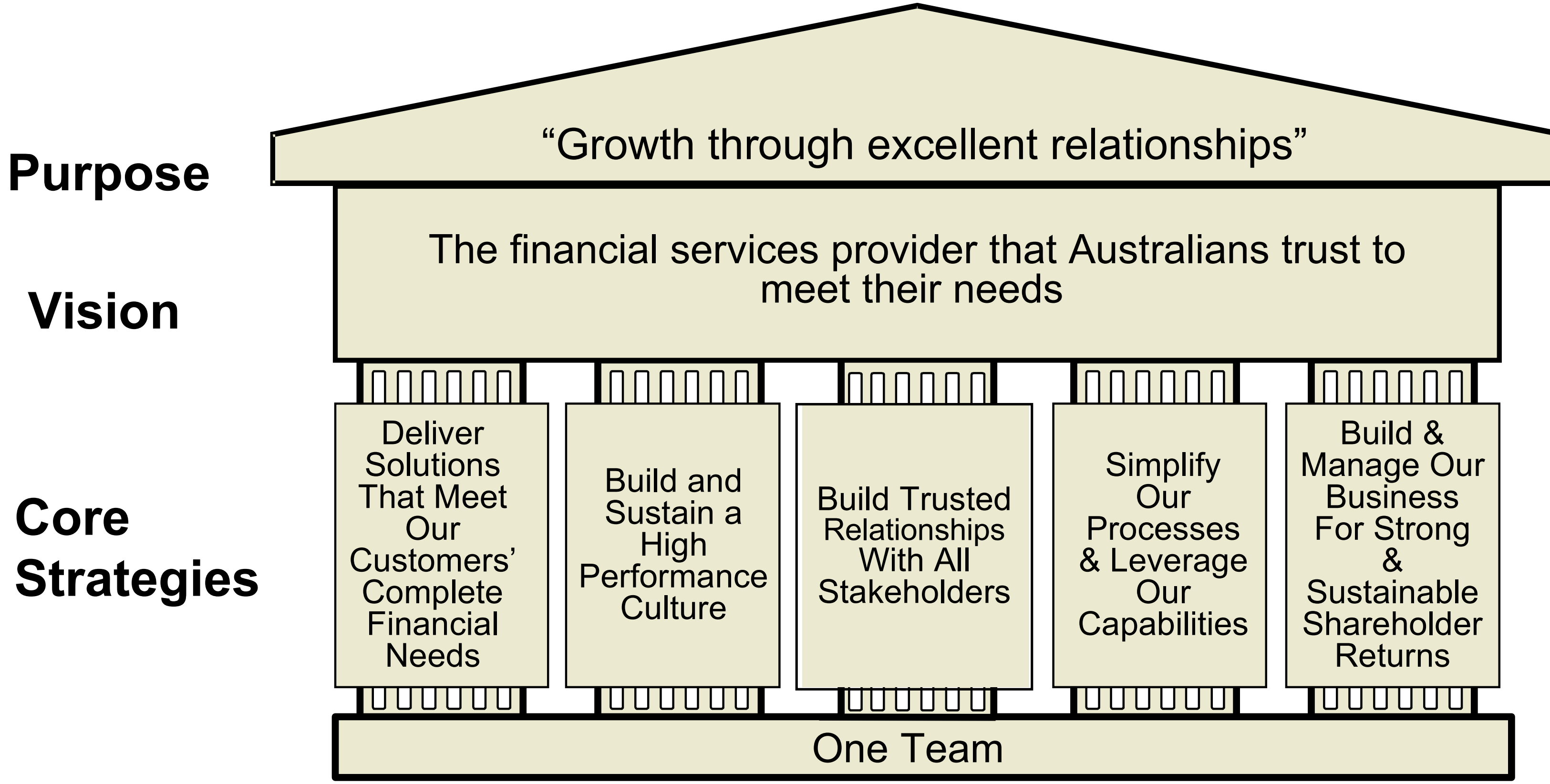
| FSA promised | At Sept '02 | At Sept '03 |
|---|---|---|
| Cost/Income 46% by Sept 2004 | 48.2% | 45.7% |
| Net reduction of 1,050 FTE by Sept 2003 | 500 FTE | 1190 FTE |

## Delivering Benefits

- Revitalisation

- Continuing initiatives to improve employee engagement including Executive Coaching, Career Power, NLS Foundations and Breakthroughs.

# Strategy – Business on a Page



# Business Priorities

- Deliver integrated financial solutions (IFS) to meet our customers banking, investment and insurance needs
- Enhance the customer experience by improving key processes, eg lending process
- Attract, develop and retain high performing talent
- Revitalise our brand through every interaction with all stakeholders (Customers, Community & Shareholders)
- Grow profitable business and maintain credit quality

# Key developments over the last 12 months

- Completed rollout of 15,000 Foundations PC's
- Productivity improvements - eCL now capturing 99% of consumer lending applications
- Customer Relationship Management system enhancements
- Investment in 20 new Integrated Financial Service Centers

# Enhancing the Customer Experience

- Electronic Consumer Lending (eCL)
  - Centralised online lending file available across all personal channels
  - Capturing 99% of all personal lending applications
  - Once and done from a customer perspective

- Electronic Business Lending (eBL)
  - Online business lending submission
  - Enforces credit approval within Delegated Credit  Authority
  - Ensures pricing for risk, in accordance with matrix
  - Fully deployed in Package business
  - Deployment to other business segment to be completed by September 2004
  - Conversion of security date to improve records and reduce risk
  - Driving efficiency for bankers and enhancing the customer experience

# Operating Environment

Economy

- Sustained growth
- Stable unemployment rate
- Housing market cools
- Marginal slower credit & deposit growth

Footings

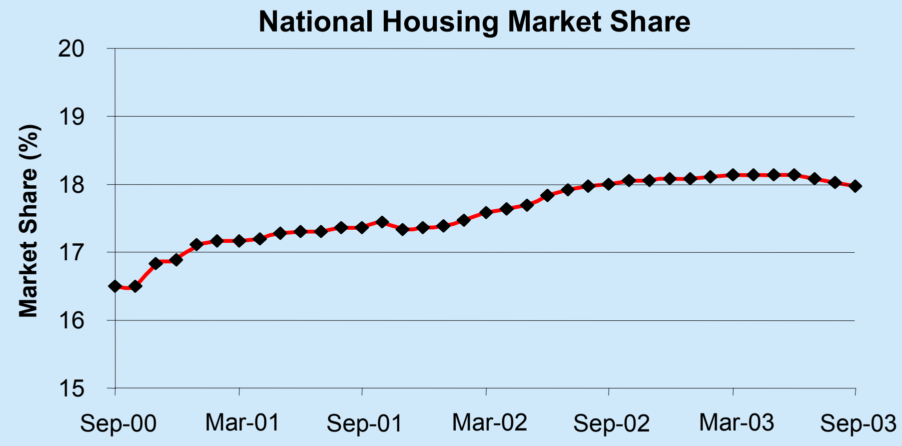
- Consumer lending
- Business lending
- Agri lending
- Deposits

Competition and Regulation

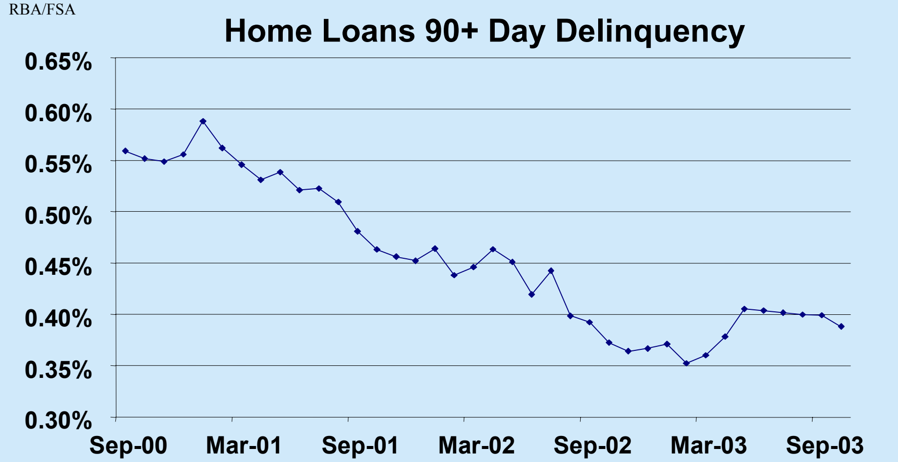
- Margin pressure
- Cost pressure
- Customer service focus
- Increased competition
- Higher regulation

# Challenges and outlook – Home Lending

- Significant growth in the last 12 months
- Growth expected to slow to mid teens
- Prudent lending standards maintained
- Same standards for broker originated as for Redstar
- Housing loan credit quality remains solid
- Write-offs are well below historic levels
- Added significant volume and maintained credit quality

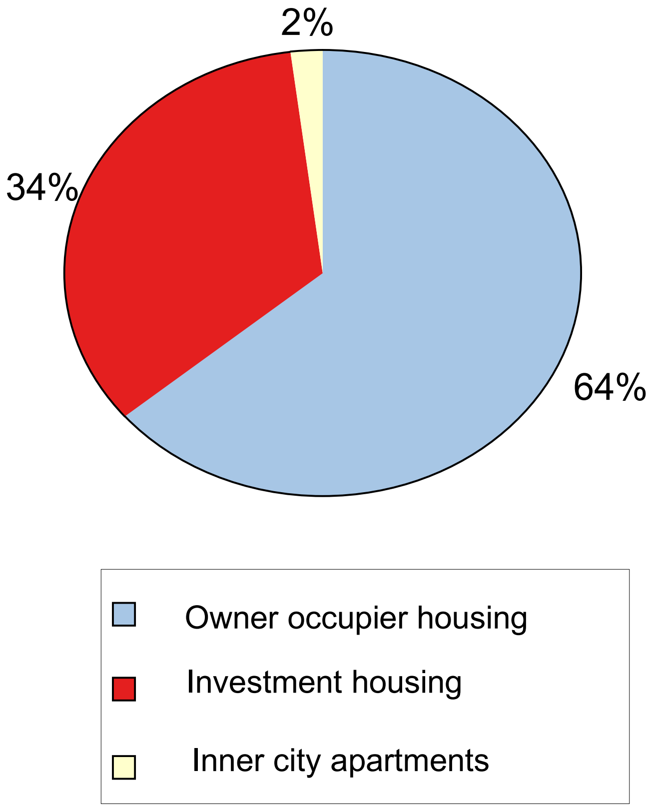



Source: RBA/FSA



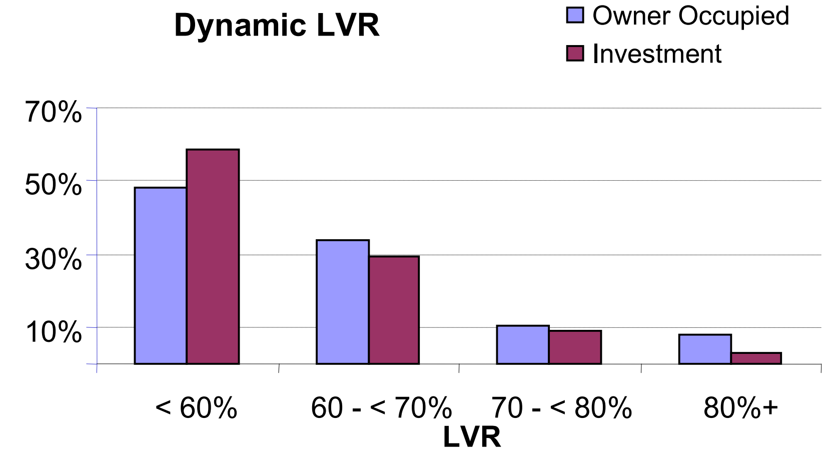
# Risk profile for inner city apartments acceptable

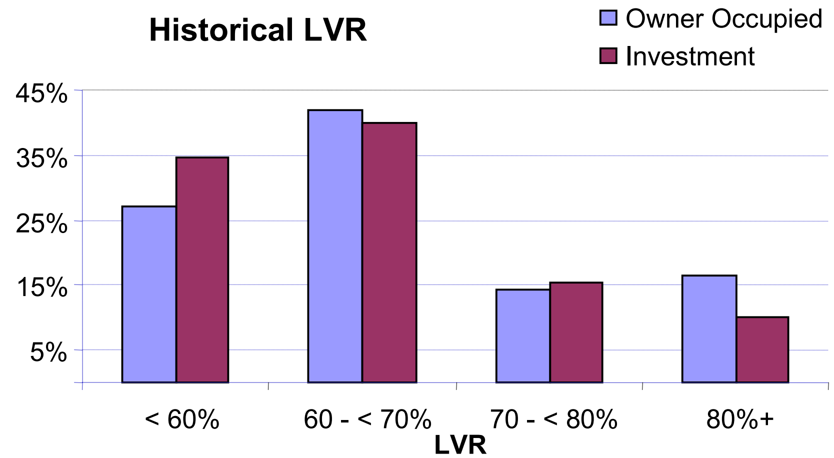
Housing portfolio segmentation for Australia




- Recently completed a comprehensive review of this segment of the portfolio
- This includes the CBD and surrounding postcodes
- Tighter credit criteria for this lending
- Average LVR for inner city is 66%

# Loan to value ratios are consistent across investment and owner occupied housing




- LVR's for investment housing is lower than owner occupier
- Performed detailed audit our LMI arrangements and comfortable with ability to claim
- Average dynamic LVR for Investment property is 40% and owner occupied is 42%
- Recently lowered our LVR for investment housing. Inner city reduced to 70% while other investment reduced to 75%.

Stress test scenario: 5-fold increase in default rates and 30% decline in property prices

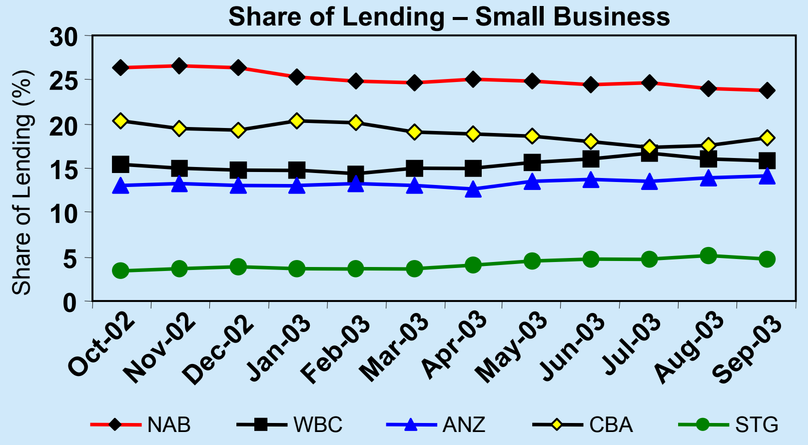
| | **Estimated Loss $M** | **Percentage of Portfolio** |
|---|---|---|
| Australia | 77 | 0.0847% |
| Global | 104 | 0.0878% |

# Challenges and outlook - SME

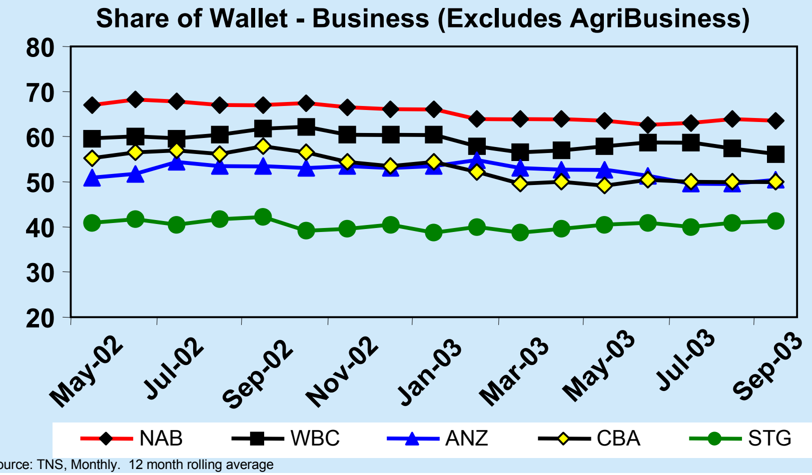
- No. 1 share in SME lending, and
- Highest share of SME wallet (64% in Sep’t 03)

- Competitive environment
- All industry participants seeking market share growth
- Mortgage brokers targeting the SME market

- Business banking is a core competency and FSA well positioned for disciplined growth



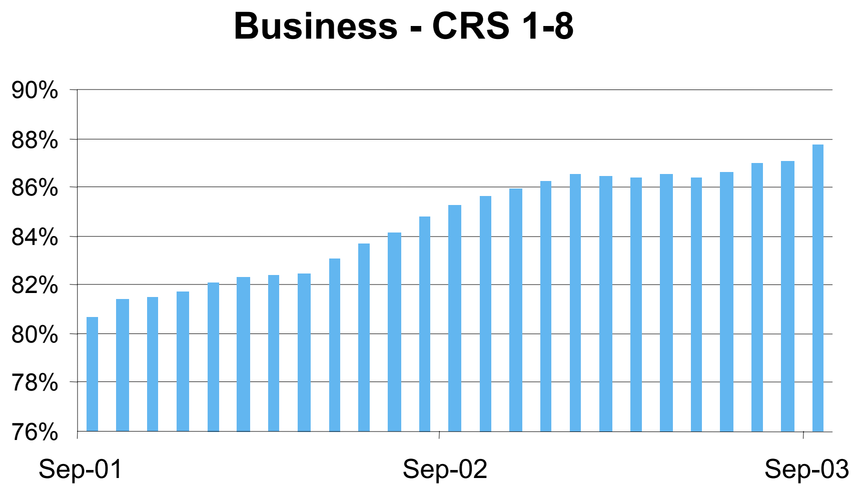

Source: TNS, Monthly. 12 month rolling average

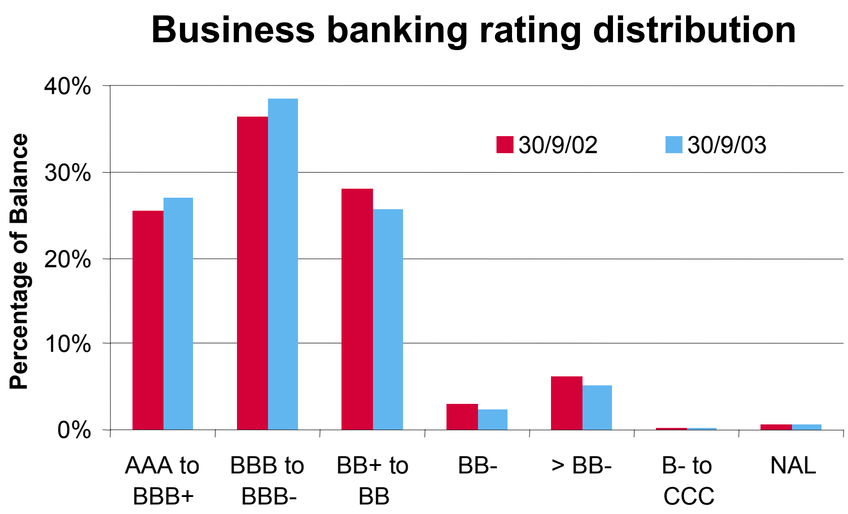



Source: TNS, Monthly. 12 month rolling average

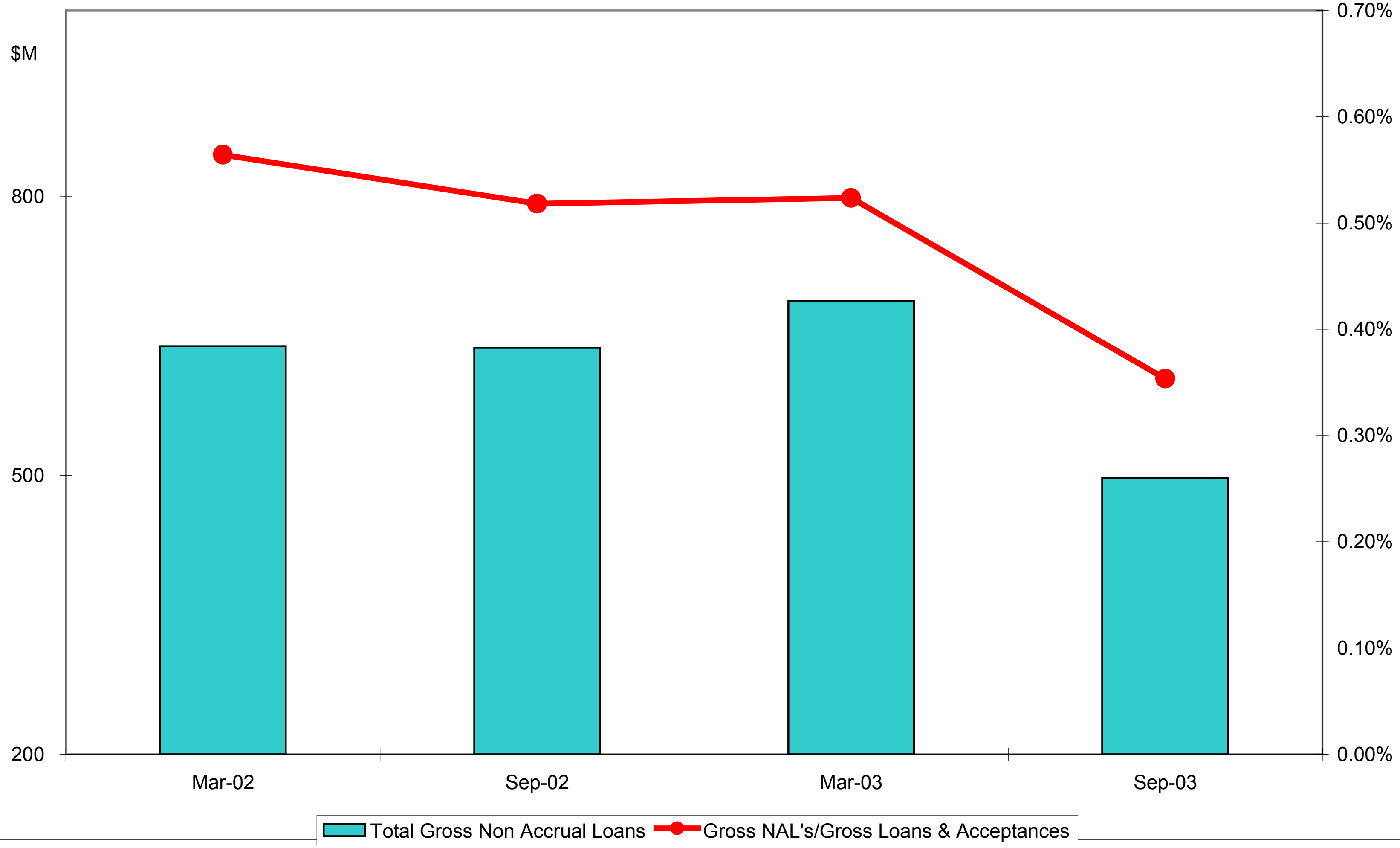
# Asset quality – ratings improved

- Business credit quality has improved over the last 2 years
- Objective has been:-
  - To improve credit
  - Reprice to reflect risk, or
  - Exit credit



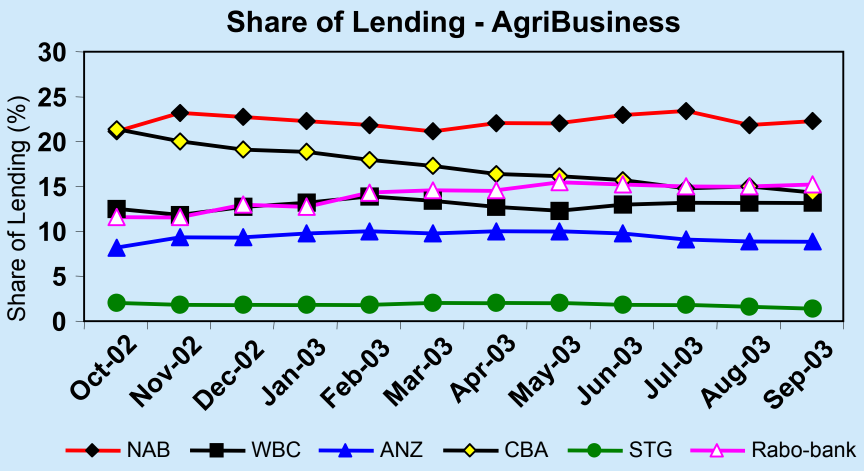



# Gross Non Accrual Loans to Gross Loans & Acceptances



# Challenges and outlook – Agribusiness

- No. 1 Agribusiness market share
- Drought breaking in parts but not completely
- Drought followed several years of strong returns and coincided with strong commodity prices and low interest rates
- Extremely competitive environment
- Strengthening A$ will impact commodity prices and demand for Australian Agri exports
- Specialisation developed over a number of years positions us well for future growth
- No material change in losses
- NAL’s at historic lows and Agri bankers working closely with Customers and Credit Risk Management to manage exposures

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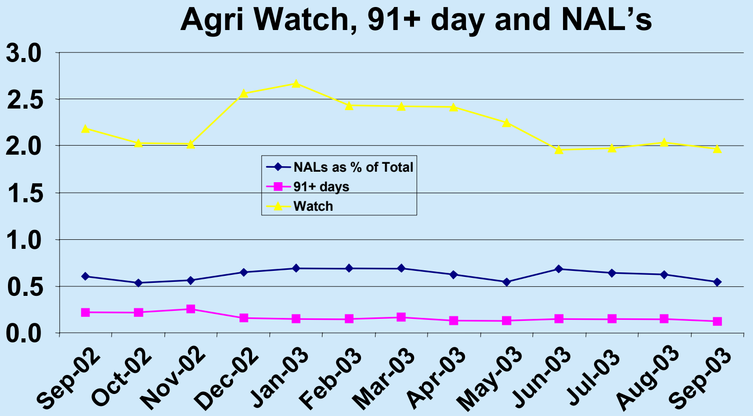




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# Key Messages

- Strong underlying performance
- Leveraging CRM to enhance the customer experience
- High quality loan book and prudent lending standards
- Focused on attracting, developing and retaining high performing talent

# Disclaimer

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