

COMMENTARY FOR PRESENTATION:

**Creating Shareholder Value - How Does It
Change The Approach To The Customer**

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Good afternoon.

I would like to take the next 30 minutes to discuss shareholder value and how we at the National are using a customer focussed approach to generate sustainable value for our shareholders.

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What do we mean by Shareholder Value at the National?

We mean the consistent, sustained delivery of superior returns to shareholders over time.

Note the emphasis on **consistent** and **sustained**. We do not see any conflict between shareholder value and looking after the other stakeholders in the business - employees, customers and the community. It is only by delivering value to these over time that we can also sustain the delivery of shareholder value to our customers. The key is finding the balance - not just delivering whatever the customer wants, but focussing on how and where to deliver value such that the shareholder is also rewarded.

In order to maximise EVA, there are six core processes which need to be brought into line:

- planning process
- performance measurement
- pricing
- provisioning
- resource allocation
- incentive compensation

What does this mean specifically for the approach to the customer?...

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We have fundamentally changed the marketing mix to focus on shareholder value creation.

Firstly, we have moved from measuring performance by P&L profit to the level of shareholder value created.

Secondly, we have recognised that customers have differing value creation potential, and that their value potential needs to be viewed over a lifetime. Their unique value characteristics necessitates differentiated offerings being

developed that recognise their stage in their life cycle, specific needs and behaviours.

Thirdly, we have developed a range of products and services that are tailored to the customer's specific needs and value potential. Generic product offerings will extract value from some customers whilst destroying value from others. To maximise value creation, we are offering a full range of products and services. Where our offering is not "best of breed" we are prepared to source "best of breed" rather than risk losing the entire relationship and associated value. We offer integrated solutions that meet identified needs so that product penetration and hence, value creation is increased.

Fourthly, our pricing is underpinned by leading operational efficiency to maximise margins. We are also ensuring that our pricing reflects the value of the customer's overall relationship and not just a specific product. Our pricing also reflects capital usage by, and specific risks associated with, each customer. Fifthly, our distribution platforms are starting to reflect the specific needs and value potential of our customers and are reducing reliance on cross-subsidisation

Finally, our we are taking a fresh look at the way we manage our people to ensure we have the skills and flexibility to meet our future needs.

The National is addressing each of these areas of the marketing mix and I would now like to go through them in more detail.

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In terms of measuring performance, I recently announced that the National had engaged the services of Stern Stewart to implement their EVA methodology throughout the business. This shareholder value focus will not only guide decision making at the National, it will also form the basis of senior management remuneration. This is a major initiative which will put shareholder value creation at the heart of the National.

I expect Stern Stewart to be working in the organisation for the next 12 months. I also recently announced that the National had developed an options model to assess the true value of each business and major activity in our portfolio and assists in guiding our investment priorities.

To date, we have assessed nearly 160 businesses or activities using this model and are using the output to optimise shareholder value. Where a business or activity will generate more value through divestment or outsourcing, we will do so. Already we have made a number of minor divestments and there are more to come. Some examples are our Venture Capital and Store Card businesses in the UK and our Card processing in Australia.

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The model takes both a “top down” or shareholder view and a “bottom up” or business view to help answer the following questions:

- where should we focus our investments
- which businesses should we be growing
- which businesses should we be investing to maintain and expand, and
- which businesses we should be exiting

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Having assessed both industry attractiveness and relative value, we then combine the two

- industry attractiveness category on the horizontal axis
 - relative value potential on the vertical axis
- this enables us to position each business on the Group’s portfolio matrix.

The positioning on the matrix has implications for the strategy employed, the priority and nature of investment, and the type of management approach adopted to generate optimal shareholder value.

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In terms of Customer Focus, I believe the National is at the forefront globally in this area. This belief was reinforced recently by the Business Banking Board in the USA, the global guru’s of retail banking, who said that the National was one of 2 banks in the world at the forefront of customer relationship management. The other was Lloyds TSB Bank in the UK.

We commenced building this capability over 10 years ago when we built a world class customer profitability system called MASDA. This system enabled us to begin to understand customer behaviour and profitability along a number of dimensions. It provided the framework which has enabled us to segment our customer base and offer tailored value propositions to each segment that recognises their unique needs and value creation potential.

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We have created 6 discrete customer segments however the overriding operational principal is “Integrated Retailing” which is in contrast with some of our

competitors who have created separate companies and separate corporate structures which often compete with the parent brand.

These 6 Global Integrated Retailers deliver appropriately tailored packages of Financial solutions to specific market segments. They are supported by a common infrastructure to eliminate redundant costs.

This structure enables us to establish and roll out group best practice, streamline processes, undertake 'best of breed' product development and the marketing of financial services using a philosophy of:

- do it well
- do it once
- and roll it out globally

This focussed approach to serving our customers using global scale and strength ensures maximum value is extracted from our customer base of 9 million customers.

It is important to understand that, to extract maximum value, you must recognise and capture the value over the life cycle of the customer.

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When we look at lifetime profitability, the "prize" is compelling.

The chart shows the industry profitability for a typical university graduate who enters the workforce at age 25 and retires at 55.

You can see that the absolute profitability and origin of profit change considerably over the life cycle and that, at age 45, over 50% of profit comes from non bank products.

Capturing this profit and value therefore requires a "whole of life" view for each customer.

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At the National, we do this by understanding the events a customer will go through in their life time and developing tailored products that address their specific needs during these major events.

This tailored approach ensures maximum value is generated at each event throughout a customer's life.

A generic life cycle for a consumer customer is depicted on this slide.

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This is a generic life cycle for a business customer.

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The National uses an integrated servicing approach to meet a customer's specific needs during each of their life cycle events.

This integrated approach covers the:

- customer contact and interview;
- identification and recording of their specific needs;
- development of a relationship management plan;
- tailoring of products and services to meet their immediate needs;
- ongoing relationship management program; and,
- the identification of their changing needs - their progression along the life cycle

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At the core of this approach is a world leading Customer Relationship Management and sales system which we developed over the past two and a half years in partnership with NCR.

We are very proud of this system which leverages off our world class customer profitability and customer information databases.

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The system, which was built at the National in partnership with NCR is called "National Leads" and links to our Customer Relationship Management system and incorporates:

- leading edge data warehouse technology
- large scale predictive modelling
- "Next" generation multi campaign management systems

The system is now being sold commercially by NCR across the globe as "Relationship Optimiser".

The Gartner Group, as well as IDC and META, have commented that the system is “the best campaign management tool available today and a full generation above its rivals.”

This system is giving the National a strategic advantage in identifying and extracting value from our customers.

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As an example, in just one program in 1999 using specific customer events and purchasing models, the system was directly responsible for producing \$859m in drawn down sales.

During the year 2000, the system will identify over 1 million sales opportunities, totalling over \$4 billion, and deliver these on line to our bankers to create customer value and growth.

In summarising the National's customer focus, I wish to reiterate that we have truly world class Customer Relationship Management capabilities that ensure maximum value is extracted from our customers over their specific life cycle.

These capabilities have been implemented in Australia and New Zealand and will shortly be implemented in the US and UK providing the National with a sustainable competitive advantage to create shareholder value.

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Moving on to Products and Services, it is imperative that, if you wish to capture maximum value across a customer's life cycle, you must offer a full range of competitive products covering banking, wealth management and insurance.

This range ensures you can successfully compete to satisfy all a customer's financial needs or their “Wallet”.

The National's strengths in Customer Relationship Management, coupled with our broad range of competitive products and services has given the National industry leading positions or “Share” of this wallet.

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Looking at our Share of Wallet for Premium customers in Australia, our own research undertaken by Roy Morgan, shows very clearly that our integrated retailing approach is working with a 49% share of wallet, and this does not yet

include the impact that our latest offering in direct broking, National On Line, will have.

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The same research on small business customers in Australia again clearly demonstrates the National's dominant position in meeting the financial needs of our small business customers with a 76% Share of Wallet.

This position will be leveraged to provide additional non financial products and services to our small business customers. I will speak more on this in a moment.

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We have adopted a "best of breed" strategy for delivering products to our customers. Under this strategy, where the National is not able to offer a competitive product, we will source a product that is competitive.

This strategy reduces the need for customers to fragment their relationship and ensures we capture at least the retail or distribution margin.

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This "best of breed" approach was adopted when we developed our new "All In One" Investment Products.

We recognised that we could not guarantee our customers the best investment performance and so chose a "Manager of Managers" approach whereby our customers can direct their funds into a selection of top performing fund managers.

The result has been the staggering growth of the product since launch and helped the National move from 8th to 3rd in the latest fund inflow figures published by ASSIRT.

We will be applying this strategy to other products whenever we are unable to successfully compete.

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Providing integrated product packages encourage customers to use a broader range of products to satisfy their needs than might otherwise be the case. Reduced marketing costs improve the value generated from this approach.

The National has developed a range of “Choice Packages” targeted at our preferred Premium Banking segment. These packages not only have an attractive ROE but are assessed as being the leading products in the Premium market.

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These “Choice Packages” have helped the National’s market share in investment home loans increase by over 40% in two years.

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In addition to traditional or core products, the National has developed innovative or market leading products in a number of other areas.

Three weeks ago, we launched our direct equities service, National On Line. We believe this excellent product, which will soon feature straight through processing, has the ability to be very successful in a rapidly commoditising market.

Our HICAPS business, which provides innovative payments solutions to the health services industry, is the market leader with over 5,500 health care providers and 13 major health funds signed up. Last month, HICAPS processed 148,000 claims. This business is not only meeting customer’s needs but will generate increasing value for our shareholders.

Finally, we are developing an innovative range of products and services that build on our relationship with small business customers and offer them access to some of the National’s core capabilities. Some examples are procurement, web site hosting and database management and analytics.

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In the area of pricing, we have a number of initiatives that will provide increased value to our shareholders.

Our unique operating model is designed to leverage scale economies from the 9 million customers we have globally. This is being achieved through a combination of centralised manufacturing, servicing and technology.

Technology is enabling our regional franchises to achieve global scale. As an example, HomeSide’s unique technology platform not only enables them to have

the 2nd lowest mortgage servicing unit cost in the US at under \$40, but also provide global servicing out of their San Antonio, Texas technology centre. This means that the 360,000 Australian mortgages that HomeSide will commence servicing in May will be serviced for marginal cost out of San Antonio. Any future expansions into New Zealand, the UK or Europe will also be serviced from the US.

Through the Concert alliance, of which National is a founding member, we are building a digital backbone across the globe which will allow us to achieve global scale in all our operations and activities.

We have implemented RAROC pricing models throughout the Wholesale Bank. As a result, the RAROC in that division has moved from 15% to 29% over the past 12 months. We are now in the process of implementing the same pricing models deep into the Business Bank.

At the same time we have increased the number of risk classes in our general pricing model to achieve a closer match between actual risk and return. In the past, the National has shown little appetite to securitise its assets. This has now changed and we do intend to come to the market this year with a series of innovative securitisation offerings.

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In the area of distribution, within Australia, the National now has dedicated delivery platforms for our Wholesale, Business, Rural, Premium and Retail banks and is building a 6th to service our Package (or Mass) business customers.

These dedicated platforms provide closer alignment between the segment's value creation potential and the costs to serve. They also give the ability to offer highly tailored value propositions to each customer segment.

As an example, last year we implemented the AIM model which delivered a separate platform for our Premium customers and substantial modifications to our retail platform.

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Our research showed that our traditional transaction branch outlets were less suitable to financial services retailing in the future.

As a result of AIM we have changed the role of traditional branches to service outlets and introduced 32 new Financial Services Centres & 35 Financial Service Suites across metropolitan Australia.

The AIM model is unique in that the Personal Banker and Financial Planner work together to develop and integrated plan for a customer. They report to the same Manager and have similar objectives.

The results of the AIM platform are impressive with sales of banking products up by 25% on the prior year with wealth management sales up 40%.

We are also providing our customers with greater access to financial services through the pilot testing of alternative distribution channels in non-traditional distribution outlets such as our Financial Solutions Shop.

Our plan is to implement these dedicated platforms in all our franchises to increase profit and shareholder value.

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We are also using technology to lower the cost of servicing our customer base. As an example, we are currently undertaking a major global initiative called "Operation First Choice".

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This project will last 3 years and is designed to significantly reduce the costs to serve our retail customer base whilst at the same time transforming and enhancing customer experience.

The first major pilots in Australia and New Zealand are now complete and the results are encouraging.

- Over the counter transactions have reduced by 22% and teller workload by 35%
- Customer satisfaction has increased by 10%

We are now in the process of implementing this phase of the project globally over the next 3 years to:

- Reduce over the counter transactions to less than 10% of total transactions
- Increase customer satisfaction by 7%
- Refocus outlet activity to sales generation

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Another example is our Vivid initiative in the UK to retail financial services products directly over the lower cost internet and telephone channels. The model allows us to leverage our existing investments in product manufacturing and servicing into a new customer base for marginal cost.

We are extremely pleased with the results to date which include:

- 17,000 customers of whom 95% are new to the Group
- Over 80% are from the South East UK

We are currently evaluating the opportunities to take this model into other geographies that the National operates in.

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A further example of using new channels to lower the cost of distributing products to our customers is Cards business.

4 years ago, only 1% of our Credit Cards were originated via direct channels. Today that is close to 50% and growing.

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After a slow start, we are also making rapid progress in growing our internet banking capabilities

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Since October 1999, we have increased the number of internet banking customers in Australia by 83% to 100,000.

However, shareholder value is not generated by merely the number of sign ups but rather usage of the lower cost internet channel.

According to independent analysts, the National's website was the banking site Australians most visited last week. According to the same measure, we are consistently the first or second most visited **banking** site by Australians. Overall, this week the National site was the 13th most frequented site by Australians. We are consistently in the top 15 sites of all sites visited by Australians.

The Group's internet development is now centred in Michigan where they are working on enhancements to our internet banking capabilities that we believe will

take us to the forefront not only in Australia but in all the geographies in which we operate.

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The last element of the marketing mix that we are addressing is our people. Superior value creation relies on having a workforce that is flexible and has the skills to effectively satisfy customer needs. We are working on a range of programs to fundamentally change our approach to people management along a number of dimensions and will, I believe, improve our performance and value creation.

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I hope I have been able to show you that the National is working hard to create shareholder value by changing our approach to the customer.

All the activities I have shared with you are in support of, and consistent with, our 5 core strategies.

We believe these strategies supported by the initiatives and capabilities outlined today will continue to create superior shareholder value in the future.

We have extremely viable and value accreting organic growth strategies for each of our businesses and markets. Acquisitions will continue to be important however they are not the sole source of growth for the National. We will be disciplined and focussed in our organic and inorganic growth activities.

I would now be pleased to take questions on any elements of today's presentation.