

# Corporate & SME Banking

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# Outline

- Business Overview
- Financial & risk performance
- Market position & trends
- SME Banking strategy update
- Corporate Banking strategy update
- Summary

# Overview of the businesses

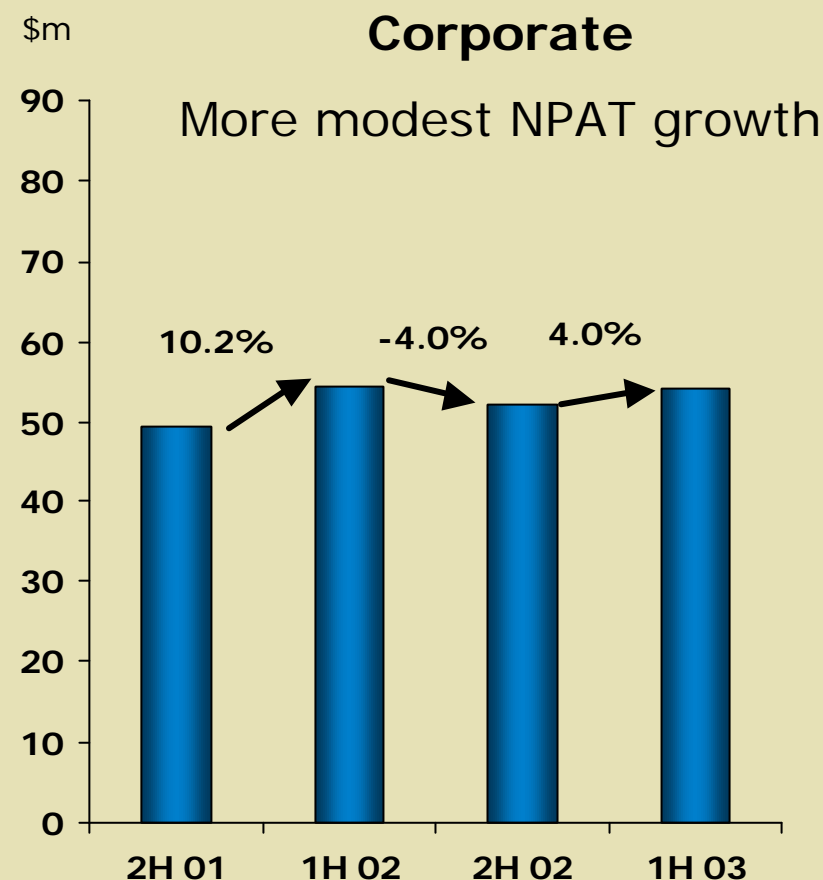
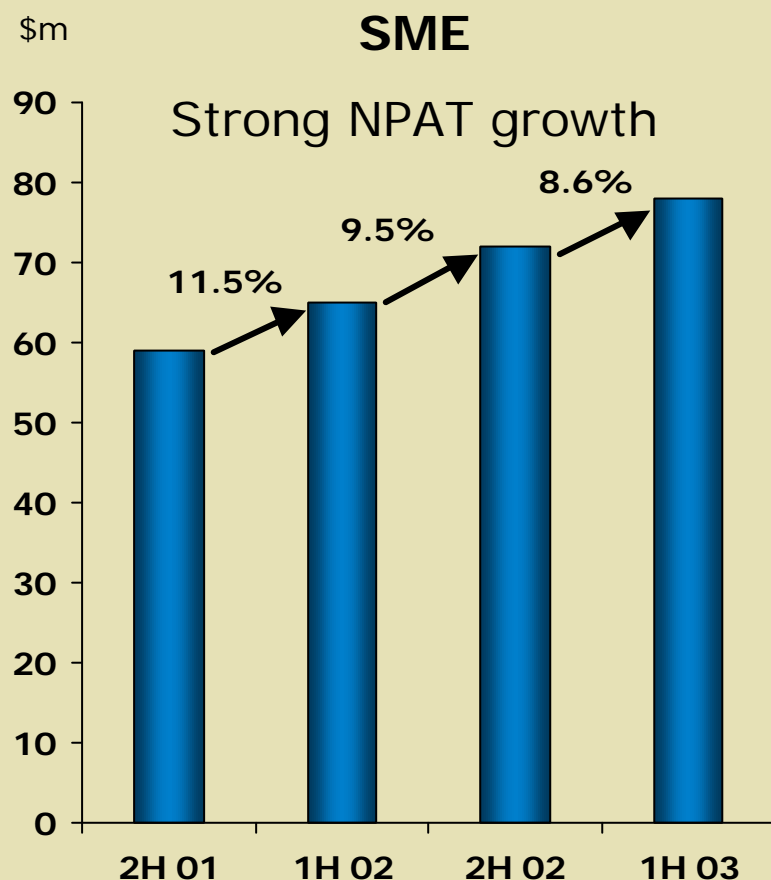
## SME Banking

- Traditional relationship management
- Segment: \$50K business FUM to \$10M turnover
- 21 Business Districts (Metro Aust); total staff of 1021 (642 frontline); approx 35,000 customers
- Manage end-to-end for customer
  - Frontline                      -Business Products
  - Centralised Ops   -Centralised Credit
  - Scoring/Modelling
  - Portfolio Management
- Approx 20% of customer wallet in other business units' NPAT

## Corporate Banking

- Proposition ranges from traditional relationship banking to sophisticated financial solutions
- Segment: turnover between \$10-\$100M
- 15 Corporate Regions (Aust); total staff of 505 (380 frontline); approx 2,700 customers
- Product, Risk & Solutions Specialists co-located
- Approx 45% of customer wallet in other business units' NPAT

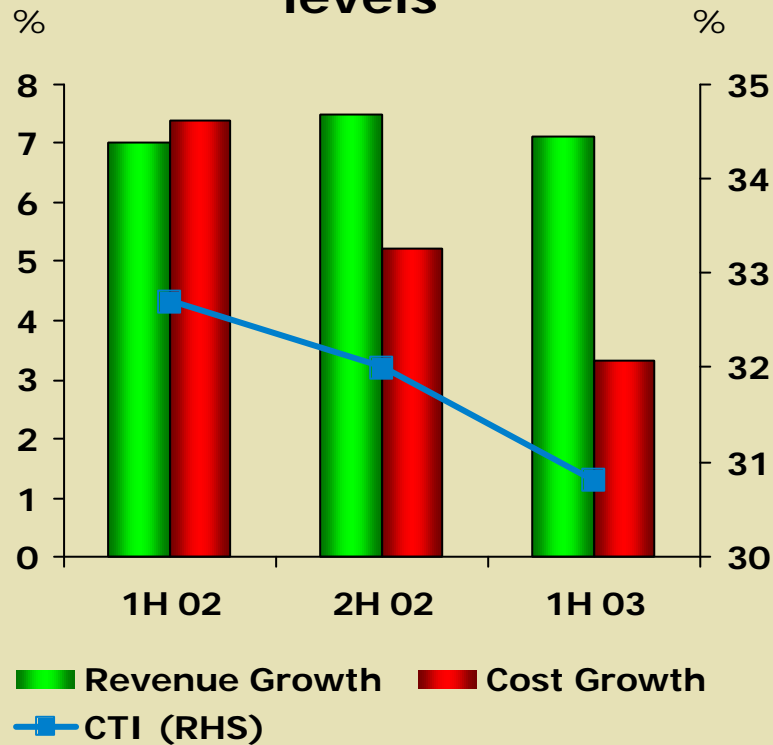
# Segment has strong financial momentum



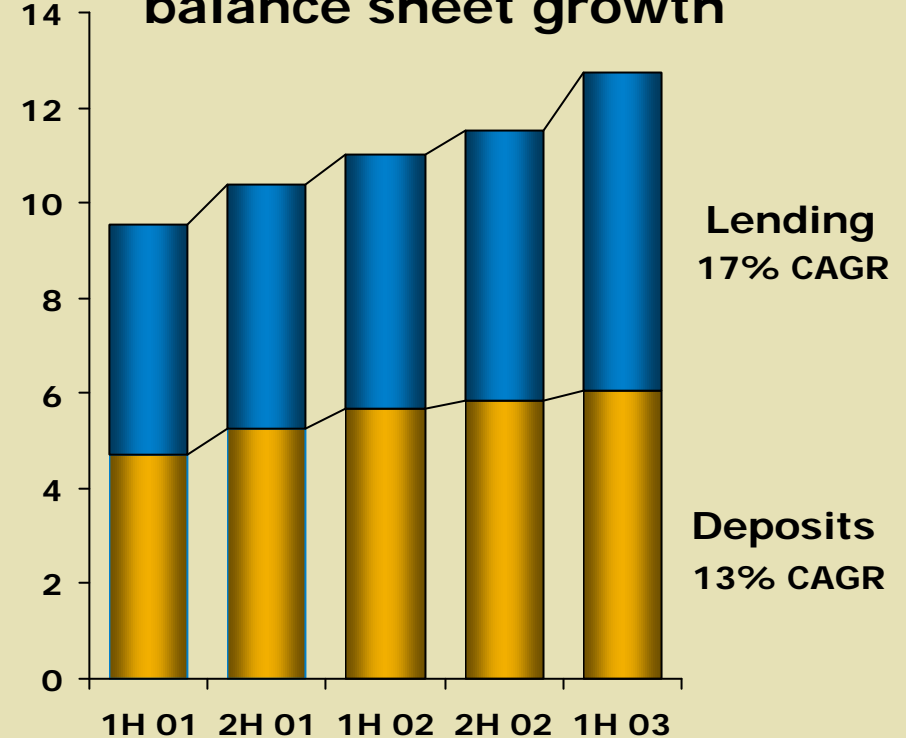
- Continue to exceed target of 15%+ pa NPAT growth
- EVA growth in line with NPAT growth
- Lending growth in Corporate more subdued, with focus on non-traditional products to drive growth across the Bank

# SME – Disciplined investment strategy paying off

## High investment levels



## Contributing to strong balance sheet growth

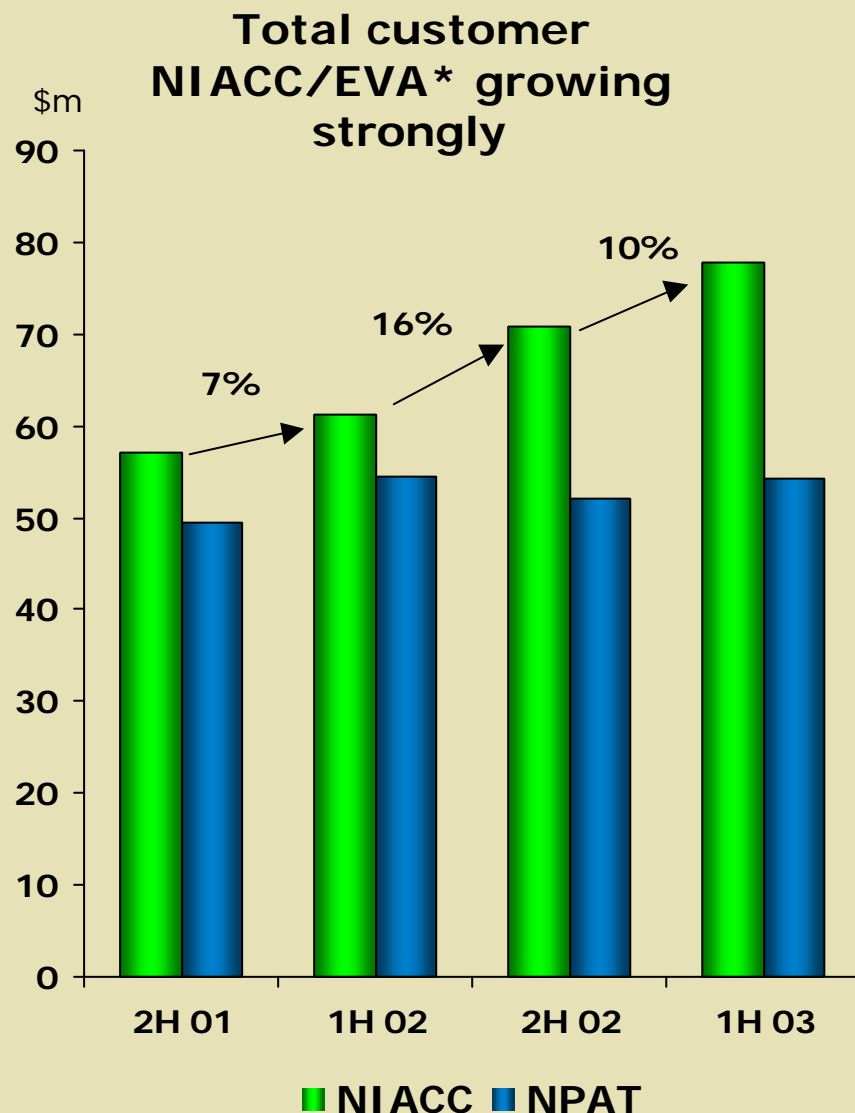


- 'Virtuous cycle' of stronger revenues allowing increased cost (investment)
- Efficient business platform
- Effective investment in business

Annualised growth 8 mths to end May 03

- lending growth: 23.4%
- deposit growth: 7.3%

# Corporate – creating value across the bank



- Total Customer profit (NIACC/EVA) has continued to increase strongly
- The Corporate franchise contributes strongly to other Business Units
- Major NIACC contributions to other Business Units in H1 03 included:
  - CF&A \$3.4m
  - Trans Services \$7.6m
  - Cap Mkts & FX \$12.8m
  - Cards/AAF \$9.5m

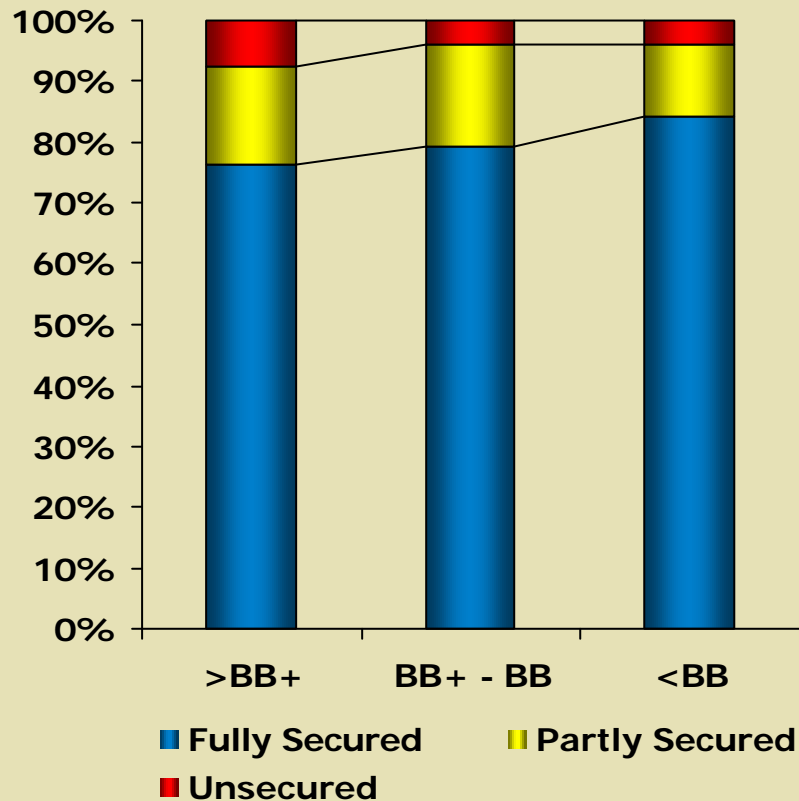
\* NIACC - Net income after capital charge, an EVA based measure of customer profitability

# Decreasing level of specific provisions reflects quality of portfolio

	2H 01	1H 02	2H 02	1H 03
<b>Specific Provisions (\$m)</b>				
SME	12	7	6	2
Corporate	18	20	15	6
<b>Total</b>	<b>30</b>	<b>27</b>	<b>21</b>	<b>8</b>
<b>ELP (\$m)</b>				
SME	7	7	7	7
Corporate	20	18	16	16
<b>Total</b>	<b>27</b>	<b>25</b>	<b>23</b>	<b>23</b>
<b>ELP rate (bps)</b>	38	37	34	33

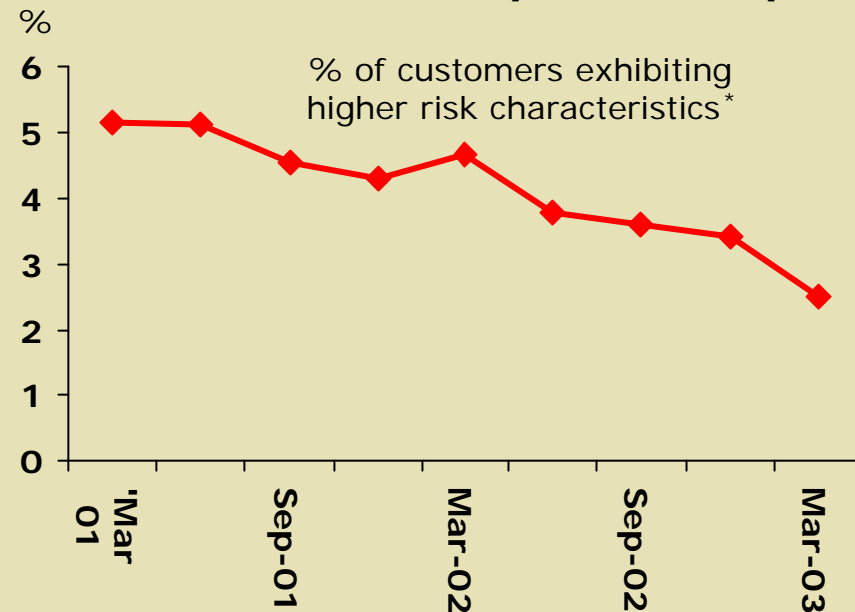
# Lending growth in SME sector has not been at the expense of credit quality

Portfolio is well secured



- Portfolio is ~80% fully secured with higher security at weaker end

Behavioural risk profiles improving



- Portfolio reviewed dynamically via behaviour scoring on quarterly basis
- New business of equivalent credit standard to existing business

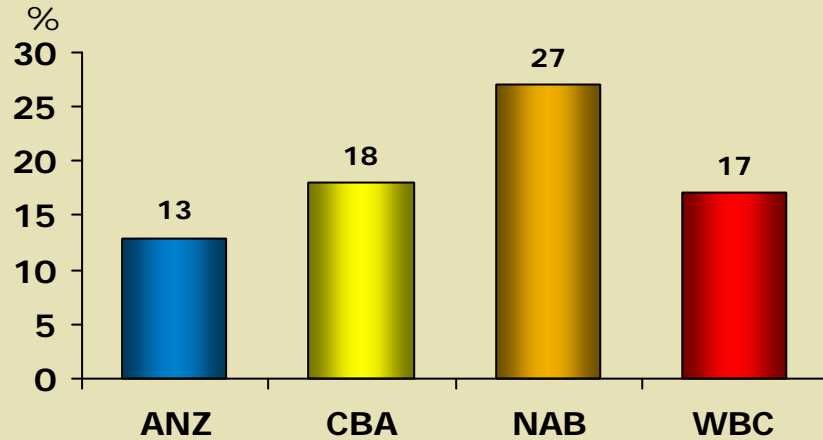
\* Drop in Mar '03 partly due to scorecard enhancement



# Market position & trends

## SME Banking

Market share\* - underweight



Source: Nelson Sofres Business Finance Report 2002

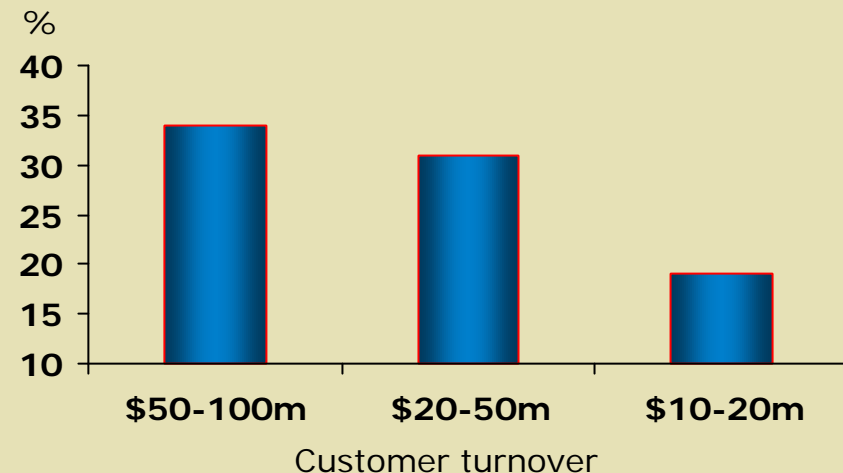
## Trends

- Healthy SME sector; credit growth broadly tracks nominal GDP
- GST has driven improved customer cashflow management
- Businesses are in good financial shape
- Customers seeking "business understanding, dealings with decision makers, flexibility, pro-activity"

\* Market share measured by lending

## Corporate Banking

Market share – stronger at top end



Customer turnover

## Trends

- Good profitability; low gearing
- Industry consolidation; uncertain environment
- Less demand for credit and increased capacity to amortise debt
- Growing need for smarter products and customised solutions

Source: Roberts Research 2002

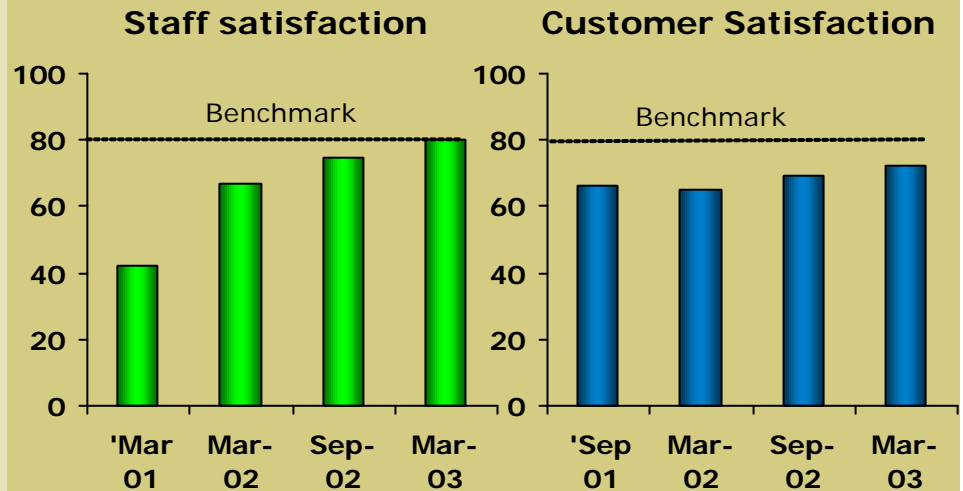
# SME – Delivering on our commitments

## In August 2001, we said:

- We were revitalising the business:
  - Focus on customer proposition
  - Re-engineering business & credit processes
  - MIS to support the strategy (EVA based customer profitability)
- We were shifting 'mind-sets' to:
  - Customer first
  - Culture of 'business ownership'
  - 80% staff & customer satisfaction by 2004
- Average earnings growth of 15%+ to 2005
- Our relatively weak market position created growth opportunities

## What's happened:

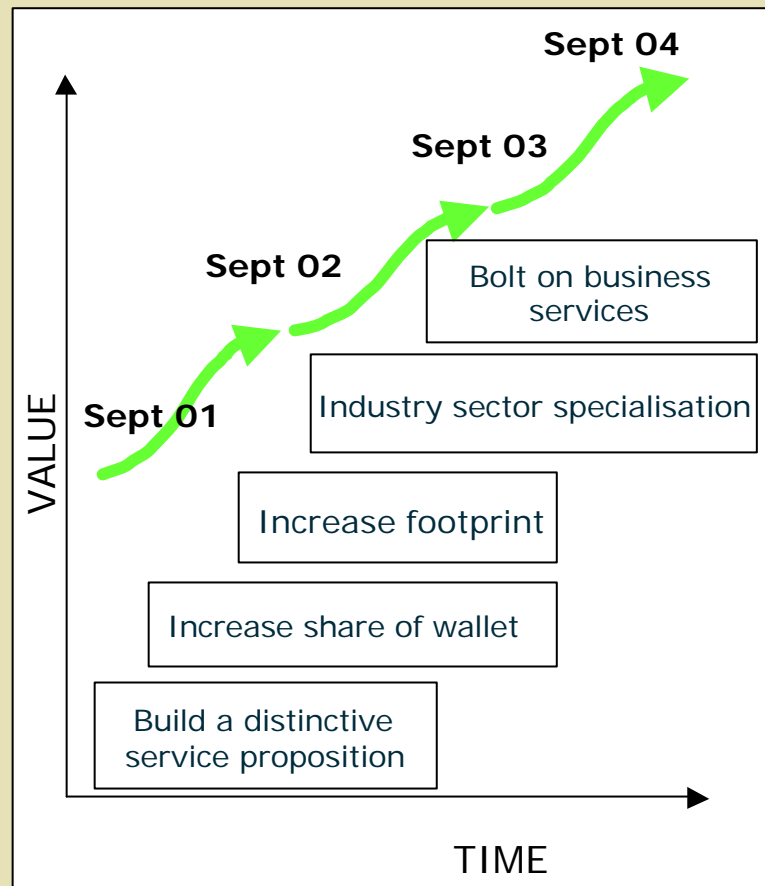
- Customer proposition competitive
- Behavioural & credit scoring embedded
- Straight through processing loan origination operating:
  - Intranet based
  - 4 hour proposition within reach



- Cultural shift from admin focus to sales focus
- Growth opportunities – unleashed energy

# SME – Continuing to invest for growth

**Our August 2001 Investment Roadmap is being delivered**



## Footprint Expansion

- New SME staff (yr to May '03)
  - 98 in frontline roles
  - 18 in specialised businesses

## Specialised businesses a success in achieving focussed growth

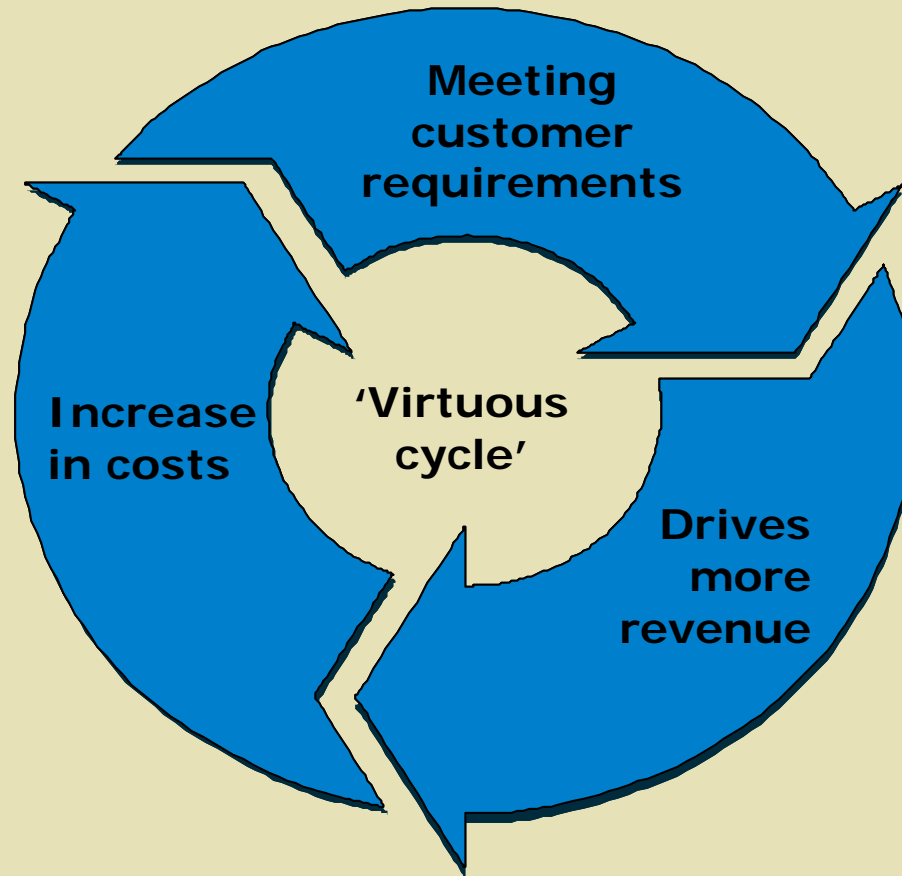
- Steady growth in monthly revenue from Franchising sector
- Rapid growth in monthly revenue from Broker introduced business

## Bolt on services

- e-Com led sales slow
- SME Development Capital product launch Jul '03

# SME – Building a sustainable competitive position

The 'virtuous cycle' can be sustained to deliver NPAT growth



Effective investment a prerequisite

Balance between:

- near-term revenue opportunities
- medium-term platform developm't

Winning new business (not just X-sell) is key to accelerating the 'cycle'

Disciplined execution and front-line leadership

New business and platform efficiency critical to achieving sustainable growth

# Corporate – Dual strategy in place

## Business has a strong position in a more mature market place

- Proven business model
- Efficient platforms & delivery
- Moderate profit growth from 'traditional' product range
- Strong cross-sell via co-located specialists
- Customer segment generates significant additional profit growth for other ANZ businesses

Dual  
strategy  
being  
followed



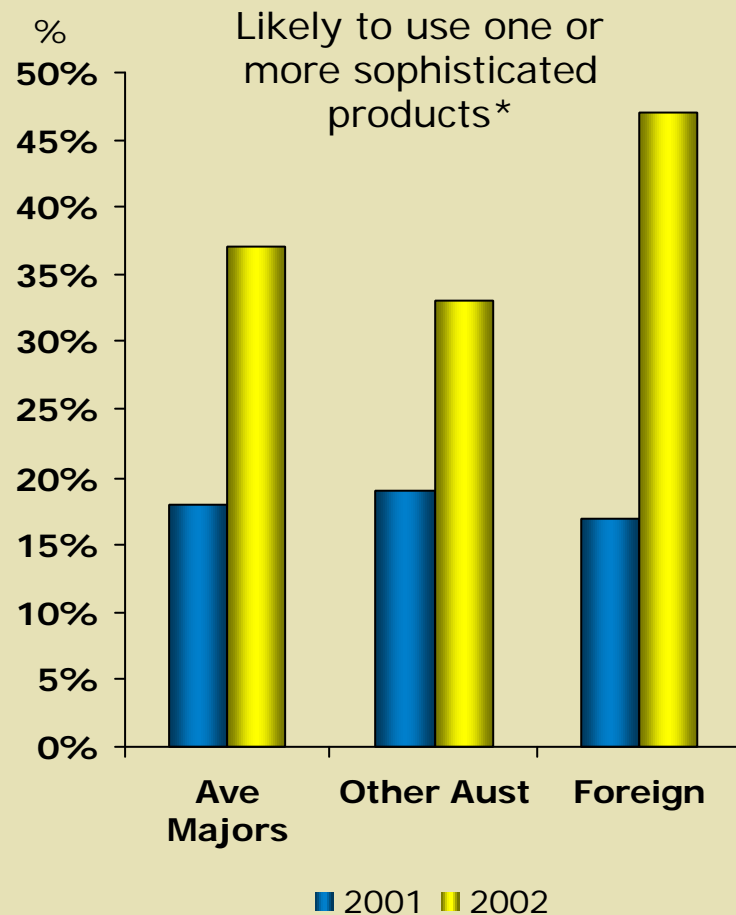
## Lower end

- Underweight share creates opportunity for new business growth
- Focus on new customers but maintain x-sell discipline

## Higher end

- Very strong position at top-end
- Growing demand for sophisticated solutions
- **'Wall St To Main St'** Strategy

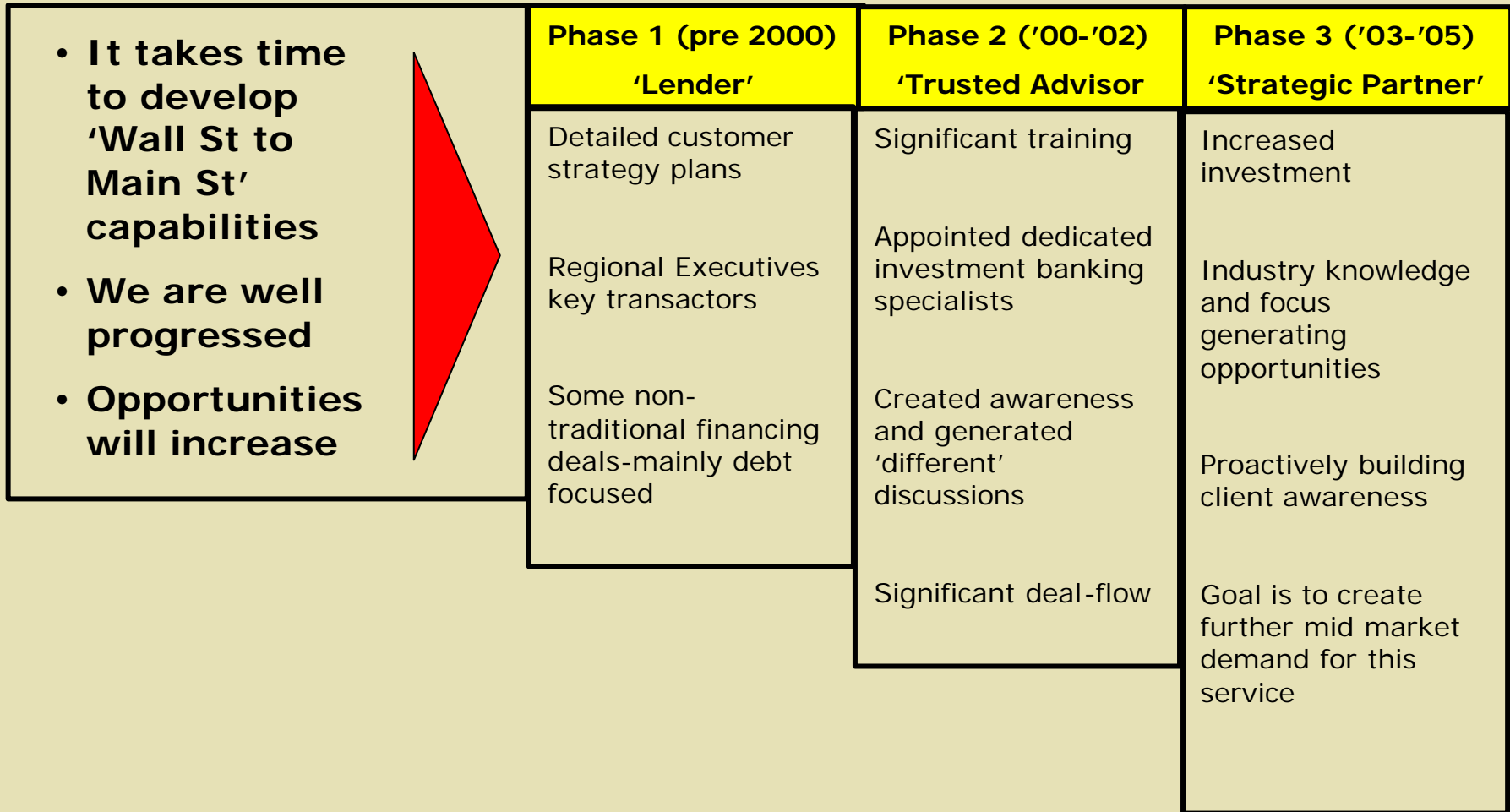
# “Wall St to Main St”- Customers seeking more sophisticated solutions



\* Source: Roberts Research 2002

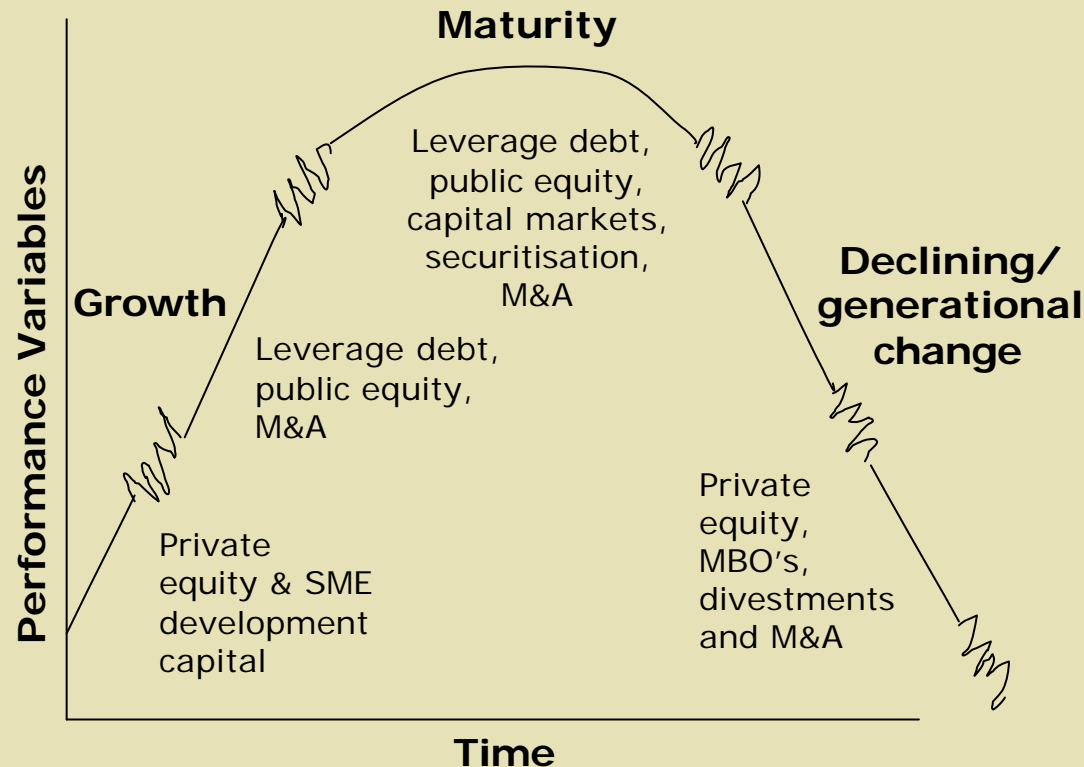
- Strength of franchise, people and products positions us well
- Investment banks less active in the middle market. Our points of differentiation are:
  - Large number of relationships
  - We are with the client before, during and after the transaction
  - We can provide both expertise and a balance sheet
- Opportunity is substantial, driven by:
  - Generational change
  - Business expansion
  - Industry consolidation/divestments
  - Changes in ownership (MBO, Public/Private)

# 'Wall St to Main St' strategy requires investment in skills...



# ...and success in converting opportunities

## Corporate Life Cycle and 'Wall St to Main St' Solutions



~~~~~ Periods of dramatic change

A typical example of a completed deal originated in 2000 and completed in 2003:

- MBO transaction
- Private equity (approx \$7m): profit \$10.5m
- Debt tranches; senior / mezzanine; W/C line: ~ \$1.1m NII & \$0.1m fees



# Summary

- Businesses performing well, and we are delivering on our commitments
- Risk performance strong, but watchful for emerging risks
- Further opportunities for growth
- Investment effectiveness, business leadership and disciplined execution are keys to sustained performance

## Goals for 2003 to 2005

- Double digit earnings growth for segment
- Continue growth and diversification of customer revenue mix
- Achieve 80% customer satisfaction and maintain staff satisfaction over 80%
- Performing loans remain at 99% of total book

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