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Banks
Financials
MARKET WEIGHT

Bank Offshoring Part III

Indian third-party BPO vendor tour Australian banks and Indian banking

Credible base of third-party vendors. CSFB conducted a number of site tours in Bangalore and Mumbai, visiting banking and financial services orientated third-party offshoring vendors. The tour gave us the impression of the existence of a credible base of third-party providers, and confirmed our previous conclusions regarding the considerable scope of potentially offshorable functions, the granularity within which sub-components of processes can be offshored, as well as the quantum of cost and other benefits obtainable through offshoring. Nevertheless, growth has also created 'growing pains' for the industry through skill-set shortages, lack of rigour and quality of skilled staff, infrastructure constraints and declining service quality standards. Whilst relatively nascent, the Indian offshoring industry (currently perhaps a US$17bn market) has rapidly evolved, creating distinct sub-segments that are now moving into high-end analytical areas (knowledge process outsourcing), with perhaps a 30%–40% per annum medium-term revenue growth outlook for the industry overall.

Australian banks better understanding the possibilities and parameters surrounding offshoring. Australian banks have apparently shown considerable interest recently in India for pilot programs so as to better understand offshoring, with transactions in fact being announced by NAB, CBA and WBC (through BT Financial). Australian banks appear to be grappling with issues of scepticism in relation to the value proposition, the threatening nature of offshoring (with the changes it is introducing to the banking industry) and the political sensitivities of offshoring. However, our tour revealed that the wage cost arbitrage of offshoring functions to India is greater from the US than it is from Australia, whilst the additional IT and telecommunications costs associated with remote work practices are 80% higher from Australia than they are from the US. In turn this diminishes the financial (but not the non-financial) benefits of offshoring to India. Notwithstanding an industry shift away from the captive entity offshoring model, we do not expect ANZ to divest its Bangalore-based captive (which is in fact increasing both its scale of staff deployed and the scope of domains and functions being performed).

An attractive Indian banking market difficult for Australian banks to access. Our Indian tour included visits to some private sector banks to provide a context to the recent interest of Australian banks in participating in the Indian banking market. Whilst arguably offering some attractive features, we see this market as very difficult for Australian banks to access over the short to medium term, given a very restrictive regulatory environment.

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Indian third-party vendor tour

CSFB's bank offshoring journey so far…

Bank offshoring a growing industry theme amongst Australian and global banks

We have previously published as covered reports:

- *'Bank Offshoring: Who will lead the next secular profit driver',* 21 June 2004, which defined the relevance and extent of the global financial services offshoring industry, as well as the potential implications for the Australian banks; and
- *'Bank Offshoring Part II: The banks respond…',* 6 October 2004, which surveyed the five larger banks in relation to their offshoring initiatives and strategies overall.

Our previous assessment was that 30%–40% of a bank's total cost base was amenable to offshoring (with 30%–50% cost saving potential within that offshoreable segment), albeit that these efficiency benefits could arguably not be fully implemented in a time-frame of less than three to five years. On this basis, we concluded that offshoring had the potential to become a medium-term secular earnings growth driver within the Australian banking industry, although the necessary breakthrough was likely to be the first substantial offshoring initiative by one of the larger Australian banks. Since the publication of our original research (and consistent with these themes), offshoring appears to have been positively reappraised by both NAB and CBA (refer *'Bank Offshoring: Growing industry interest – apparent change of heart from NAB and CBA'* 4 April 2005) and has been further embraced by the global banking industry (e.g. on 1 September 2005, Dutch bank, ABN Amro, announced one of the largest IT offshoring deals ever, covering its American, European and Asia Pacific operations in a transaction worth approx. 2bn euros, with five vendors selected to supply application development – Tata Consultancy Services, Infosys, IBM, Patni Computers and Accenture).

CSFB visited a number of leading banking and financial services orientated third-party offshoring vendors in India

Our current report *'Bank Offshoring Part III: Indian third-party vendor tour'* documents our site visits to the Indian third-party vendor offshoring market and is a cumulative extension of this previous work. To clarify the scope of this latest report, our tour was confined to India (arguably the leading, yet certainly not the only, offshoring destination globally) and included only third-party vendor companies (rather than management consulting offshoring affiliates or bank-owned captive entities). Nevertheless, the tour provided insights into the largest bank offshoring market globally, as well as to its implications for the Australian banks as customers and potential customers to these suppliers.

Specifically, CSFB visited a number of key third-party vendors in Bangalore and Mumbai:

- *GECIS:* Based in Bangalore and established in 1997, GECIS is the largest offshoring facility in the world and was a pioneer in the Indian offshoring market. GECIS was a wholly-owned General Electric captive entity until November 2004, when GE divested 60% of its (until then wholly-owned) equity interest in GECIS in equal portions to two private equity firms, General Capital Partners and Oakhill Capital. GECIS's 18,000 employees serve more than 15 industries in 40 countries from hubs in India, China, Hungary and Mexico. GECIS's largest client, GE Consumer Finance, contributes 20% of revenues (total 2004 revenues were US$404m), with non-GE work comprising almost 20% of GECIS's business (and rising).

- *Tata Consultancy Services:* Based in Mumbai, Tata is the oldest IT service provider in the Indian market and has been migrating towards a banking offshoring specialisation. Tata Consultancy Services has 621 customers (including 50 out of the Global Fortune 500 companies being clients), with 45,000+ employees and 33 delivery centres in 10 countries. Tata has established loans processing captives for such marquee customers as HSBC, GE Capital India, Citibank, Countrywide Financial and securities processing captives for JP Morgan, Morgan Stanley, Lehman Brothers and Fidelity. Tata's revenues are derived 40% from the banking and financial services industry and a further 20% from the insurance industry.
- *HCL Capital Markets Services:* Based in Bangalore and Mumbai and part of the HCL Group, HCL Capital Markets Services was established in 1991 as the exclusive processing facility for Deutsche Bank (initial 51% sell-down to HCL in 2001 with the remaining 49% progressively over the following three years) and is a large IT outsourcer and specialist financial services offshorer. Given the broad scope of activities covered, HCL's financial services practice is divided into two divisions: Banking and financial services (deposits, cards, remittances, loans, trade finance, treasury, mortgages, multi-channel banking); and Capital markets services (settlement and clearing, exchanges, funds management, corporate and investment banking, custody). HCL Capital Markets Services has 50+ customers, 5,000+ professionals and business revenues of US$250m+. Marquee customers in banking and financial services include Standard Chartered, HBOS, Wells Fargo, Lehman Brothers and Citigroup, and in Capital market services includes Deutsche Bank and Westpac Banking Corporation.
- *iGATE Global Solutions:* Based in Bangalore, iGATE is a financial services offshoring specialist. iGATE has approx. 4,500 staff, with development centres in India, China, Malaysia, Canada and the US, and generated US$128m of revenues in FY05 (39% in the banking and financial services industry). iGATE claims differentiation within the Indian offshoring market through its proprietary models that are used to assess what should be offshored (outsourcing consultancy). Marquee financial services clients include Greenpoint Mortgages, Charles Schwab and Wachovia.
- *Progeon:* Based in Bangalore, Progeon (a subsidiary of Infosys) is a prominent financial services offshoring vendor, with 19 customers and a headcount of 3,966 (FY05) and FY05 revenues of US$53.7m.

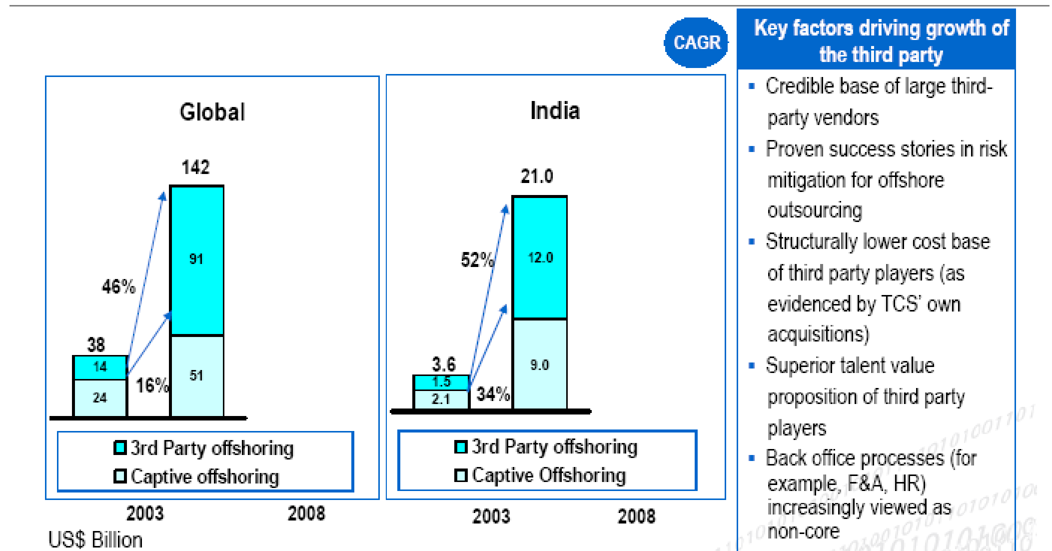
Swamy & Associates, Independent BPO Advisors and Managers, carried out the service provider selection for CSFB's tour.

Key features and themes of the Indian offshoring market

1. Early stage, high growth, rapidly evolving market

Currently it is very difficult to accurately dimension the Indian offshoring market, with different estimates of size (let alone growth prospects) irreconcilable owing to (for example) difficulties of capturing offshoring activity data through captive entities, as well as demarcation issues in defining the industry within the broader Indian IT export market. However, one vendor that we visited stated that offshoring in India is currently a US$17bn market, comprised US$12bn in IT application development and maintenance offshoring and US$5bn in business process offshoring. Further, as illustrated in the following chart, the Indian offshoring market is expected to grow strongly, with many of the Indian service providers that we visited expecting 30%–40% growth in revenues per annum within the Indian offshoring industry. Whilst still maturing, the industry appears to be experiencing exponential growth, with rapid evolution characterised by increasing depth, specialisation and competition from suppliers.

Figure 1: Indian third-party offshoring market projected to grow significantly



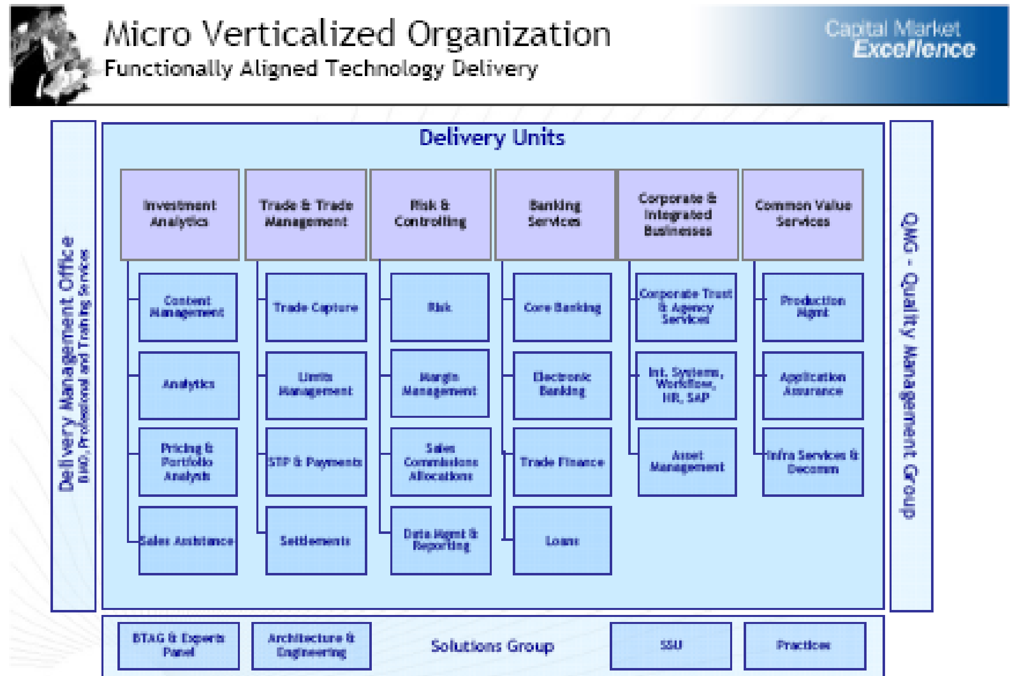
Source: Tata Consultancy Services, using Aberdeen Group and NASSCOM

2. Only recently discernable as a separate industry

The third-party vendor market is rapidly becoming a broadly based business platform, in part encouraged by the divestment of captive entities

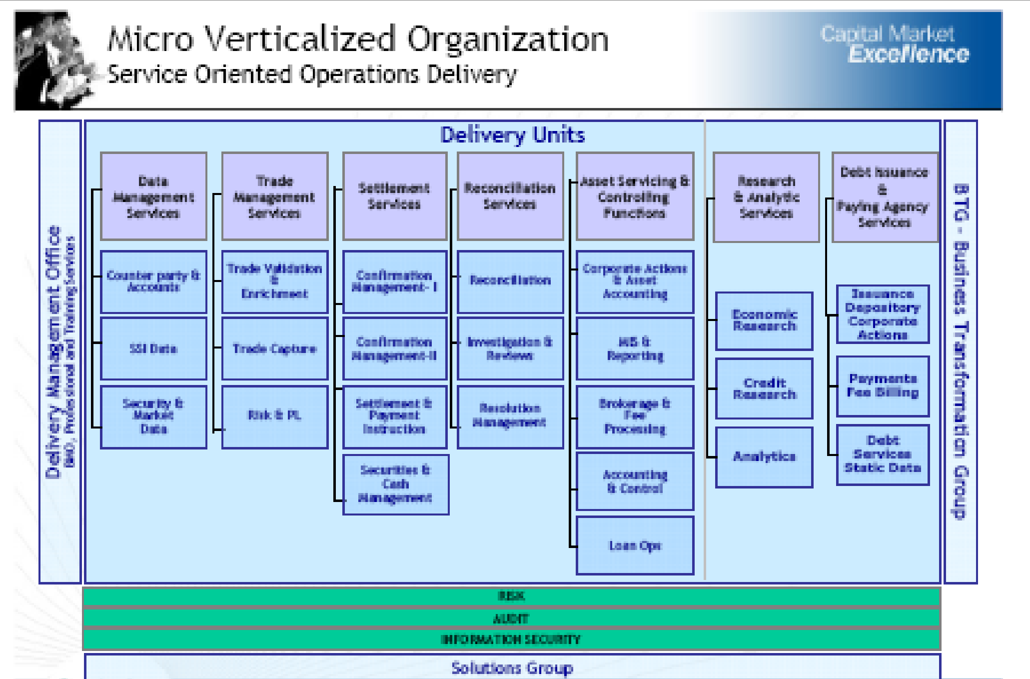
The Indian offshoring industry is relatively nascent and has only been recognisable as a distinct segment within the (export-oriented) Indian IT software and services market over the past five years. Whilst the industry was effectively created with the establishment of captive entities owned by multinational companies, the third-party vendor market is rapidly becoming a broadly based business platform (in part encouraged by the divestment of captive entities). According to India's premier trade body for the IT software and services industry, 'National Association of Software and Service Companies' (NASSCOM), there are over 200 companies participating in the offshoring segment in India. Key sub-segments within the industry include IT applications and development, business process offshoring (e.g. call centres and back-office functions) and knowledge process offshoring (e.g. analytics). As a further extension of this specialisation theme, the vendors that we visited appeared to offer enormous scope and granularity within their banking and financial services offshoring practices, as illustrated in the charts over the page.

Figure 2: **Function-based technology services**



Source: HCL Capital Markets Services

Figure 3: **Service-based operations delivery**

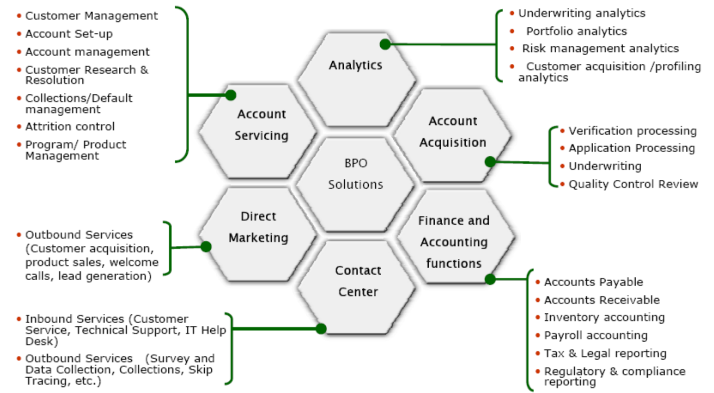


Source: HCL Capital Markets Services

Figure 4: Mortgage banking offshoring

Source: iGATE Global Solutions

Figure 5: Credit card operations



Source: iGATE Global Solutions

Figure 6: Loan origination offshoring services

Loan Setup	Application Processing	Underwriting	Closing and funding	Post closing
Data entry in the system Verification of data on the system and Borrower Opening package (BOP) Duplicate loan search Disclosure review, print and mail	• Loan Review • Verification of assets, incomes and liabilities • Processing DU/LP • Ordering flood certificate, appraisal, title report, etc. • Preparation of file for underwriting	• Data validation of loan • Review of AUS approvals • Identifying and adding loan Conditions • Appraisal review and validation	• Doc drawing • Prior Doc and Prior to funding Conditions clearing • Performing confirmations • Review of fees • Generating electronic docs • VVOE	•Verification of closing docs against loan guidelines •Closing doc auditing and checklist prep. •Research and resolution of missing docs •Post loan funding auditing •Clearing of exceptions as per investor requirements

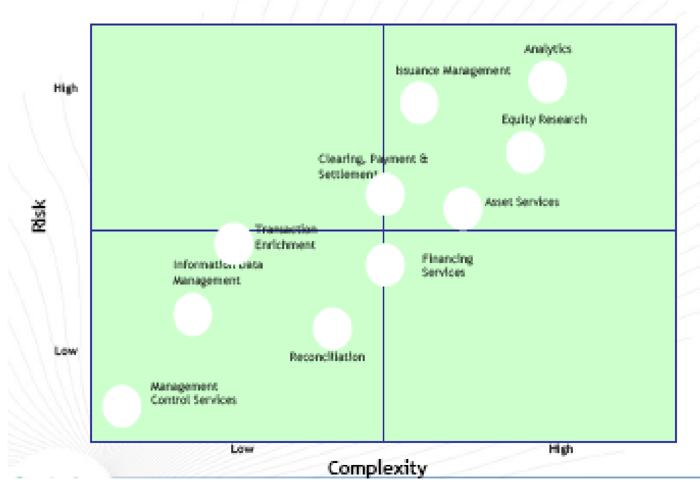
Source: iGATE Global Solutions

Figure 7: Loan servicing capabilities

Customer Care	Loan Administration	Financial Transaction Management	Default Management	Investor delivery
In bound and Out bound customer service calls Customer correspondence – email and physical letters Special research and resolution of customers enquiries Pay-offs quotes and lien releases Customer welcome calls Homeowner counselling and education	• New Loan set up • New Loan Review • Post loan funding auditing • Tax set up • Insurance set up • Escrow Admin./Analysis • ARM audits • Assumptions and Modifications • Servicing Sales Transfer	• In-house (Client) • JIT (taking payments over phone)	• Collections • Forbearance/Re-payment arrangements • Research on loans in default • JIT payment collections on loans in default • Filing claims with FHA/VA for loans in default • Preparing the modifications • Delinquency reporting to GSEs	•GSE and Investor remittance reconciliation of P&I •Reconciliation of T&I actual vs system •Investor set up •Processing year end reporting information for investors •Processing re-purchases of private investor loans

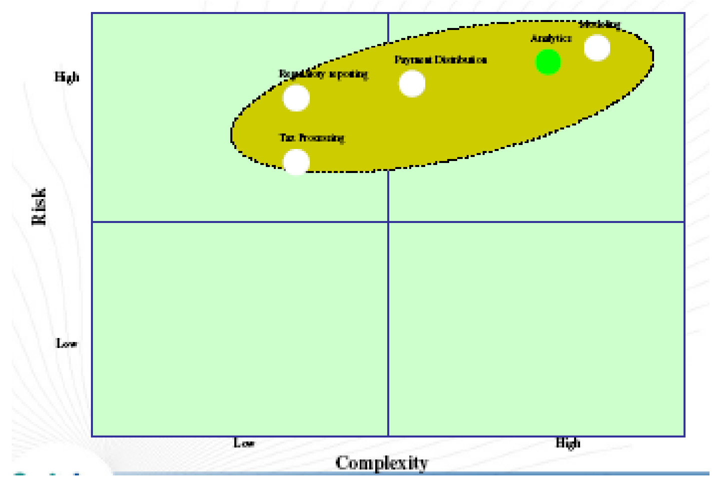
Source: iGATE Global Solutions

Figure 8: Capital markets services



Source: HCL Capital Markets Services

Figure 9: Analytics



Source: HCL Capital Markets Services

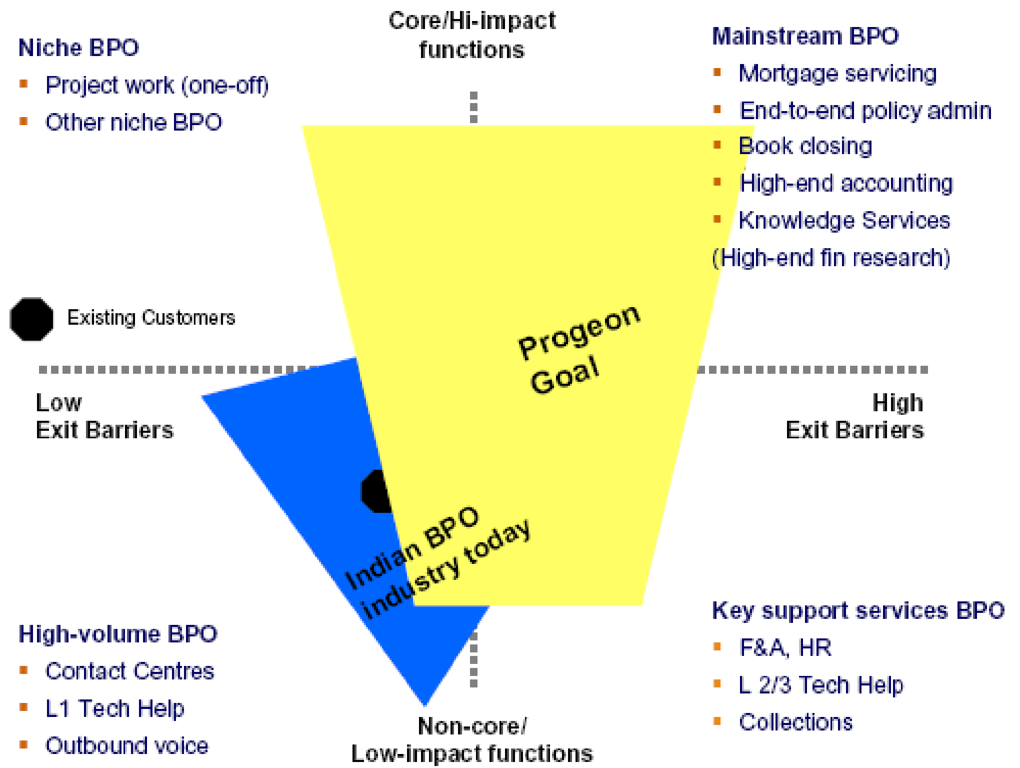
India's offshoring value proposition is based on its ability to deliver cost savings, productivity gains and quality improvements, which are underpinned by an abundance of skilled English-speaking staff, low-cost data transmission, Indian government backing, fast turnaround times and the ability to offer 24x7 services (India's unique geographic location allows for the leveraging of time zone differences). Furthermore, India is an established destination for outsourcing, Indian universities are able to create globally leading educational programs (especially in technology and business management) at a fraction of the cost of most developed countries, Indian offshoring suppliers are able to offer near-shore services (which can be back in the host country) and Indian vendors have been expanding organically and inorganically to establish scale and a multi-location presence in India so as to de-risk their businesses. As an indication of the importance of the industry to the broader Indian economy, the IT and offshoring market appears to have been the principal driver behind both India's employment growth and the doubling of India's GDP growth rate from 3%–4% per annum to 7%–8% per annum.

3. Industry migrating away from the stereotype call centre functions

Whilst still dominated by the stereotype call centre (voice services) function and captive entities, Indian offshorers are moving up the value chain into knowledge process offshoring

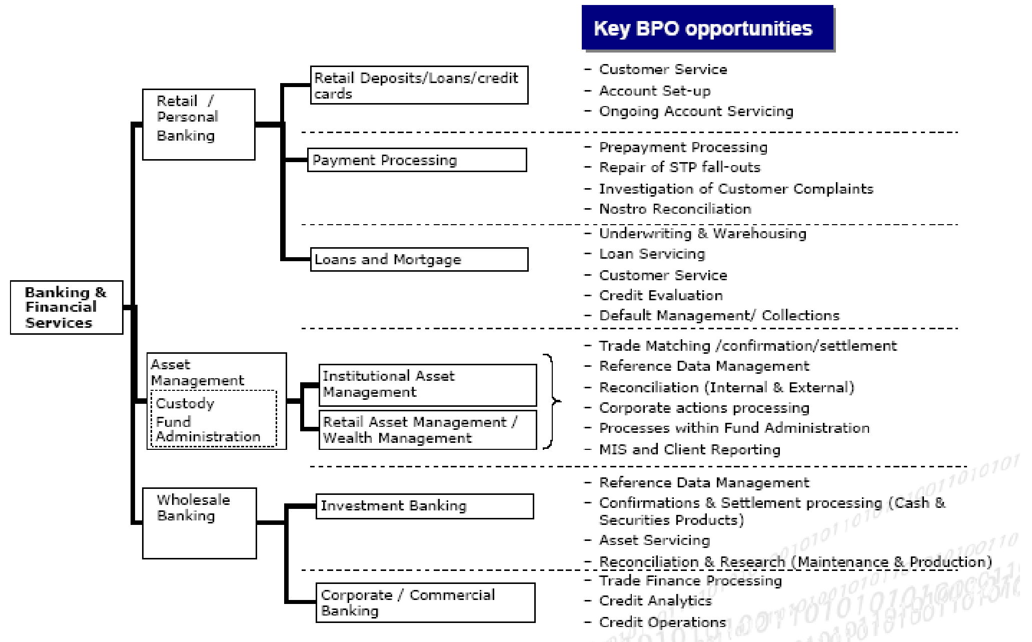
Just two years ago, the overwhelming majority of offshoring work performed in India was voice only (perhaps 95%–98%). Only in the past year has the call centre/offshoring function distinction emerged. Whilst the Indian offshoring industry is still dominated by the stereotype call centre (voice services) function and captive entities, many providers that we visited consciously sought to promote their focus on moving up the value chain (espousing maxims such as "beyond cost subtraction"), particularly into knowledge process offshoring, which are "high-end" offshoring functions incorporating data analytics. This aspiration is illustrated in the first diagram overleaf, which divides the spectrum of offshoring activities offered by the industry today in terms of the dimensions of core functionality and barriers to exit. The Indian offshoring industry is currently concentrated in non-core functions that have low barriers to exit (bottom left hand quadrant) and is attempting to shift into the top right hand quadrant. Management consultancy firms (e.g. IBM, Accenture) tend to focus on support functions, which is the bottom right hand quadrant. The second diagram overleaf illustrates the extremely broad range of services that India's offshoring industry is offering to the banking and financial services sector, consistent with this migratory aspiration.

Figure 10: **The Indian offshoring industry**



Source: Progeon

Figure 11: **Broad range of services offered to the financial services sector**

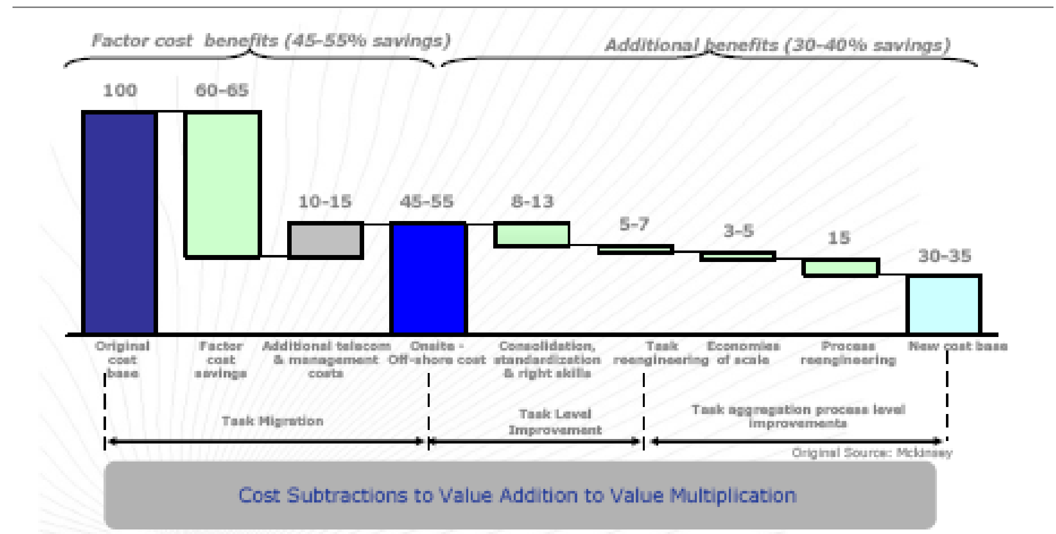


Note: BPO refers to Business Process Outsourcing

Source: Tata Consultancy Services

In terms of the benefits of offshoring, the UK Financial Services Authority has stated that, whilst cost advantages were the initial impetus for offshoring, many financial services firms now note that they will continue offshoring to India (almost regardless of the economic environment), given other benefits, such as increased flexibility and the extremely high quality of the work performed (since most of the Indian staff are university graduates). (Refer '*Offshore Operations: Industry Feedback',* Financials Services Authority, April 2005). This viewpoint was reiterated by the vendors that we visited, which believed that viewing offshoring merely as a cost arbitrage was the wrong perspective, on the basis that: 1) the role of offshoring is very strategic, with quality and long-term expectations important in the offshoring decision; 2) offshoring vendors provided additional value through their understanding of network application systems, IT design and architecture; 3) the greater possibilities offered by partnership-based relationships (e.g. the co-sharing of the intellectual property of applications developed); and 4) the diminishing nature of labour cost arbitrages, given Indian wage inflation.

Figure 12: **The offshoring value proposition**

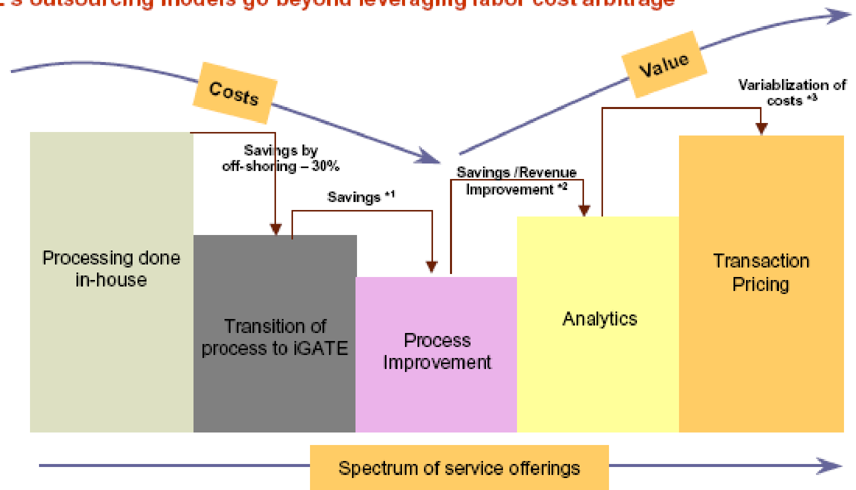


Note: This diagram is based on historical US-based transactions between 1999 and 2003 and therefore is not directly comparable to current (actual or prospective) Australian-based transactions
Source: HCL Capital Markets Services, using McKinsey

The wage cost arbitrage of offshoring functions to India is greater from the US than it is from Australia, whilst IT and telco costs are 80% higher from Australia than they are from the US

The value proposition of offshoring functions to India presented to us by the vendors that we visited were: the wage cost arbitrage (say, 30%–40%), fewer staff required to perform the tasks (relatively qualified staff, re-engineered processes), the accumulated know-how in transitioning processes and the ability to rapidly transition processes (refer section below). Interestingly, the vendors that we visited believed that both the wage cost arbitrage of offshoring functions to India was greater from the US than it was from Australia (US wages relatively higher than Australia), whilst the additional IT and telecommunications costs associated with remote work practices were 80% higher from Australia than they were from the US (reflecting how established the Internet protocol routes are between the respective countries). The second issue alone in relation to relative Internet protocol links is potentially material, with 10%–15% of the total cost of a typical US project related to the link costs. These dynamics clearly diminish the financial incentives of offshoring to India from Australia (relative to offshoring to India from the US) and perhaps at least partially explain why the US has been such an important purchaser of Indian offshoring services.

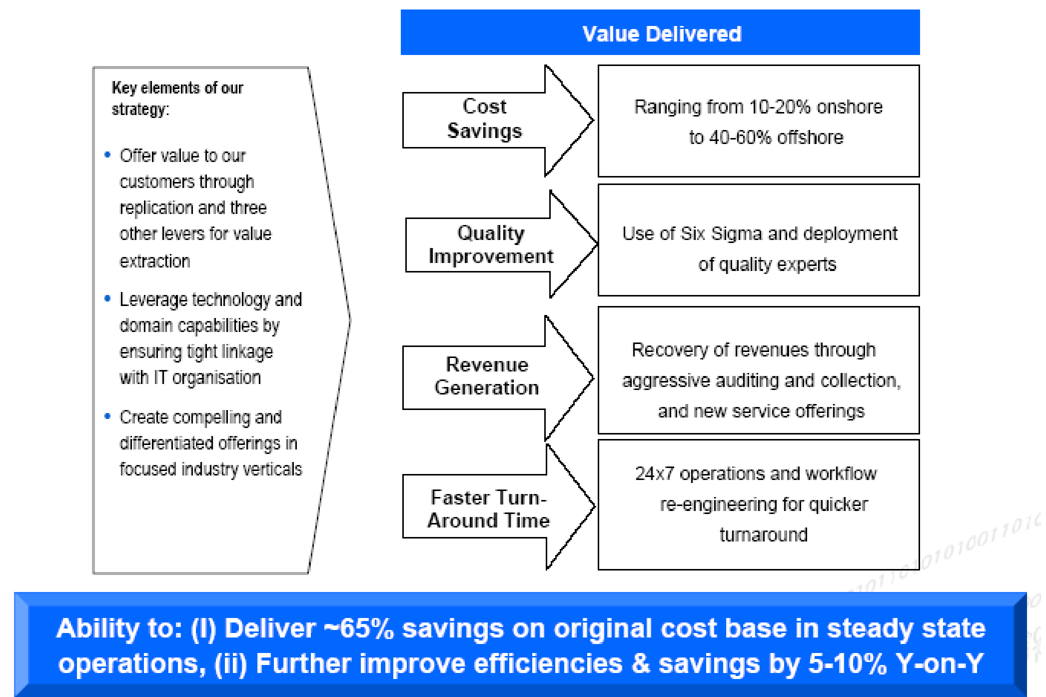
Figure 13: **Cost savings beyond labour arbitrage, perspective I**



*1 Savings depends on the current levels of efficiency and technology in place (McKinsey: 7.5%)
*2 Depends on the specific case, scope of analysis, process refinements, technology implementations (McKinsey: 15%)
*3 Clients pay only for the services used and not for maintaining an idle bench, fixed costs are made variable, economies of scale achieved as the relationship moves towards the BSP model

Source: iGATE Global Solutions

Figure 14: **Cost savings beyond labour arbitrage, perspective II**



Source: Tata Consultancy Services

4. Growing pains: some key industry challenges

The key risk for the industry is sourcing sufficient numbers of suitably qualified human capital

The Indian offshoring market is facing the challenges of progressive commoditisation of the services they have been offering, which has been characterised by skill-set shortages, lack of rigour and quality of skilled staff, infrastructure constraints and declining service quality standards.

Notwithstanding India's considerable population, the key risk we see to the industry at the current time appears to be sourcing suitably qualified human capital (such that the industry is appropriately prepared for increased scale). However, the vendors that we visited stated that this constraint might not emerge for another five years and the existing penetration of development centres in India (currently perhaps only four or five cities) could potentially be extended to second tier cities in India ("campus cities"), which could conceivably generate large numbers of appropriately qualified graduates. In turn, by tapping into a greater manpower pool through the creation of a larger number of offshoring centres in India, this in turn could moderate salary cost pressures (which are currently running at a 10%–15% annualised rate, although offset to some extent by the decline in telecom costs, productivity gains and economies of scale).

The service providers that we visited also highlighted that the average age of the required workforce in the industry is reducing, creating an Indian workforce that has grown up with an offshoring environment, which should help moderate 'teething problems' as the industry increases its scale. However, as a likely by-product of the relatively young age of the offshoring staff in India and the nascent stage of the industry's development, the Indian offshoring market is also experiencing high levels of staff attrition, with the level of attrition depending upon the method of chosen entry (captive entities usually have lower attrition than third-party vendors), the processes offshored (call centre processes have higher attrition than administrative or back-office functions) and the length of time the operation has been in India (e.g. pilot program compared to an established operation). In the previously mentioned April 2005 report, the UK Financial Services Authority stated that it was previously concerned that high attrition could adversely impact service provision, but found that vendors had factored this into their recruitment and training capabilities. Finally, the vendors that we visited stated to us that the labour cost arbitrage in back-office processing domains was diminishing, given Indian wage increases (10%–12% per annum over the past five years). However, in higher-end value-add analytics functions, closure of the cost arbitrage was expected take much longer, since wages in the West for these functions are currently very high, although there still appears to be a cost advantage in performing IT tasks in India rather than Australia, especially in analytics (the spectrum of wage costs in an Indian offshoring service provider between process-driven back-office functions and front-office analytics functions is less than what it is in the West).

As evidence of declining service quality standards, we note that on 27 October 2005, UK bank, Abbey National (which was acquired by Spanish Bank Santander in 2004), announced that its 1,000 headcount call centre in Bangalore (established in 2003) would be migrated back to the UK (Milton Keynes, Teesside and Glasgow), with operations being scaled down before closure in early 2006, citing service issues as one factor in the decision. This represents an erosion of one of the key attractions of bank offshoring previously highlighted in this report.

5. Migration away from the captive entity structure

A number of financial services companies have divested their captives

Captive offshoring entities (namely, wholly-owned subsidiaries of multi-national companies established to service the offshoring requirements of their parent companies) are currently in a phase of maturation and consolidation. As the pioneers of the Indian offshoring industry, captives are now in a stage of expansion, with many captives having moved to multi-centre delivery locations and increasing the scale and scope of their activities to provide more domain expertise to more customers. Within this environment of rapid growth, the structure of the industry has also rapidly changed, with a number of financial services companies divesting their captives (e.g. Deutsche Bank, GE) as the cost structures of captives became less compelling, whilst newer captives have also emerged (e.g. JP Morgan), which have managed operational risks by outsourcing newer technologies to the third-party vendor market. Whilst this trend raises the issue as to the future of ANZ's own captive entity, we understand that ANZ firmly has no intention to divest its captive or to open up to third-party business, based on the view that such an initiative is not part of ANZ's core competencies and would create too much management distraction. However, we understand that ANZ intends to expand the numbers of staff and the scope of activities undertaken within its captive.

Nevertheless, one former captive entity that we visited stated to us that the parent's decision to divest a majority stake in their captive offshorer reflected the following benefits:

- the parent had already offshored all of the 'low hanging fruit' within its own organisation, thereby limiting the internal growth opportunities that were available to the offshorer;
- divestment allowed the parent to distance itself from the political dimensions of offshoring (particularly in the US during the 2004 Presidential election campaign) and especially at a juncture when the offshorer wanted to fulfil a 40%–50% per annum growth target through the pursuit of third-party relationships;
- divestment allowed the parent to reduce the headcount it was able to report in its own accounts; and
- such divestments provide good outcomes for the captive (which seeks third-party business for growth opportunities), the original equity owner (which crystallises a gain on sale and addresses headcount and political issues as well) and the new investor (private equity firms seeking sizable unlisted investment opportunities in high-growth ventures).

Bank offshoring appears to have been specifically reappraised by both NAB and CBA

Australian banks and Indian offshoring today

Since the publication of our original research, we believe that the Australian banks have considerably advanced their understanding of the bank offshoring market, selectively and quietly responding to the global industry phenomenon of offshoring. As previously noted, bank offshoring appears to have been specifically reappraised by both NAB and CBA (which interestingly appeared to us to be relatively less developed in their thinking in mid-2004). We believe these trends have been evidenced by:

- *Public statements by bank managements.* Recent briefings have seen bank CEOs publicly endorsing bank offshoring as a legitimate strategy. For example: 1) at the ANZ strategy briefing on 7 September 2005, CEO, John McFarlane, commented in relation to offshoring that if employment growth was occurring in Australia, there was no reason that employment growth could not also occur in India – specifically highlighting the political dimension to bank offshoring. This sentiment was reinforced at the 25 October 2005 FY05 result briefing, where ANZ stated that approximately one-quarter of its IT staff were based out of its Bangalore captive (one of ANZ's three IT 'campuses'), which currently has approx. 700 staff, with an aspiration to increase this to approx. 1,000 over time; 2) at the CBA 24 May 2005 strategy briefing, CEO, David Murray, stated that as imaging and digitisation technology gathered pace, it was becoming increasingly feasible to separate front-office and back-office functions, with CBA specifically highlighting that IT sourcing would be a focus in India. Further, according to media reports (*Australian Financial Review,* 'CBA takes closer look at India', 5 July 2005, p29), CBA commenced an investigation into offshoring, with the Principal Board having appointed the Boston Consulting Group to complete an eight-week scoping study focusing on overseas alternatives for low-risk software maintenance currently performed in Australia; and 3) within National Australia Bank, our impression is that – whilst philosophically open to offshoring – management prefers to harvest the maximum possible productivity and re-engineering benefits possible in-house (to ensure restructuring benefits fully accrue to NAB shareholders) prior to considering offshoring either regional or global operations. Nevertheless, we note that the concentration of former Barclays/Woolwich and Citibank management now within NAB come from organisations where offshoring is relatively common.
- *Announcements of small-scale transactions and initiatives.* A number of Indian offshoring transactions have in fact been announced by Australian banks. For example: 1) on 14 October 2005, CBA announced that discussions with Infosys for the offshoring of HR and payroll applications development functions (performed by EDS Australia under the existing outsourcing arrangement) had been discontinued. Whilst the proposed transaction was of modest size (say, up to $30m), the significance that we saw in this proposal is that HR and payroll activities are relatively more complex and less commoditised than activity domains purely related to IT and infrastructure maintenance; 2) on 27 October 2005, NAB announced the offshoring of 23 accounts payable/receivables positions to India through a three-year contract with management consulting firm, Accenture, ostensibly to improve its understanding of bank offshoring; and 3) HBOS Australia has reportedly been in discussions regarding its options for sourcing additional IT services from Indian technology companies, HCL Technologies and Cognizant Technology Solutions ('BankWest looks to India for tech services', *Australian Financial Review*, 31 March 2005, p21).

Within NAB we note that recent hires by CEO Australia Ahmed Fahour have included Paul Newham (ex-Citigroup Australia, who has previously conducted offshoring projects such as the transfer of Citibank Australia's retail banking call centre from Brisbane to Manila) and head of integration Kevin Turnbull (ex-Hutchinson, India call centres). We understand that at a group level, Cameron Clyne (EGM Customer Solution) has also been examining offshoring as a distinct project.

CBA has agreed with EDS Australia that it will finalise the post-2007 contract arrangements sooner rather than later, which could result in a further five-year agreement

A relevant issue for CBA is the completion of the 10-year IT outsourcing contract with EDS Australia in 2007. A common misconception in relation to this contract was that it was sufficiently broad scoping to include all application development and maintenance services, whereas in fact it primarily focuses on desktop, helpdesk and some (although not all) aspects of application development. We note that since the 1997 signing of the EDS Australia contract, the IT sourcing market has evolved considerably, moving from typically holistic, enterprise-wide outsourcing to an environment now where there are is greater array of sourcing options (as well as a stronger and larger commodity IT service market), that has given way to a 'best sourcing' model. Purchasers of IT services generally now also want stronger control over their IT environment and strategy than in the past. Following the 2004 EDS Australia equity agreement, we understand that CBA has agreed with EDS Australia that it will finalise the post-2007 contract arrangements sooner rather than later, which we believe is likely to result in a further five-year agreement, plus any time that is unexpired on the current contract. We believe that this could result in the narrowing of the scope of the EDS Australia outsourcing contract.

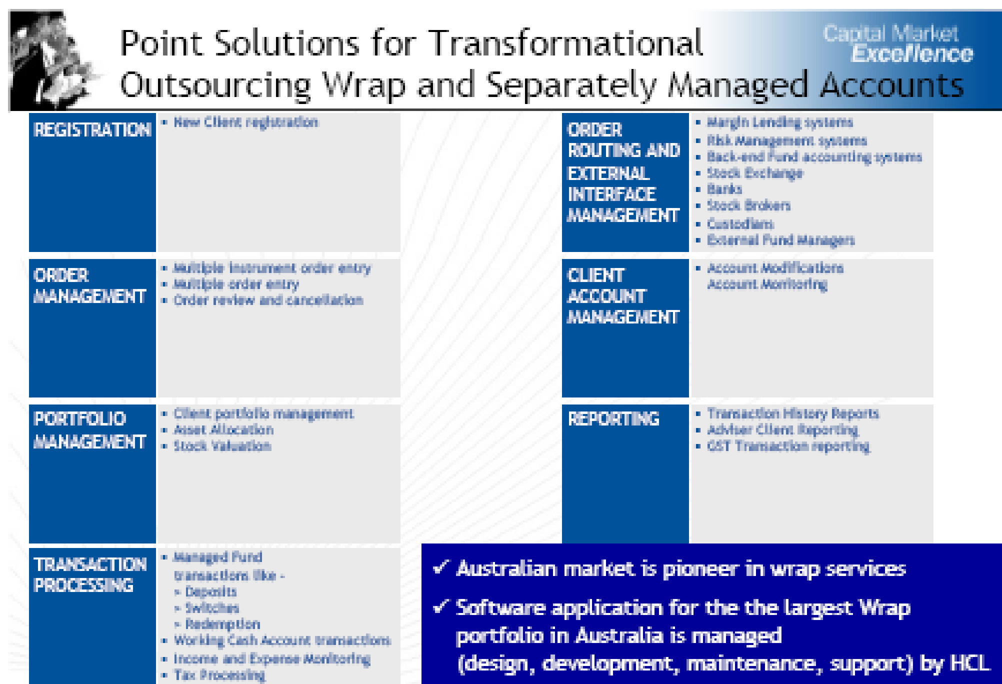
In relation to offshoring, we understand that CBA believes that the transition costs and knowledge management issues are sufficiently large that offshoring needs to be conducted on a large scale to be worthwhile (particularly to cover upfront fixed costs, which can be considerable for more complex functions). As a result, CBA regards the payback on risk assumed as a high hurdle. CBA has used the Infosys pilot as an opportunity to learn the capabilities that can be tapped, as well as revenue and cost parameters surrounding offshoring. CBA believes that establishing a greenfields offshoring captive makes little sense, since captives need scale to attract the right staff and sufficient volumes to get reasonable capacity utilisation.

Australian banks have shown considerable interest in India for pilot programs to better understand offshoring

Our Indian site tour allowed us to gauge initiatives recently being undertaken by Australian banks in the Indian offshoring market. Overall, we perceived that the Indian bank offshoring industry was keen to engage Australian banks as clients and regarded the Australian banking market as a key focus market. Our impression from the vendors that we visited was that the Australian banks had engaged various vendors in India to better understand the possibilities and parameters surrounding bank offshoring, although the vendors stated to us that the offshoring knowledge base and experience of the Australian banks was lagging that of UK and US banks. Part of these expressions of interest from the Australian banks appeared to include considerable interest in performing pilot programs (e.g. for three- to six-month periods) to better understand offshoring. Nevertheless, Australian banks were described by the Indian vendors as currently undergoing a "change acceleration process", although apparently there are champions within the banks attempting to reach a consensus on developing a policy towards offshoring. One Indian vendor claimed that "significant" discussions were underway in India with Australian banks and, whilst dialogue had commenced, Australian banks were apparently more cautious in their approach to offshoring than

were UK banks (and apparently less knowledgeable of offshoring generally). Overall, in looking at the offshoring phenomenon underway in global banking, Australian banks appear to be grappling with issues of scepticism in relation to the value proposition, the threatening nature of the offshoring industry (with the change it is introducing to the banking industry) and the political sensitivities of offshoring. However, we note that Australian banks are starting to embrace offshoring at a juncture when significant portions of the offshoring industry have become commoditised, with customer experience and cost advantages less favourable now than they were even 12 to 18 months ago.

Figure 15: **Australian wrap platform – case study for successful offshoring**



Source: HCL Capital Markets Services

The next step: making the offshoring transition

- *What can the offshoring market contractually commit to delivering?* A sceptic might observe that offshoring is merely a variant upon outsourcing, with a number of bank IT outsourcing transactions generating questionable value for customers and shareholders (thereby bringing into question the value proposition of offshoring). As an example of the capacity to provide contractually guaranteed benefits, one provider that we visited stated to us that it could contractually commit to five-year productivity benefit targets (achieved through task migration and task level improvement initiatives), with most of the productivity benefits contracted for years one to three. Beyond that, Six Sigma benefits require more customer involvement and the synthesising of technology and operations (Six Sigma benefits can even be migrated back to the original location).
- *Getting the structure right.* The vendors that we visited stated to us that, whilst two years ago, implementing an offshoring strategy was best performed through a captive,

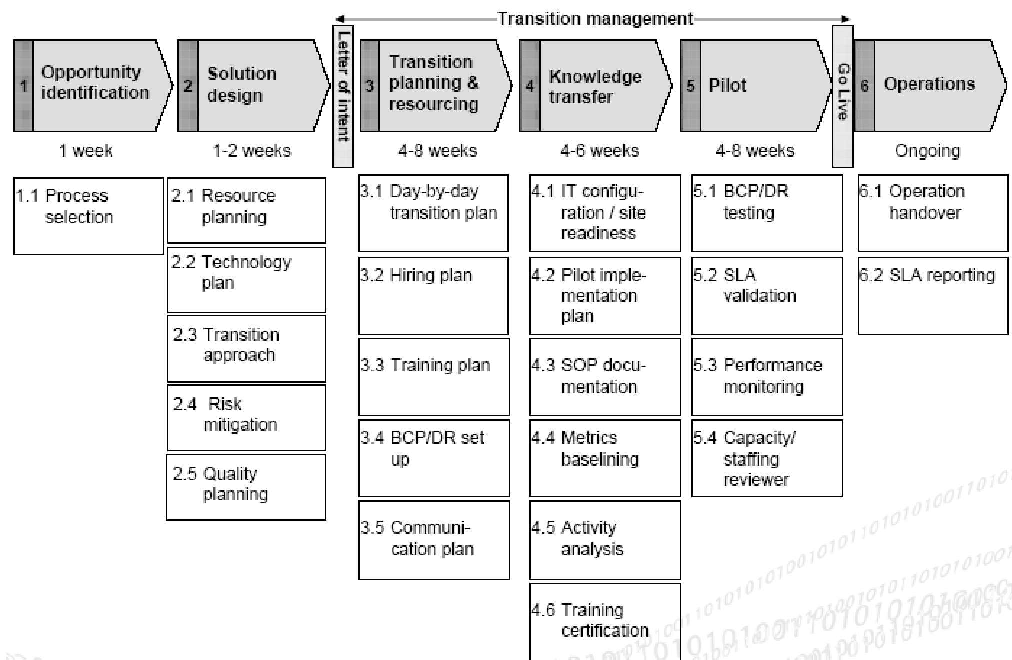
today the best model is a hybrid mode (partnership). Where a third-party supplier is used, the UK experience is that most banks adopt a flexible model through the build-operate-transfer (BOT) approach, which provides access to third-party expertise with the potential to convert these operations into captives once the appropriate level of confidence and experience has been attained. One vendor that we visited believed that the time commitment required for mortgage processing offshoring would be a minimum of three years (and ideally, seven to 10 years), with up to 90% of the mortgage processing function ultimately offshorable. We note that pricing structures can be tailored, with one vendor that we visited stating that a common structure was for FTE cost-based pricing for the first three years, followed by transaction-based pricing thereafter (thereby providing a variable cost base).

- *Starting the migration of domains and activities.* Whilst a variety of processes are amenable to being offshored, the UK experience is that banks typically start with simpler processes and, as they gain confidence, expand the range of activities undertaken offshore (even progressing to offshoring end-to-end processes and/or more complex analytical processes). One of the vendors that we visited stated that if a prospective client wanted to offshore functions for the first time, then it would select relatively risk-free and "non-threatening" functions initially as the proof of concept for offshoring (i.e. a function that was not intensive from a turnaround time perspective, such as the modelling of cash-flows or market research). One of the vendors that we visited claimed that it was possible to establish and commence pilot programs in just one week. Parallel processing is then introduced during the domain transition period to manage the risks and any teething issues (transitioning of a process can take two to nine months to achieve). For Greenpoint Financial (a key case study in our original research), offshoring involved a 15-month initial transition (given the large number of moving parts involved), although subsequent processes were transitioned much more quickly. In many offshoring transitions, we note that staff from the client would typically be seconded to the vendor over the first six months to provide training to the vendor's staff (to assist in the stabilisation period), followed by a second stage where the vendor would provide the training back to the customer to pursue value-add initiatives such as Six Sigma process perfection.

- *Risks to the purchaser.* The UK Financial Services Authority has identified the complexity of achieving management overseeing and control from a distance as the key risk to offshoring (refer 'Offshore Operations: Industry Feedback' Financials Services Authority, April 2005). The key barrier to further global bank participation in offshoring is the perception of risk in remote service delivery platforms. One vendor that we visited claimed that following site visits, some regulators (such as the US Office of the Comptroller of the Currency and the UK Financial Services Authority) have stated that the risk mitigation processes undertaken within the Indian offshoring industry are in fact superior to the measures undertaken in the home market. As a partial confirmation of this claim, we note that the FSA has published in its April 2005 'Offshore Operations: Industry Feedback' report: *"In conclusion, companies have implemented systems to monitor phone conversations, protect data and monitor staff. There is no evidence to suggest consumer data is at greater risk in India than in the UK."* We note also that banking and financial services offshoring customers usually keep their data onshore and provide access from India as part of the offshoring arrangements.

- *Risks to the vendor.* From the perspective of the provider, the key risks that one vendor we visited saw for itself in performing offshoring contracts was the underestimating of the resources necessary to perform the agreed tasks (given that cost over-runs would be incurred by the vendor). Vendors we visited highlighted the following key pitfalls with new customers: 1) building trust with prospective/new clients to engender confidence that the service provider could deliver the contracted benefits. One of the vendors we visited stated that it addresses this issue through creating clearly defined specifications; 2) a partnership with a 'value multiplication' perspective must move beyond a buyer/seller relationship, which inevitably is confined to a cost reduction focus; and 3) ensuring customers understand that it is not feasible to migrate 500–1,000 FTE headcount positions immediately to create step-changes in efficiency (the rate of FTE headcount dislocation is a key practical limit on the rate of offshoring).

Figure 16: **Ensuring a smooth transition for offshored domains and activities**



Source: Tata Consultancy Services

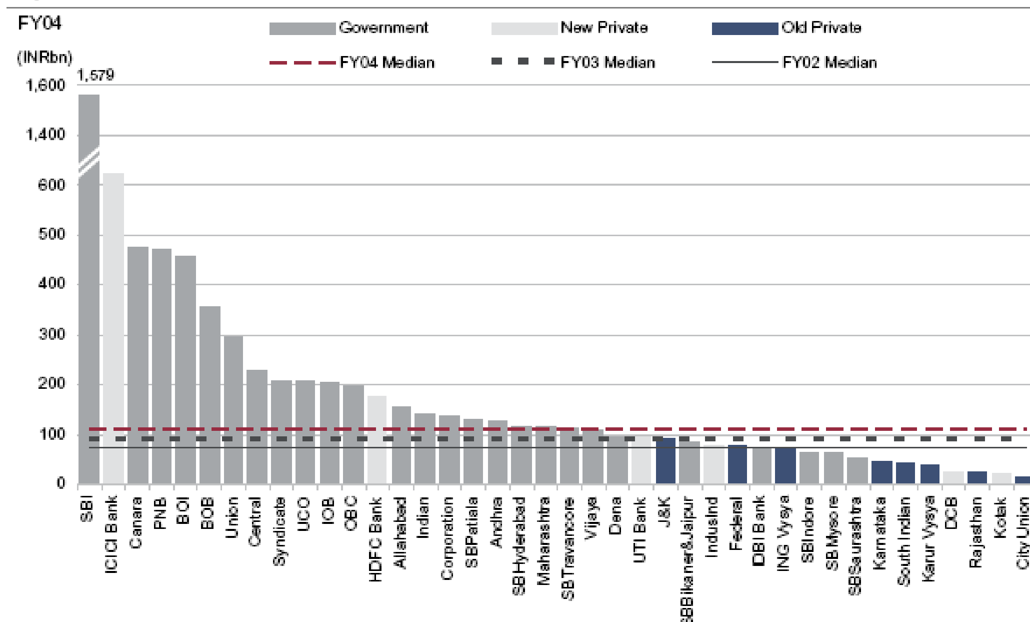
Australian banks and Indian banking

Our report so far has only considered issues relating to Australian banks sourcing services from the Indian offshoring market to support activities back in the core markets. In this section, we examine the issue, and the attractiveness, of the Indian banking market from the perspective of the Australian banks.

On the positive side, India appears to present some attractive opportunities:

- The Indian banking industry is quite fragmented (with industry concentration – as measured by the five-bank asset concentration ratio – declining over the longer term), characterised by a large number of banks with mixed ownership. The commercial banking segment comprises 27 public sector banks (in which the Government has majority ownership), 40 private sector banks and 33 foreign banks. However, within this relatively fragmented market, we understand that two private sector banks hold approximately three-quarters of the market share of the Indian mortgage market. The largest banks in India are still in the public sector, which controls over 75% of total banking system assets. These features, arguably, present opportunities for Australian banks to participate in the system.

Figure 17: **Indian banks total loans 2004**



Source: Fitch

- Economically, India is rapidly integrating into global and regional production chains, presenting potential banking opportunities in foreign exchange, trade finance, etc. Growth in Indian merchandise export has exceeded 20% per annum in three of the past four years and software service exports have expanded by almost 30% per annum over the past two years. Notwithstanding this, India's share of world trade (at 0.8%) is still well below that of other Asian economies at corresponding phases of their integration processes when their share of world trade ranged from 1% (China) to approx. 2% (Japan).

- The Indian banking system has already experienced an asset quality crisis following the 1992 deregulation of the banking market (this is common amongst deregulating banking markets, and occurred also in Australia), especially corporate loans to the cement, tea and textile industries. The recovery from this crisis has arguably improved the asset quality environment structurally, with many of the affected industries increasing their IT take-up, undertaking upstream and downstream integration to improve margins, increasing their scale and improving their equity capitalisation/debt gearing.
- Net interest spreads appeared to us to be relatively high in the Indian banking market (albeit with a higher credit risk profile), underpinned, for example, by 18%–20% of system deposits being non-interest bearing.
- India is relatively under banked, with only approx. 25% of the adult population owning a bank account and home ownership rates in the single-digits.

On the negative side, India perhaps represents a relatively difficult banking market in the Asia Pacific region:

- Foreign direct bank investments into the Indian banking system (acquisitions) are highly restrictive until 2009, when the whole framework for foreign ownership will be reviewed (which could result in greater proportional foreign ownership being allowed for private sector banks). Ahead of these reforms, however, Indian banks will have the opportunity to increase their scale. Currently, foreign banks are allowed to acquire a 10% stake in private sector Indian banks, although the second 5% interest is subject to approval by the Reserve Bank of India. No foreign investment in public sector banks is currently allowed.
- Whilst foreign banks can establish local subsidiary and branch operations in India, the prudential requirements for minimum equity capitalisation of foreign bank subsidiaries is a relatively high US$70m, creating a disincentive for creating a local subsidiary bank in India. Whilst branch banking licences are less capital intensive, the capital requirements specified by the RBI still require foreign banks to invest an initial minimum capital of US$10m for each of their first two branches and US$5m for the third branch.
- <u>Foreign banks are only allowed to open three to five new branches in India per annum</u>, which severely curtails their capacity to gather retail deposits (and compares unfavourably to the approx. 10,000 branch State Bank of India network, which is the largest in India). As a result, foreign banks have generally been more successful in the credit card segment of retail banking (Citibank, Standard Chartered and, to a lesser extent, HSBC).

<u>Overall we are sceptical of most initiatives by Australian commercial banks to expand into new countries</u> (whether by acquisitions, joint ventures or greenfields organic initiatives) and note the failure of many such initiatives historically by both Australian and global banks. Generic issues aside (cultural differences, management time and distraction), we believe this is especially applicable to emerging market banking initiatives, which typically suffer from:

- *An exaggerated view of the growth potential of the emerging middle class.* Often the middle class in emerging economies is created by specific export orientated industries

(e.g. IT in India, manufacturing in China, and before that in Thailand, Malaysia and Korea), such that when those industries suffer a cyclical economic decline, the middle classes within those countries suffer a leveraged impact. The potential for this to also occur in India appears to be the case, where rapid expansion in consumer credit is being underpinned by growth in services industries (software, offshoring).

- *The compromised position of having a minority stake in a local bank.* Joint ventures and minority stakes have traditionally not created much (if any) value for investing companies and there are few examples globally of foreign bank investments creating a sum-of-the-parts premium for the investing bank. We also note that expectations from investing banks that they will be able to increase their stake as deregulation unfolds have usually been disappointed.
- *Poor timing for executing entry strategies.* In this regard, we would argue that the best time to have entered the Indian (and, for that matter, Chinese) banking market was five years ago, when systemic asset quality problems and other pressures resulted in less demanding prices.
- *Future shocks and the absence of efficient restructuring mechanisms.* Urban centres in emerging economies are usually quite vulnerable to credit crunches, corporate and personal asset quality concentrations (usually to export-orientated industries) and, even worse, property price bubbles. Further, emerging market banking systems also usually lack efficient mechanisms (such as junk bond, credit restructuring and distressed debt markets), such that foreign banks usually face lengthy problem loan workout periods.

Notwithstanding these issues, we note that CBA is pursuing a selective expansion strategy internationally in non-core markets (Hong Kong, Indonesia, China and India), which has been generally focussed on deposit-led penetration before broadening product offerings into wealth management and mortgages. In June 2005, CBA obtained approval from the Reserve Bank of India to establish a Representation Office in Bangalore. We understand that the Reserve Bank of India can only issue 12 branch banking licences per annum (although has apparently exercised discretion to issue more licences). This follows on from CBA's September 2004 appointment of Ravi Kushan as head of its Indian office (an ex-AT Kearney offshoring consultant and former managing director of AT Kearney in India).

Figure 18: CBA's India strategy

India Banking :

- Submitted application for Representative Office license

Strategic Focus :

- Establish branch footprint in major cities
- Link IT sourcing opportunities with Indian banking operations

India Facts

- 4th largest economy[1]
- Growing at 8%pa, twice global rate
- Positive demographics
  - 64.3 % of population age below 30
  - Growing middle class
- Bankable population of 300 million
- Over 50 million high net worths
- Concentration of mass affluent in urban centres

(1) Based on PPP
Source: EIU, CIA world fact book, World Bank

Which new Bank

Source: Company data (24 May 2005 strategy briefing)

Figure 19: Australian banks investment summary

(A$m)	ANZ	CBA	NAB	WBC	SGB	SUN	ADB	BEN	BOQ	MBL
Share Price	$23.90	$41.98	$33.50	$22.88	$29.04	$20.00	$12.99	$11.84	$13.94	$69.95
52 Week High / Low ($)	19.54-24.27	31.12-41.98	27.66-33.65	18.20-22.88	23.41-29.04	16.82-21.45	9.50-13.70	9.15-11.84	10.10-14.29	41.42-77.45
Market Capitalisation	$43,653m	$54,081m	$52,647m	$42,818m	$15,121m	$11,070m	$1,385m	$1,599m	$1,427m	$16,111m
Rating	NTRL	NTRL	NTRL	NTRL	NTRL	NTRL	NTRL	UPFM	UPFM	OPFM
12 Month Price Target	$24.00	$40.00	$32.50	$22.50	$28.50	$19.00	$13.00	$11.00	$13.25	$80.00
Premium/(Discount) to Tgt	0%	5%	3%	2%	2%	5%	0%	8%	5%	-13%
Cash Earnings:										
FY05A	3,194	3,407	3,310	2,874	933	854	75.7	92.1	70.7	812
FY06F	3,488	3,766	3,802	3,144	1,049	827	95.0	99.3	81.7	978
FY07F	3,894	4,119	4,320	3,495	1,184	819	109.4	110.3	93.2	913
FY08F	4,305	4,548	4,751	3,882	1,319	855	124.5	123.1	106.2	989
Cash EPS:										
FY05A	$1.75	$2.68	$2.12	$1.55	$1.80	$1.58	$0.79	$0.66	$0.72	$3.70
FY06F	$1.90	$2.94	$2.41	$1.69	$2.00	$1.52	$0.89	$0.72	$0.80	$4.26
FY07F	$2.11	$3.20	$2.71	$1.86	$2.22	$1.50	$1.01	$0.78	$0.89	$3.83
FY08F	$2.31	$3.48	$2.94	$2.03	$2.44	$1.57	$1.12	$0.85	$0.99	$4.02
Cash EPS growth:										
FY05A	8.8%	29.6%	-7.1%	12.0%	12.0%	33.4%	17.2%	12.1%	16.8%	58.6%
FY06F	8.8%	9.8%	13.6%	8.9%	10.9%	-3.9%	12.8%	9.2%	10.5%	15.3%
FY07F	10.7%	8.8%	12.2%	9.8%	11.0%	-1.0%	12.8%	8.9%	11.5%	-10.1%
FY08F	9.6%	9.0%	8.6%	9.3%	9.8%	4.4%	11.6%	8.9%	11.4%	4.9%
Cash PE:										
FY05A	13.6x	15.7x	15.8x	14.7x	16.1x	12.7x	16.4x	18.0x	19.3x	18.9x
FY06F	12.5x	14.3x	13.9x	13.5x	14.5x	13.2x	14.5x	16.5x	17.5x	16.4x
FY07F	11.3x	13.1x	12.4x	12.3x	13.1x	13.3x	12.9x	15.2x	15.7x	18.3x
FY08F	10.3x	12.0x	11.4x	11.3x	11.9x	12.8x	11.6x	13.9x	14.1x	17.4x
DPS:										
FY05A	$1.10	$1.97	$1.66	$1.00	$1.37	$0.87	$0.53	$0.45	$0.48	$2.01
FY06F	$1.20	$2.09	$1.66	$1.09	$1.50	$1.01	$0.62	$0.495	$0.55	$2.20
FY07F	$1.33	$2.26	$1.77	$1.21	$1.67	$1.02	$0.69	$0.535	$0.62	$2.20
FY08F	$1.46	$2.46	$1.90	$1.32	$1.83	$1.09	$0.75	$0.585	$0.68	$2.30
Net Dividend Yield:										
FY05A	4.6%	4.7%	5.0%	4.4%	4.7%	4.4%	4.1%	3.8%	3.4%	2.9%
FY06F	5.0%	5.0%	5.0%	4.8%	5.2%	5.1%	4.8%	4.2%	3.9%	3.1%
FY07F	5.6%	5.4%	5.3%	5.3%	5.8%	5.1%	5.3%	4.5%	4.4%	3.1%
FY08F	6.1%	5.9%	5.7%	5.8%	6.3%	5.5%	5.8%	4.9%	4.9%	3.3%
Cash ROE:										
FY05A	18.8%	16.3%	14.0%	22.2%	22.6%	21.3%	17.5%	13.2%	13.4%	29.8%
FY06F	18.6%	16.6%	15.2%	21.9%	20.3%	19.7%	16.5%	13.8%	13.1%	26.6%
FY07F	18.5%	17.0%	15.8%	20.8%	20.1%	19.2%	17.0%	14.0%	13.6%	19.4%
FY08F	18.2%	17.2%	15.8%	19.7%	20.2%	18.9%	17.3%	14.0%	14.1%	17.1%

Cash Earnings defined as Reported Profit after distributions, but before goodwill amortisation, revaluation profits and significant items. Cash EPS is basic. ROE – Equity is average ordinary equity for the period excluding minorities and hybrid equity. Source: Company data, CSFB estimates.

Companies Mentioned *(Price as of 15 Nov 05)*

ABN-AMRO (AAH.AS, Eu 20.71, NEUTRAL, TP Eu 21.00, OW)
Abbey National (ABBY.L, GBp630.00, NOT RATED)
Aberdeen Group (NOT LISTED)
Accenture Ltd. (ACN, $26.56, NOT RATED)
Adelaide Bank Limited (ADB.AX, A$12.77, NEUTRAL, TP A$13.00, MW)
Andhra Bank (ANDB.IN, INR94.70, NOT RATED)
Australia & New Zealand Banking Group Limited (ANZ.AX, A$23.50, NEUTRAL, TP A$24.00, MARKET WEIGHT)
AT Kearney (NOT LISTED)
BankWest (NOT LISTED)
Barclays (BARC.L, 603.00p, OUTPERFORM [V], TP 740.00p, OVERWEIGHT)
Bank of Maharashtra (BOHM.IN, INR33.20, NOT RATED)
Bank of Queensland Limited (BOQ.AX, A$13.94, UNDERPERFORM, TP A$13.25, MW)
Bank of India (BOI.IN, INR119.75, NOT RATED)
Bank of Rajasthan (BOR.IN, INR51.30, NOT RATED)
Bendigo Bank Limited (BEN.AX, A$11.77, UNDERPERFORM, TP A$11.00, MW)
Boston Consulting Group (NOT LISTED)
Canara Bank (CGK.IN, INR213.25, NOT RATED)
Central Bank of India (NOT LISTED)
Charles Schwab (SCH, $15.44, NOT RATED)
Citigroup (C, $47.66, OUTPERFORM, TP $60.00, MARKET WEIGHT)
City Union Bank (NCUBK.IN, INR97.00, NOT RATED)
Cognizant Technology Solutions (CTSH, $47.70, NOT RATED)
Commonwealth Bank of Australia (CBA.AX, A$41.59, NEUTRAL, TP A$40.00, MARKET WEIGHT)
Countrywide Financial (CFC, $34.83, OUTPERFORM, TP $45.00, MW)
Dena Bank (DBNK.IN, INR33.15, NOT RATED)
Deutsche Bank (DBKGn.F, Eu 82.05, OUTPERFORM, TP Eu 80.00, OVERWEIGHT)
EDS Australia (NOT LISTED)
EGM Customer Solution (NOT LISTED)
Federal Bank (FB.IN, INR171.80, NOT RATED)
Fidelity National Finl Inc (FNF, $38.17, NOT RATED)
GE Capital India (NOT LISTED)
GE Consumer Finance (NOT LISTED)
GECIS (NOT LISTED)
General Capital Partners (NOT LISTED)
HBOS (HBOS.L, 901.50p, NEUTRAL, TP 1035.00p, OVERWEIGHT)
HCL Technologies (HCLT.BO, Rs468.75, UNDERPERFORM, TP Rs375.00)
HCL Group (NOT LISTED)
HDFC Bank (HDFCB.IN, INR679.05, NOT RATED)
HSBC Holdings (0005.HK, HK$124.40, OUTPERFORM, TP HK$160.00)
Hutchison Telecom (HTA.AX, A$.29, OUTPERFORM, TP A$.51, OVERWEIGHT)
iGATE Global Solutions (IGS.NZ, INR236.25, NOT RATED)
ING Vysya Bank (VYSB.IN, INR164.45, NOT RATED)
Greenpoint Financial (NOT LISTED)
Greenpoint Mortgages (NOT LISTED)
Infosys Technologies (INFY.BO, Rs2651.55, NEUTRAL, TP Rs2500.00)
ICICI Bank (ICBK.BO, Rs527.00, OUTPERFORM, TP Rs390.00)
Indian Overseas Bank (IOB.IN, INR94.70, NOT RATED)
International Business Machines (IBM, $85.53, OUTPERFORM, TP $95.00, MW)
JPMorgan Chase & Co. (JPM, $37.73, OUTPERFORM, TP $50.00, MARKET WEIGHT)
Karnataka Bank (NKBL.IN, INR107.65, NOT RATED)
Karur Vysya Bank (NKVB.IN, INR524.15, NOT RATED)
Kotak Mahindra Bank (KMB.IN, INR200.00, NOT RATED)
Lehman Brothers (LEH, $123.74, OUTPERFORM, TP $135.00, MARKET WEIGHT)
Macquarie Bank Limited (MBL.AX, A$68.50, OUTPERFORM, TP A$80.00, MW)
Morgan Stanley (MWD, $55.17, OUTPERFORM, TP $65.00, MARKET WEIGHT)
McKinsey (NOT LISTED)
National Australia Bank Limited (NAB.AX, A$33.20, NEUTRAL, TP A$32.50, MARKET WEIGHT)
National Association of Software and Services Companies (NOT LISTED)
Oakhill Capital (OAK.L, GBp7.00, NOT RATED)
Patni Computers (532517.BO, INR 448.65, NOT RATED)

Progeon (NOT LISTED)

Santander Chile (SAN, $42.25, NEUTRAL, TP $34.00, OW)
Standard Chartered (STAN.L, 1240.00p, OUTPERFORM, TP 1375.00p, OVERWEIGHT)
State Bank of Patiala (NOT LISTED)
State Bank of Hyderabad (NOT LISTED)
State Bank of Travancore (SBTR.IN, INR2,850, NOT RATED)
State Bank of Bikaner & Jaipur (SBBJ.IN, INR2,860, NOT RATED)
State Bank of Mysore (SBMS.IN, INR3,850, NOT RATED)
State Bank of Indore (NOT LISTED)
St George Bank Limited (SGB.AX, A$28.99, NEUTRAL, TP A$28.50, MW)
South Indian Bank (SIB.IN, INR66.75, NOT RATED)
Suncorp-Metway Limited (SUN.AX, A$19.92, NEUTRAL, TP A$19.00, MW)
Swamy & Associates (NOT LISTED)
Syndicate Bank (SNDB.IN, INR83.40, NOT RATED)
Tata Consultancy Services (TCS.NS, INR1,511,00, NOT RATED)
UCO Bank (UCO.IN, INR27.10, NOT RATED)
UTI Bank (UTIB.IN, INR250, NOT RATED)
Union Bank of India (UNBK.IN, INR120.20, NOT RATED)
Vijaya Bank (VJYBK.IN, INR56.15, NOT RATED)
Wachovia (WB, $51.98, RESTRICTED, MARKET WEIGHT)
Wells Fargo & Company (WFC, $61.51, OUTPERFORM, TP $70.00, MARKET WEIGHT)
Westpac Banking Corporation (WBC.AX, A$22.54, NEUTRAL, TP A$22.50, MARKET WEIGHT)
Woolwich (NOT LISTED)

Disclosure Appendix

Important Global Disclosures

Nick Selvaratnam & James Ellis each certify, with respect to the companies or securities that he or she analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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