

Introduction

Melanie KIRK: Hello, and welcome to the Commonwealth Bank of Australia's Results Briefing for the full year ended 30 June 2025. I am Melanie Kirk and I am Head of Investor Relations. Thank you for joining us. For this briefing we will have presentations from our CEO Matt Comyn, with a business update and an overview of the results. Our CFO Alan Docherty will provide details of the financial results, and Matt will then provide an outlook and summary. The presentations will be followed by the opportunity for analysts and investors to ask questions. I will now hand over to Matt. Thank you, Matt.

Presentation from Matt Comyn

Matt COMYN: Thanks very much, Mel, and good morning to everyone. It is good to be with you today to present the Bank's full year results. We recognise cost of living remains a challenge for many, and global issues are creating uncertainty. We have been focused on consistent operational execution and investing for the long term. This year we have chosen to increase lending across all of our key segments, with record risk weighted asset growth of \$29 billion and disciplined margin management; accelerated investment by \$300 million in line with our strategic priorities; strengthen our balance sheet and pay a \$4.85 sustainable dividend with a fully neutralised reinvestment plan.

We have been able to provide our customers with a range of support options, including tailoring more than 139,000 payment arrangements for those most in need. We have helped more than 140,000 households buy a home, and have provided support for first home buyers. We have extended our commitment to regional Australia, operating the largest branch and ATM network in the country.

Safe and secure banking remains a top priority. Over the past year, we have invested more than \$900 million to combat fraud, scams, cyber threats and financial crime to better

protect our customers. These efforts have led to a 76% reduction in customer losses from scams since the peak in late 2022. Our NameCheck technology has been used 110 million times, preventing over \$880 million in mistaken and scam payments.

Strong, safe and resilient banks benefit all Australians. This year, we lent \$42 billion to businesses to help them grow, and paid \$22 billion in interest to Australian savers. We further strengthened our balance sheet and remain well positioned to support our customers and the broader economy. And this year we paid \$8 billion in dividends, benefiting more than 13 million Australians.

We know many Australians have found the past four years challenging, particularly dealing with cost of living pressures. This past year has brought some relief through easing inflation, lower interest rates and tax cuts. Many households are now experiencing a rise in disposable income. The financial gap between younger and older Australians has narrowed. Savings have increased across all age groups, with younger Australians now rebuilding their financial buffers. And discretionary spending has also picked up, reflecting growing consumer confidence.

While we recognise many are still finding the context challenging, there is some positive momentum. The economy is at an important juncture, and as a country we need to make the most of our structural advantages, Government stability, and available opportunities to improve prosperity for generations to come.

We welcome the Government's focus on economic growth and productivity. We believe it is important to make a constructive contribution on behalf of the more than 10 million personal customers and one million business customers who choose to bank with us. Economic growth will require both small and large businesses to thrive and invest for the future. Small businesses play a very important role in economic dynamism and job creation, and will be most responsive to changes in incentives. When I meet with our small business customers, I am often struck by their energy, optimism, and new ideas for the future.

Australia's large companies also have a substantial role to play. These are our most productive institutions and provide critical infrastructure the economy relies on. They are investing to build a better Australia, whether that be laying intercity optic fibre, mining resources for export to underpin our prosperity, building and financing new infrastructure, or investing in cybersecurity or AI capability. These investments benefit all Australians, and help small businesses help the economy.

36% of Australia's corporate tax base comes from 20 of our largest companies. Our miners and banks are the largest taxpayers in the country, while our retailers are some of the largest employers. We need to make sure that the economic dividend from technology is captured by Australia for Australians, and not shifted offshore. We observe many overseas markets actively supporting their domestic institutions in the interests of economic growth and resilience. It will be strong domestic institutions that support Australia in times of crisis.

We support the Productivity Commission's focus on reforms to encourage greater private sector investment. We do, however, think a simpler and faster way to achieve this outcome would be through an accelerated investment incentive, which should be time bound, apply to all businesses, and allow immediate investment write-offs.

We understand well the high expectations on the Commonwealth Bank. We are proud of our role as the Bank for all Australians, and how we contribute to our country. We are one of Australia's largest corporate taxpayers, with an implied tax rate of approximately 36%. As a domestically significant institution, we hold an additional capital buffer to protect depositors and provide stability to the broader economy. And we are required to invest significantly in national infrastructure without a return on capital like the new payments platform and open banking, which benefits all Australians. We estimate these obligations amount to almost \$6 billion per year.

We also make a range of voluntary contributions to support the financial system, our customers and the broader community, some of which are illustrated on the slide. We

provide fee waivers and goodwill payments to support customers in vulnerable circumstances. We subsidise the provision of cash and regional services to support low cost access. And this year we stepped in financially to support Armaguard and Australia Post, as well as helping to protect Australia's interests in the Pacific. To provide further stability to the financial system, we also choose to hold an additional capital buffer.

Australia's banking market is stronger and more efficient than international markets. We already have among the lowest consumer banking fees and lowest credit and debit interchange rates globally. We seek to strike the right balance between strength, security, efficiency, customer outcomes and investment for the long term. We believe Australia compares very favourably with global markets, and that our financial system is working well for the country.

Our purpose, to build a brighter future for all, reflects our enduring commitment to Australia. This year we refreshed our strategy to reflect changes in the context and also emphasis. At this time it is critical to support national growth and prosperity, unlock the potential of AI for our customers, and increase economic resilience for the country.

Our strategy is built on four key pillars. The first building Australia's future economy. This is about helping the nation prosper and improving living standards for all Australians. We played an active role during COVID, and are now actively involved in supporting growth and resilience of the Australian economy.

Second, reimagining customer experiences that are more seamless, personalised and rewarding. We are focused on building deep, trusted relationships, offering a distinctive proposition, and digital experiences that our customers love.

Third, leading in technology and AI reflects our commitment to technology leadership, and particularly AI, which is likely to play a more prominent role across the economy into the future. We have accelerated the modernisation of our technology estate and the use of AI to drive better experiences for customers, as well as quality and speed of execution.

And finally delivering simpler, safer and better reflects our commitment to delivering customer experiences which are underpinned by security and reliability. We have increased our focus on operational resilience, in particular.

Our strategy aims to build on our sources of competitive advantage. The strength of our core franchise starts with a deep commitment to customer focus and deep, trusted relationships. These relationships drive more frequent and meaningful engagement, a deeper understanding of customer needs and superior customer experiences. This creates long-term value for our shareholders. This model has always underpinned our performance in Retail Banking, and we are using that same model to drive growth in Business Banking.

Technology is accelerating this momentum. It is reshaping what customers expect from a trusted relationship, including how we protect them from increasingly sophisticated threats like scams and cyber attacks.

Net Promoter Score is an important way that we track the strength of our customer relationships. In consumer banking, we have maintained the number one position for 32 consecutive months and achieved the highest score of any major bank since tracking began.

In Business Banking, we have regained the number one position with our highest score since June 2023, the second highest ever recorded by a major bank. Our digital NPS leads peers across key platforms, including the CommBank mobile app, which continues to be the most widely used financial services app in Australia.

When customers know us and trust us, they choose to bank with us. Today, one in three Australians and more than one in four businesses call the Commonwealth Bank their main financial institution. This has led to continued growth. Retail transaction accounts increased 4% since June 2024 and by 35% over the past six years. Business transaction accounts grew 7% since June 2024 and 65% over the last six years. These increases

have translated into home and business lending growth, 6% and 11% respectively, over the past 12 months. And importantly, more than 97% of home loans and 90% of business loans are linked to a CBA transaction account.

Turning now to our performance. We have sought to be disciplined on volume and margin management in home loans. We increased net interest income share and gained seven basis points of market share. We are enhancing the customer experience through GenAI powered messaging, reduced contact centre wait times and faster business loan decisioning. Our focus on disciplined capital management is supporting franchise growth and dividends.

Strategically, we are deepening direct primary relationships. Our proprietary home lending flows remain strong at 66%, now accounting for 52% of proprietary loans in Australia.

We continue to leverage technology data and AI to provide superior, differentiated customer experiences. We have delivered for all stakeholders through our customer focus and disciplined execution. The 4% growth in cash net profit after tax was driven by strong operating performance and lower loan impairment expense. Throughout the year, we have maintained strong liquidity, funding and capital positions. Our operating performance and strong capital position has allowed the Board to declare a fully franked dividend of \$4.85, an increase of \$0.20 on the prior corresponding period.

Our operating income increased 5%, supported by our disciplined approach to volume growth and stable underlying margins. Operating expenses were 6% higher, driven by inflation and investment in technology, and our frontline. Loan impairment expense decreased 9.5% in the period and as a result, cash net profit after tax increased 4% on the prior year.

The credit environment is stable. Our portfolio quality remains sound, supported by a strong labour market and savings buffers. Troublesome and non-performing exposures

as a percentage of total committed exposures were stable over the past 12 months. And as we have made help easier to access, we have seen the number of home loan customers in hardship come down by 19%. We remain well provisioned for a range of economic scenarios. We hold total provisions of \$6.4 billion, which is \$2.6 billion above our central economic scenario.

Our balance sheet remains strong with 78% deposit funding. Our weighted average maturity of long-term funding is 5.1 years, and liquid assets are \$184 billion. Our capital ratio of 12.3% is \$10 billion above the minimum regulatory requirement. We have delivered consistent and disciplined execution across all of our business units this year.

In our Retail Bank, we have grown home lending and deposit volumes broadly in line with the market. We are continuing to grow our Business Banking franchise above system. We hold 1.3 million business transaction accounts, a 7% increase from June 2024. We remain the market leader in business deposit market share and hold \$15 billion more deposits than the nearest peer. Our Institutional Bank continues to play an important role in net deposit funding, contributing more than \$65 billion.

Over the past nine years, we have reduced total risk weighted assets by more than \$38 billion while maintaining strong risk adjusted returns. ASB has also seen strong growth in both business and rural lending and deposits. Notwithstanding clear leadership in retail MFI share, we have seen increased competitive intensity, and building stronger and deeper relationships with customers will be a focus in 2026.

Our consistent investment in our digital ecosystem enables us to offer distinct and differentiated customer experiences. Our CommBank app now has more than nine million active users and sees more than 12.7 million daily logins. The app incorporates leading AI capabilities including AI powered messaging and new features like Everyday Investing to offer highly personalised and rewarding digital experiences.

This year we launched, or relaunched, CommBank Yello, Australia's largest loyalty program, to offer customers even more value through their relationship with us. So far, CommBank Yello has delivered more than \$135 million in benefits, rewards and discounts to CommBank customers. This year, Bankwest successfully transformed into a digital bank and has acquired more than 90,000 new-to-bank customers.

Central to the Business Bank's continued growth has been an increased focus on deepening customer relationships and differentiated digital experiences. For example, CommBank Yello for Business is now available to more than 360,000 business customers, helping them unlock discounts and reduce costs. We have also provided easier lending access with more than 10,000 loans to small businesses written through BizExpress and auto decisioning, resulting in as little as 10 minutes between instant approval and funding.

The time it takes to conduct a customer's annual review has been reduced by 85%, further enhancing efficiency. The deepening of primary customer relationships and prudent lending growth is driving strong earnings performance. The Business Bank contributes approximately 40% of Group net profit after tax.

To deliver better outcomes for our customers and people. Over the past year we have continued to invest in strengthening our AI capabilities and enhancing our technology delivery. To accelerate innovation through artificial intelligence, we have partnered with global leaders and established our own tech hub in Seattle. We are using AI to increase the speed and quality of code reviews, alert customers to suspicious activity, help process disputed transactions, and create more personalised experiences for our customers.

This year we have delivered 35% more technology changes, reduced critical incidents by 30% and improved recovery time by 25%. To leverage the full benefits of AI, we have chosen to accelerate the modernisation of our technology estate. We completed one of the largest and fastest data migrations of its kind in the Southern Hemisphere, moving 10 petabytes of data to AWS Cloud. Building world class AI and engineering talent and

capability is central to our technology ambitions, and we have hired 2,000 engineers in the past year.

We are also providing all of our people with AI skills and tools so we can deliver the best customer experiences and outcomes. We are also investing in AI partnerships, including with Anthropic and OpenAI, to try to bring the best of AI to our customers and our teams.

Digital scammers continue to prey on our communities. We have scaled up our alert system, sending 10 times more alerts to customers this year via the CommBank app to warn them of suspicious transactions. We are intercepting frauds and scams earlier, and have seen the number of disputed transactions fall by more than 30% as a result. We have also introduced a QR code based feature for cardless withdrawals and deposits, offering a safer and more secure way to access funds. And in an Australian banking first, we have deployed thousands of AI powered bots to actively engage scammers on voice calls and WhatsApp chats. But we must be vigilant. We know there is still more for us to do to protect Australians from financial harm. We remain committed to keep delivering our own innovations, as well as working on a broader ecosystem approach.

I will now hand to Alan to take you through the result in some more detail.

Presentation from Alan Docherty

Alan DOCHERTY: Thank you Matt, and good morning everyone. I will take you through the results in some more detail, focusing on three key themes. Firstly, how we are responding to changes in our current operating context, including choices around the level of investment deployed towards our strategic priorities and the financial outcomes that is delivering. Secondly, how the changing global and domestic environment shapes our approach to balance sheet settings around credit risk, funding, interest rate risk and capital management. And thirdly, how today's combination of management actions and balance sheet settings seeks to position us to continue to deliver shareholder value over the years ahead.

Starting with our headline numbers, statutory profits after tax were \$10.1 billion. That included some non-cash losses on divestments, principally relating to the sale of our interest in the Bank of Hangzhou, and a modest amount of hedge accounting volatility. Excluding those items, cash profits after tax were \$10.25 billion.

Breaking down the components of that cash profit, operating income increased by 4.8% over the year, or approximately \$1.3 billion. That growth in the top line gave us the opportunity to increase the level of investment in the business, resulting in growth in operating expenses of 6% over the year. After absorbing some further restructuring costs and other notable items in the fourth quarter, we delivered 3.4% growth in pre-provision profits over the year. Loan impairment expenses reduced by nearly 10% to \$726 million, and this resulted in growth in cash profits of 4.2%.

Looking firstly at operating income, overall income grew by almost 5% to approximately \$28.5 billion. Net interest income was the key driver of that growth, increasing \$1.2 billion due to strong lending growth across all of our banking businesses in Australia and New Zealand. Importantly, that growth did not come at the cost of margin contraction. Margins were broadly stable to improving on an underlying basis, reflecting our ability to compete effectively while maintaining our pricing discipline.

Other operating income increased modestly over the year, due mainly to the soft first half trading income that we reported in February. The second half growth was stronger, reflecting continued volume driven growth in lending fees and a rebound in trading income.

This slide illustrates the results of our decision making around the all-important trade-off between volume and rate. In this context, it was pleasing to see continued growth in our share of industry net interest income. This was achieved by growing volumes at or above system in most of our key segments, while maintaining our focus on higher return proprietary distribution across all of our businesses.

One example of this can be seen in the performance of our network of retail lenders. The middle chart shows our share of proprietary home lending in Australia, growing from 34% two years ago to more than 50% today. By continuing to invest in our digital capabilities, customer experience and our front line and operational teams, we are meeting more needs of more customers.

Turning to Net Interest Margin and looking at the movements over the most recent six-month period. Despite two cash rate cuts in February and May and ongoing competitive intensity, margins remained broadly stable over the half. On the asset side, we continued to see elevated levels of discounting across the industry for both home and business lending. As you can see, that did not translate into any material margin compression for CBA over the half. Our business bankers continued to show good discipline, walking away from over \$4 billion of new lending to large corporate customers, due to competitive pricing being below cost of capital.

Deposit margins were under pressure due to competition and lower rates, driving most of the four basis point headwind and funding costs. This was offset by our hedges of interest rate risk, which delivered five basis points of margin accretion. If three-year swap rates remain around their current levels, our equity hedge earnings will likely be relatively stable from here, and so we would not expect to see that particular tailwind repeat in the next financial year.

Turning now to operating expenses. They increased by 6% over the year. This reflected a combination of inflation, as well as strategic choices about where and how much to invest in the franchise for long term outcomes. As we flagged in our results announcement in February, we have accelerated our investments in our technology, infrastructure and software assets, as well as the frontline teams supporting our proprietary distribution channels. These choices were made possible due to our strong top line momentum and our continuing delivery of productivity benefits.

Looking ahead, we will continue to adopt a flexible and responsive approach to our cost growth. This will take into account factors such as our top line growth, realised productivity improvements, and our targeted level of pre-provision profit and dividend growth.

Turning now to our balance sheet settings, starting with credit risk. Our lending portfolio continues to perform well from a credit quality perspective. Loan impairment expenses fell for the third successive year to \$726 million, as loan loss rates reduced to seven basis points over the year. Consumer arrears rates have stabilised in recent months, and we are seeing reduced levels of hardship amongst our customer base as real household disposable incomes continue to improve as inflation and interest rates eased.

Corporate troublesome and non-performing exposures were also stable, with relatively small movements in a few single name exposures. Overall loan loss provisions increased slightly to \$6.4 billion, which was principally a function of lending growth, and that led to a slight decline in provisioning coverage to 160 basis points of credit risk weighted assets. We now hold a buffer of approximately \$2.6 billion to our central economic scenario, and our balance sheet provisions cover 75% of the expected credit loss of our downside economic scenario of a global recession.

As usual, we have set out here how our provisioning considerations have evolved at the sectoral level over the last six months. In response to heightened global trade and geopolitical tensions we increased the weighting to our downside scenario by 2.5%, with a commensurate reduction in our central scenario. As a result, consumer provisions were overall largely unchanged, as the increase in MES provisioning was offset by reduced forward looking adjustments for those customers most exposed to higher interest rates. Within corporate, provisioning overall increased marginally due to portfolio growth and the increased MES overlay.

Our funding profile remains conservatively positioned for the long term. Customer deposits now cover 78% of our funding needs, providing structural cost advantages and funding stability. Short-term wholesale funding currently represents just 7% of total

funding, well below historical levels, and provides substantial franchise protection against volatility in funding markets.

We have long said that the first and best use of surplus capital is to support our customers and the economy and grow our franchise. The capital deployed to grow risk weighted assets totalled 31 basis points over the last six months. Notwithstanding that high level of franchise growth and a strong first half dividend, our level 2 Common Equity Tier 1 ratio was 12.3%, up 10 basis points. This was a function of strong profitability as well as the capital benefit of recent divestments.

The final dividend increased \$0.10 to \$2.60. That brings our full year dividend to \$4.85, an increase of 4% year-on-year, and represents a full year payout ratio of 79%. The Dividend Reinvestment Plan will again be fully neutralised through an on-market purchase of shares, ensuring no dilution to our existing shareholders.

We have also extended our on-market share buy-back program by a further 12 months. As you know, we are currently seeing historical lows in the cost of CBA equity relative to the after tax cost of our debt, and we responded by pausing activity on our buy-back. That said, the flexibility provided by this form of capital return mechanism means we still see value in maintaining an open ended buy-back program, with execution remaining subject to changes in market conditions.

I wanted to share some additional considerations around our current and future balance sheet settings. The guiding principle across our approach to balance sheet management is to underpin and protect our long-term franchise value, and in doing that, support our customers and the economy through good times and bad.

On the left-hand chart, we have sought to show a broader perspective on the capital buffers held to fund organic growth and absorb losses. Firstly, we have the current level of Common Equity Tier 1 in excess of the APRA regulatory minimum. Secondly, our forward looking approach to loan loss provisioning means we can set aside provisions on

our balance sheet to absorb losses, if economic conditions worsen relative to our central scenario.

Thirdly, we are holding an unrealised loss reserve on our liquid asset portfolio of high quality domestic Government bonds. Holding these bonds to maturity will see their mark to market revert to par value in the years ahead.

And lastly, we have an embedded gain which reduces our overall capital requirement for interest rate risk in the banking book. These gains will reverse over time and therefore they are deducted. It is important to understand that the composition of our aggregate capital buffers, currently totalling \$13 billion, will move in response to changing market conditions.

Turning to the second chart, under Australian Prudential requirements for IRRBB, we have long had to make trade-offs between earnings volatility and capital volatility. Changes to the Prudential standard, scheduled for implementation on 1 October, will introduce new capital considerations related to the size and composition of our replicating portfolio hedge. This will introduce an additional aspect to the Board's calibration of our capital target, depending on our appetite for earnings volatility through an interest rate cycle.

And the third chart highlights the unique nature of CBA's funding stack that embeds resilience through a combination of deposits and low risk, long-term wholesale funding.

In summary, our balance sheet settings are deliberately conservative and calibrated to optimise for long-term outcomes as opposed to short-term earnings. As the global operating context becomes increasingly uncertain, we believe that this approach is even more important today and remains a key focus of both Board and management.

This long-term approach has again assisted in delivering consistent, superior shareholder returns. Our combination of a high return on equity and a strong payout ratio continues to compare favourably with domestic and global banking peers. Our strategic investments

help generate the franchise growth, which underpins our continued outperformance in net tangible assets and dividends per share.

I will now hand back to Matt for the economic outlook and closing remarks. Thank you.

Economic Outlook and Closing Remarks – Matt Comyn

Matt COMYN: Thanks very much, Alan. Economic growth remains below trend but is recovering. Inflation is back within the target band and what we expect to be a modest rate cutting cycle is underway. Consumer confidence has improved, but households remain stretched. We continue to watch global events closely, which remain unpredictable and volatile. We are yet to feel the full impact of trade and tariff disruption.

Australia is well placed on an absolute and relative basis. Our fiscal position is relatively strong, unemployment low and real disposable incomes are now growing. Australia has a number of structural advantages, including vast land and natural resources, attractiveness as a destination to live and work, and a stable social and political environment. We must not take this for granted. Unlocking growth and building resilience will be critical to create a brighter future for generations to come.

So in summary, we remain committed to supporting and protecting our customers, to reimagining customer experiences by investing in technology and AI, in providing strength and stability for the Australian economy and delivering sustainable returns. We will stay focused on disciplined execution and investment for the long term, to deliver for our customers and build a brighter future for all.

I will now hand back to Mel to go through your questions.

Q&A

Melanie KIRK: Thank you, Matt. For this briefing, we will be having questions from analysts and investors. I will state your name and the operator will open

your line. Please announce the organisation or the institution that you represent and please limit your questions to no more than two questions to allow as many as possible the chance to ask questions. The questions will wrap up at the end and we will have time to answer the questions this afternoon.

We will now have the first question from Andrew Lyons. Thank you.

Andrew LYONS: Thanks, Mel. Morning, everyone. Alan, just a question on your margins firstly. Over the course of FY25, you have had broadly flat NIMs with the replicating portfolio offsetting deposit competition and the impact of lower rates. I guess looking into FY26, you have noted that you lose the equity hedge and you are faced with some headwinds from your unhedged deposits. And I guess it would be unusual to have another year of neutral impact from asset pricing. So would you say that those characterisations are broadly fair, and if so, are there any potential offsets that might provide some insulation to the NIM next year?

Alan DOCHERTY: Yes. Thanks, Andrew. I mean, I think they are some of the key moving parts as we look into 2026. Obviously we are not providing specific guidance around the margin outlook, but obviously key to that is going to be the extent of the easing cycle in Australia. And I think there is a fair degree of consistency now between market pricing and many economists views. So the number of rate cuts that we are yet to see through the balance of the financial year will be an important driver. Ongoing competitive dynamics across both sides of the balance sheet and across both Retail and Business Banking will continue to play an important part.

I did call out, I think it is, as we know, given it is a three-year hedge on the equity side, if we go back three years, we are now back to pretty consistent roll-on and roll-off rates around that equity tractor. And so that is likely to be fairly neutral. And obviously that provided a tailwind in the last financial year.

There still continued to be an offsetting tailwind from the replicating hedge. Obviously that is a five-year hedge. And the rates that were rolling off five years ago are significantly lower than the current level of rates. So the replicating portfolio will continue to provide an offset.

And then obviously the other moving part will be wholesale funding spreads, credit spreads. We have seen over recent months and recent weeks a slight tick up on basis risk, the Bills/OIS spread, and so we are watching that closely. Credit spreads more broadly around term funding have been pretty benign and actually narrowed over the last six months, but that will be the other key moving part. So I think your characterisation of the things you are looking at are the right things to be focused on into 2026.

Andrew LYONS: Thanks, Alan, and Matt, maybe a question for you. You have announced today that you have extended the buy-back, but you have conceded that market conditions make it difficult to return capital to shareholders this way. At the same time, you have reiterated that your franking neutral payout ratio remains greater than 80%. So can you perhaps just talk to how the Board assesses these various issues, and just under what conditions would a special dividend or some alternative form of capital return be considered?

Matt COMYN: Yes, no, I am happy to. And maybe the one thing not so much as an offset to NIM, but I guess one of the other constraints, that we are certainly aware of and watching in the market, is the competitive pricing perspective, given where some of our peers are on capital, and the requirement to either start issuing shares to keep their dividends, or I think they come under pressure. So it would be a question of whether that slightly improves some of the competitive pricing, given how much some of that has moved in the last couple of years.

Look, I think, I mean, overall the conversation with the Board has been very consistent over some time, and a lot of which we have shared previously. We obviously look at our buffers over the regulatory minimum. We are having a view around risk weighted assets.

We are thinking about what losses could be, looking at various scenarios for that. As Alan has touched on, risk weighted asset growth this period was very strong, so a record year. And clearly being able to deploy capital at that scale well above our hurdle rate, which is again above where our cost of capital would be, is a very effective use of that capital; we have decided to pick up investment.

You are right insofar as, well, one of the things we also think about is, well, with that capital that we are now holding as a surplus, what is the opportunity cost of holding that capital? We look at the after-tax expense of alternative funding instruments. That is very narrow, that opportunity cost of capital is very low.

And so I think we have got a lot of flexibility clearly in terms of the balance sheet and our capital levels. We are conscious of all of those factors. But we feel that the path that we have been on, which has been trying to deploy it effectively, organically while supporting high, fully franked, sustainable dividends, I think gives us a lot of flexibility, particularly, I guess, in an era of increased volatility and uncertainty. I think being well prepared puts us in a very strong position. But as you would expect, it remains an ongoing topic of dialogue, and we have certainly put a lot of thought into what that overall plan could be over many years.

Melanie KIRK: Thank you. The next question comes from Jonathan Mott.

Jonathan MOTT: Two questions if I could. The first one goes on to what you are talking about, Alan, was competition, especially on the deposit side. And what we are seeing now, it looks like a lot more competition coming in the online saver, goal saver area, and some of your competitors are now waiving some of the requirements to grow the balance each period, and not make a deposit or [inaudible] to make withdrawals, especially Macquarie. And given how their success you have seen on the mortgage side, now it looks like they are rolling that out on the deposit side. So I wanted to get your thoughts on that. Is this another area that you need to look at, and what percentage of

your current savings customers do not qualify for the bonus rate each period? Is that an area that could potentially come under threat?

Alan DOCHERTY: Yes, I mean, we have continued to see very high levels and actually growing levels of customers who are earning the bonus savings rate, which we have called out in previous results. We are now at around in the high 80s of percents of customers who are earning that bonus rate. So that, I think that is much higher than the industry average. So that should provide us a degree of protection from a competitive pricing perspective, because most of our customers, the vast majority, are enjoying that higher rate.

We give very proactive notifications to our customers, importantly, digitally through the app, to ensure that they do the things that they need to do to earn that higher rate, and demonstrate the sticky behaviours that allow us to offer the level of pricing that we offer on the award product. But it is undoubtedly a new form of competitive focus across the industry. We have seen deposit pricing emerge as the single biggest headwind from a margin perspective over recent halves. I think we will continue to see competitive pressure on margins.

Obviously we are passing the peak of the cash rate cycle, so there will be a degree of offset in that regard as rates come down. If you look at pricing of certain standard base rate products across the industry, there will be less degrees of freedom for some industry participants relative to others, given where those base rates are at the moment, heading into the middle of an easing cycle. But I think that is a fair observation, this continued competitive intensity in deposits, and we can certainly see that.

Jonathan MOTT: Alan, thank you. And the second question probably for Matt. If I go to slide 45, one of the charts we have been talking about for many, many, many years goes to the Retail Bank and main financial institution, and it has fallen very sharply over the last six months, basically across every category. And on some of these categories, you are back to where you were when it actually started being disclosed all

the way back in 2013. So just a bit, I wanted to get some explanation on what has happened over the last little while. It is not migration, that can't really explain it given the rapid change. Is this just a sample error, or is there anything that could explain why this very sharp fall in the MFI has come through?

Matt COMYN: Yes, no, thanks, Jon. Yes, and as you noted, we have been talking about this slide for 12 years. Look, I think as we have said many times, it is survey-based, so it is not precisely accurate, but it has been directionally accurate. So it is certainly an area of focus for us, has been for some time. And we are not entirely satisfied with the performance over FY25. So it is a big focus, and maybe I will link it to your question on deposits in a moment.

I think across the year, the Business Bank has had a very strong MFI share growth. Retail, after a very strong FY24, weaker, as you said. Look, I think there are a number of factors, and I guess in a survey-based result it is hard to get the actual levels of causality across some of these drivers. But look, we do really well in migrants, migrants down 11%, accept your point there. Some of that is also a mix effect as well. I know we have touched on this earlier. We do particularly well when migration is high from markets like India. Not so well with say New Zealand and UK. So I mean there are a number of factors. That is one of them that contributes to it.

Look we have seen in some of the cohorts, increased competitive intensity, and I think, predominantly on the deposit side, we have seen cashback for migrants, we have seen some very aggressive and sharp pricing offers in youth and maybe in young adult. It is perhaps a consequence of having a focus on the performance last year. We have certainly seen some competitive intensity responses on the back of that.

Maybe then we are into like more perhaps minor issues overall, in terms of just execution and timing. So there is a bit of a loss in and around Bankwest as we did the migration, but that is a big shift in the business model and strategy. We think that has gone very well, and obviously we plan to execute as digital only.

But so ultimately, as you quite rightly point out, it has not been a strong year in our Retail MFI share. We think a lot of it, the factors are around competitive intensity, and we are very focused on having both improvements around offer proposition and being very targeted. And as you would expect, it is a big area of focus for me, the team, for Angus going into FY26.

Jonathan MOTT: Thank you.

Melanie KIRK: Thank you. The next question comes from Carlos.

Carlos CACHO: Thanks, Mel. Carlos Cacho from Macquarie. I just first wanted to ask about your investment spend. So you ended up investing \$2.3 billion, well up from last year. Should we expect that level of investment spend going forward, or was it more opportunistic that you saw good opportunities and will just take advantage of them, and it might pull back in FY26?

Matt COMYN: Yes, I mean, you certainly should not see that level of increase in FY26. It is not going to go backwards in FY26, just to be clear, and specifically in terms of the technology investment as well. I think we have been talking about for some time the focus on wanting to increase the throughput or productivity for the dollars that we are investing. As we said previously, we have been holding that investment envelope basically flat for many years, so going backwards in real terms. We felt much more confident about throughput and ultimately the output for dollars of investment spend, and so wanted to increase the investment. And then we decided to take some additional discretionary investments, specifically in AI.

We see a very close linkage between modernisation of some of our technology estate, and that is a broad piece of work. We have been able to leverage the capability of GenAI, so we wanted to increase the pace of that. So we have put some additional investment across that.

So I think we are – Alan and I talk about this quite a bit – we are open to continuing to increase it, but we would not want there to be an assumption that that level of growth would be something we would be contemplating in FY26.

Carlos CACHO: Thank you. I guess kind of staying on that topic, when do you expect to start to see the benefits coming through? Obviously productivity has come through, but even with that you still saw 6% expense growth for the year. Is this really building for a three- to five-year benefit, or do you think we could start to see those benefits of technology and AI investments coming through sooner?

Alan DOCHERTY: Yes, I mean, I think I would take a broader view of all of the investments, obviously the infrastructure modernisation work. What we are really doing is accelerating that work that you would otherwise do over maybe a four- or a five-year time horizon. We are trying to get that done within three years, and therefore accelerating the amount of engineers that are working on that.

I spend a lot of time personally looking at what is the measurable efficacy improvements and the measurable yield that we are seeing from the last number of years of investment. And as we get more velocity, lower rework rates, more efficacy in the technology change work that we are deploying, and we can see a number of measures, many of which we have talked about in the body of the pack. That is manifesting in a number of lead indicators that we measure; quality of retail deposits, the improvements in NPS, the improvements that we see in business lending market share growth, the automation of a number of the credit origination processes and annual review processes.

So we can see the productivity, we can see the better customer outcomes, and we can see the translation to the top line revenue. The work that we are doing now around infrastructure refresh and Generative AI, we would expect again to see a forward profile of benefits in that regard emerging in the years ahead. And we are continually calibrating. We are seeing the benefits. We have got some room to invest a little more at this point in

time, and we are managing to that pre-provision profit outcome and dividend per share growth outcome.

So we are pleased with the yield that we have seen over recent years. And we have got very measurable targets around the assumed benefits profile that we see from the current investments that we are making over the years ahead. So we will continue to watch that and manage that very closely.

Matt COMYN: Yes, maybe just a couple of very quick thoughts to add. Maybe between the different types of investment that we are making, and then maybe a slightly different productivity benefit profile. So in engineering, which I think is the most easy to measure and realise productivity benefit in GenAI. I mean, we talked about the increase in terms of the velocity of change. I mean, if we could increase by 50% in FY26, we would. But then we would not seek to reduce our engineering. So I think we are going to continue to just try and push for more and more volume and quality of change and speed of execution.

As Alan said, already across lots of different use cases, whether it is in fraud or in home loan verification, content synthesis, in some of our service tasks or supporting our bankers, some of those benefits, they are I think incrementally small and they are a bit nearer term. I think where maybe there are some larger benefits, they will take many years. One of those would be some of, I think the hardest areas of financial services, and certainly where we have put huge amounts of both CapEx and OpEx like financial crime, scams, fraud, to some extent cyber in that area as well. We talk about \$930 million of investment. It is a huge part of our, at least on a relative basis, our operating expenditure. That is not going to be realisable in the next couple of years. I think that is going to take some time.

But I think the technologies that are available today, and obviously are going to keep getting better, are going to enable just a different, a very different and I think much more

effective approach at delivering better outcomes in that case for our customers, and the community at a much lower cost.

Carlos CACHO: Thanks.

Melanie KIRK: Thank you. The next question comes from Andrew Triggs.

Andrew TRIGGS: Thank you Mel. Morning, guys. Just a first question on costs, just to pick up that last point. You saw 3% half-on-half growth in FTEs in the second half. Alan, I wondered if you could unpack some of the drivers there? And are they more expensive people you are bringing on board, given the likes of data and engineer type staff that are coming onto the platform?

Alan DOCHERTY: Yes, happy to break that down a little bit. So yes, there is a 3% growth in spot FTE in the second half. There is a component of that that relates to the insourcing that we have continued to do. We are continuing to build out our in-house engineering capability within our Bangalore team. There is an offsetting reduction over the year, that would be around 700 engineers of the 2,000 that we have hired are housed in Bangalore. There is an offsetting reduction in some of the third party ESPs.

And so you will see the run rate cost of those in-sourced engineers roll through the full year next year within staff expenses. But there is also a commensurate reduction of the third party costs that we have seen in the IT cost line through the course of this year, so there will be a commensurate offset. We are really happy with the capability, the productivity, the efficacy, the quality of the engineering talent that we are bringing into the Bangalore team. And so that pays off through the execution metrics that we continue to track around velocity and work quality and rework rates. So continue to be pleased with that.

We have also added obviously domestic engineers, many of whom are working on some of the technology infrastructure modernisation and the GenAI platform builds that we have

referred to. Some of that cost, obviously, given the nature of it, is capitalised. You will not see that necessarily emerge in OpEx in the next financial year. That work will be capitalised over the period where we would expect to accrue the benefit of the work that we are producing. So you will see that gradually emerge through amortisation in the years ahead, matching the benefits profile that we see from that investment.

And so yes, we have seen, you will see that that growth in FTE was a function of that posture we have taken towards investment spend. The other component is the growth in proprietary lending. You have seen that particularly in the Retail Bank through the course of the last financial year. We continue to invest strongly behind the proprietary distribution.

The productivity of our retail lenders and our business bankers, we are continuing to see improvements there. Our decision again this year was we are not going to harvest that productivity by reducing the amount of proprietary lending that we have in the frontline. We actually slightly increased it over the period, and with a greater productivity we are pleased with the results of that that we see through the volume growth and the top line performance in the next year.

Andrew TRIGGS: Thanks, Alan. And just the second question on trading income. It was described as a rebound in the second half after a weak first half, but the full year number is still towards probably the top end of what the historical range has been. Could you maybe just describe the trading income conditions that you found, and whether we should be expecting something more positive going forward than perhaps what we have previously expected of CBA?

Alan DOCHERTY: Yes, I mean it is hard to just isolate the trading income within other operating income. There is an offsetting – we have referred to in a couple of places – there is an offsetting funding cost attached to that trading income. So when you see higher periods of trading income as you have seen in the second half, there is actually a commensurate increase in funding costs related to that trading that appeals with a net interest income.

So I would not want to overstate the importance of the second half trading income in terms of the overall operating performance. It is certainly higher second half than first half, although it is a little more modest on a net basis when you take into account the funding costs for some of the, for example, our commodities business where we have got higher physical inventories of precious metal holdings. So it has been part of the second half revenue momentum, but I would not overstate the importance of it on a net basis.

And I think when you take total income into account, we are pleased with the second half, pleased with the overall trading income performance, and we will seek to maintain that level of performance in the period ahead.

Andrew TRIGGS: Thank you.

Melanie KIRK: Thank you. The next question comes from Richard.

Richard WILES: Good morning, everyone. It is Richard Wiles here from Morgan Stanley. I have got a question on the expense environment generally, Matt. So for the economy, inflation has come down. It is now in the target range. But could you say cost pressures have eased much for the bank sector? Are you able to give us a yes or no answer to that? And it would be great if you could specifically talk about salary inflation for frontline bankers and IT staff, as well as other IT vendor costs. So are the pressures easing in the bank sector the way they are for the economy more broadly?

Matt COMYN: I mean in totality, with a yes or no, I would say no. I think you will see similar easing of some of the increases across a broad base of employees. I think some of the enterprise agreements, obviously they were structured around higher increases in the earlier years, which clearly we are through. And I think we will see perhaps lower wage growth there.

But then it is a question then of like mix effect on a relative basis. And some of the roles that we are hiring, particularly in technology, and you can imagine all of the sub-skill sets,

there is clearly a lot of pressure on wages. It is not a huge market in the context of Australia. Frankly, there is very high inflation in some of those job types internationally.

And then I think as we look at technology, one of the other things that has drawn our attention is you can see a lot of software repricing globally as well. So we are watching that very closely as well, in terms of what inflation there might be from some of our external software and licensing expenses.

But we have made deliberate choices to bring much more engineering in-house. That has been I think really important strategically, lower cost as well, because we are moving from some of that was provided by external parties. And so yeah, I mean, I think we are certainly going to continue to feel wage pressures. There has obviously been a lot of disruption across the other banks. There is a lot of hiring at both senior levels, but also in some of those key areas, and we expect to have to compete for talent, and obviously continue to focus on trying to grow talent, even if that occasionally means we are providing that for some of our competitors.

Richard WILES: Thank you.

Melanie KIRK: Thank you. The next question comes from Brian.

Brian JOHNSON: Good morning, and thanks for reporting a good result, Matt. Matt, two questions, if I may. The first one, just on AI, your messaging today seems to be that revenue is strong, we can invest, so you can have, you can fund a higher cost number. I was just wondering, can you give us a feel whether AI is basically a cost-out story, or a growing revenue story? And when, if it is a cost out story, when do you feel that we will start to see it really flowing through?

Matt COMYN: Yes. I mean, look, a couple of things, BJ, and Alan touched on this, we are looking obviously at pre-provision profit. We are very conscious of the performance that we would like to deliver in-year. But we are also really focusing on trying to invest in long-term earnings potential. And so this year there are a number of

things that we could have done differently if we wanted to deliver a stronger result. But we wanted to make those conscious choices, and we feel like we have got that flexibility, and we think it is just a really important maybe period, as some of the technology transitions.

And then specifically to your point, look, I think it is both a revenue opportunity, in some areas it may be an expense opportunity. I think it is also just really important to be used defensively, if you think about it from a threat perspective. The quality, sophistication, frankly velocity of some of the cyber attack vectors is increasing very rapidly. So I guess we see it as being a cornerstone of being able to support a great customer proposition, but also position the organisation competitively. And I think speed of execution is going to really matter over the long-term.

And then I guess my answer in terms of the productivity or cost savings I think will be similar to what I said before. In some areas we will just continue to try to deliver more, in engineering. In the near term we see, just about across all parts of the organisation, an opportunity for all of our people to be using AI tools, and we certainly would like to see that, to do their job more effectively to a higher level of quality, serve our customers. I think there will be some nearer term incremental maybe cost opportunities. But where we reallocate that will depend again to the first point.

And then on the longer term, yes, you can imagine that there are some much more efficient ways of delivering some of the things that we currently do. But I do think that is going to take some time, like some years to work through some of the accuracy and quality that is required. Obviously there will be a very high standard, and standard of regulation placed upon us. But we do think that having core capabilities, learning by doing, delivering benefits, is a structural underpinning of being able to perform well over the next decade or more.

Brian JOHNSON:

A second question, if I may, Matt. Just Bankwest, which now becomes like the digital brand of CommBank. Does that mean anything for this kind

of long running strategy that you would rather originate stuff proprietary? Does it actually become the broker channel as well?

Matt COMYN: Well, I mean, look, it is heavily – there are multiple parts to the overall strategy, and I think the team have done a very good job of executing from – because look, I think the economics of a subscale universal bank, given the competitive changes in the landscape, I think that is very difficult. And we did think competitively it would be good to have a digital low-cost proposition, which works very, very closely as very limited proprietary distribution, particularly in mortgages. Less so obviously the digital experience really matters, full service yellow CBA brand, which we are focused on proprietary. Of course the broker channel remains a very important channel, so we get that balance right.

And then I think we feel like it gives us more strategic flexibility to pursue some targeted propositions in different markets. Because certainly in our view, the competitive context and intensity has shifted quite a bit over the last five years, as in it has increased. I mean, you can see that even in the CFR paper recently in terms of regional banking, that sort of myth that there was not much competition in banking because it was a concentrated industry structure is just that; it is a myth. I mean, you look at some of the challenges that may be facing smaller institutions.

So I guess we are cognisant of that and adjusting for the future, and want to make sure we can position to serve our customers as effectively as possible, and obviously capture a large share of the economic profit that will be available in the market.

Brian JOHNSON: So Matt, just on that, if you guys had had peer number five in that slide 45, which is Macquarie, which has grown its share, which in APRA's recent paper about support small and medium sized banks, they put Macquarie in the medium-sized bank bucket. Are they the one that is picking up that kind of cohort MFI share from CommBank, or is it...

Matt COMYN: They are not actually in the...

Brian JOHNSON: It's slide 45.

Matt COMYN: Yes, they are not in the survey. If I unpack the survey for you, actually their MFI share is very modest. But I think again, maybe I would say that is more survey error. But they are not winning MFI share, at least through that lens. They are a formidable competitor. I mean, yes, we would see them in a category that is beyond a medium bank. And I think there are a number of issues from a competitive context, and the way that they go to market. But we recognise the benefits that they have in terms of their structure. And they have a slightly different, I guess, motivation and posture. And they are a good and strong competitor, and we think and worry about them at least as much as we do any of the other majors.

Brian JOHNSON: But as an observation, they are your only competitor. Thank you.

Melanie KIRK: Thank you. The next question comes from John Storey.

John STOREY: Yes, thanks so much, Mel. And thanks, Matt and Alan, for having a chance to ask a question. I just wanted to get a little bit more into the drivers of net interest margin at a divisional level, particularly around your Retail business, and you obviously called out a few times today how you have grown in your proprietary channels. But if you go into your actual pack itself, you will see that in the second half of this financial year, your NII on home lending was down quite significantly. I wanted to just get a little bit of your interpretation of what is happening there.

And then, just within the margin discussion too, just your deposit margins have obviously been a very big tailwind around the Retail division over the last few years. How should we think about that and the timing of deposit margins coming off in a lower interest rate environment? Thanks.

Alan DOCHERTY: Yes, so on your first question around the Retail Bank, the Retail Bank overall had a one basis point improvement in their interest margin over the period. As you say, the home loan net interest income, I mean we continued to see an elevated level of discounting across the front book of home lending over the course of the year. So that did result in some additional margin pressure from a discounting perspective over the period.

You do not see it in the Group net interest margin, because there is some offsetting timing differences around the February and May cash rate cuts. But the Retail Bank continues to operate in a very competitive front book housing market, in particular.

The other elements of the net interest margin in the Retail Bank, which goes to the home loan margin as a product margin, as there was an increase in basis risk that I mentioned in the presentation through the second half. So that manifests most directly in the home loan product margin and the Group net interest margin. We called that out. That is one basis point of that four basis point funding cost headwind that we have seen at the Group level. And so that put a bit of pressure at the margin on the Retail Bank. Obviously the Retail Bank benefits, as does the Group, from those interest rate risk hedges that we have on, from both an equity and a replicating portfolio perspective, so that provides a good degree of offset to the overall outcome.

Your second question, John, could you just repeat that?

John STOREY: Yes. It is just obviously that if you go and have a look at the detailed disclosure that you provide, deposit margins within your NII disclosure has obviously been a big tailwind to the overall NIM and provided quite a big question, right, despite all the competition and all the other drivers of margin, I guess particularly around mortgages, just how should we think about the timing of how those deposit margin benefits could change in a lower cash interest rate environment?

Alan DOCHERTY: Yes, and by deposit margin benefits you are referring to the tractor, the interest rate risk hedges?

John STOREY: Well, it is really just the disclosure that you provided. So I appreciate the benefits around the replicating portfolio, but obviously the way that you provide the cut in the Retail division, obviously 50% of NII comes from your deposit margin. I assume they must be interrelated if that is what you are talking to, but just for the timing...

Alan DOCHERTY: Yes, that is right, John. So the benefits of those hedges turn up in the deposit revenue, so we allocate the replicating portfolio benefits to the deposit product. I mean, the underlying momentum within deposit margins is deposit margin pressure due to the competitive environment and the makeshift within deposits. More customers enjoying those higher rate bonus saver balances, for example, and the ongoing competitive pressure that we covered earlier in the call.

So I think that, between the competitive aspect and also the easing environment, how many more cash rate cuts are we likely to see over the next financial year? They will be the key factors around deposit margin competition and the trajectory of that into the period ahead.

On the offsetting hedges I mentioned, I think equity hedge is going to be pretty neutral in earnings terms between this year and the next financial year. If you go back five years on the replicating tractor, we did enjoy a period of very low five-year swap rate five years ago, and so those are the hedges that will continue to roll off and roll back on at the current more elevated level of five-year swap. So you will continue to see a tailwind from replicating portfolio into the next financial year and indeed into the financial year after that, until a couple of years before the swap rate, that rolls off as close to where we are at, at current levels. So you will continue to see that into the next year.

John STOREY: Okay. Thank you.

Melanie KIRK: Thank you. The next question comes from Matt Dunger.

Matt DUNGER: Yes, Matt Dunger from Bank of America, thanks for taking my questions. Just looking at the slide 37, which Alan you called out, Matt, you are right in saying the opportunity cost of holding capital is pretty significant. It looks like about a 250 basis point drag on ROE on my numbers. Are you saying this is the right level of buffers, and could you confirm the macro is driving the higher buffers? Are you also concerned around the regulatory environment?

Matt COMYN: No, we are not concerned about the regulatory environment. And I would not seek to imply that the current surplus that we are running above the regulatory minimum is the buffer that we think is going to be necessary. I think obviously what buffer we would like to hold is a function of a whole range of different factors, as I said earlier.

Ultimately, yes, we could boost ROE by having less capital, but the opportunity cost of that capital over the long term versus where we have seen the differences between cost of equity, alternative cost of funding instruments, outlook on RWA, on growth on certainly stress losses, which, as we have seen today, the credit environment is very benign.

And so with all of those factors taken into account, that is the position that we believe is optimal at this point. Obviously we revisit it very frequently. We talk about it twice a year, but we are revisiting it every month in terms of alternative and best uses of capital, and which of those are likely to deliver the best overall outcomes.

I think we would certainly acknowledge the uncertainty in the environment, but it is obviously impossible to predict the future, but in terms of near term or impact or pressure on credit losses, as you have seen, it has been pretty benign over the period. And given the provision coverage that we have got versus the central scenario, I think we have got quite a bit of flexibility there too.

Matt DUNGER: Great. Thank you. Just a follow up on that. It seems like buying just about anything would be EPS accretive. Can you give us any thoughts on what is stopping you on M&A and any potential criteria you would have to look at M&A?

Matt COMYN: Yes. And look, I know you are being flippant, but just to use part of your question, I think there are probably plenty of people who have been down that path and found a way to destroy a lot of value through M&A. So look, obviously we recognise the premium, we review and challenge ourselves regularly. You know, it is a high bar, as it should be, certainly for anything of any sort of scale within our core markets, where we believe we have got real capability that we think would be a good use of shareholder capital.

Of course, beyond the risk weighted assets lending growth, increases in our investment, look, we have made some small acquisitions to augment our technology and our customer experience. They are always on the table. But I mean, ultimately, to your point, I think it is incumbent on us to consider lots of different opportunities. But I think our experience and what we have observed over decades of M&A is that any of that should be approached with a great deal of humility given the realised benefits in just about all instances.

Melanie KIRK: Thank you. The next question comes from Matthew Wilson.

Matthew WILSON: Good morning team. Thank you for taking my question. I have two. The good story in this result, which is a pretty soft result, is the Business Bank, which has been long growing and winning market share. Could you tell us what percentage of the new-to-Business Bank customers are coming from the broker channel? And I have a second question.

Matt COMYN: Yes, Matt, we have talked about that before in terms of it is like 19% of our customers through broker...

Matthew WILSON: 19.

Matt COMYN: ...and the mix of flow will vary. So it is very low in MCG at the top end, I think it is just below 10%. Then as you go down into small business where maybe there is a higher concentration of products like asset finance, it would be a higher proportion. We have not seen that really change over the period.

Matthew WILSON: Okay. That's good. And then secondly, you are obviously a clear leader in technology, your perspective on stablecoins would be valuable. If they become a means of exchange, a store of value, then they become money. I mean, such a scenario, it appears that we do not need household transaction accounts, there is no reason for us to give you our money. We just hold it in a digital wallet and transact accordingly. How do you see this scenario playing out?

Matt COMYN: Well, I mean it is – there is a lot of different assumptions in what you are looking at, Matt. I mean as you...

Matthew WILSON: Well, there is only two really.

Matt COMYN: Well, but I mean let's talk about the variations between that. So I mean strategically we have thought about this quite a bit. I mean some proportion of that, like we are working obviously with the Central Bank on a wholesale digital currency. I think there is little appetite, at least at the moment for a retail digital currency, or deposits that would compete with the banking system. Yes, stablecoins have grown enormously internationally. Yes, we are interested in that. I think a lot of that money is coming from emerging markets, where understandably some of those countries and flows are getting pegged, would rather be pegged against the US dollar.

Look, I think there is certainly the opportunity for that technology more broadly to lower transaction costs, and particularly cross-border. So I do not see something that is quickly going to be competing directly with the ADIs from a deposit perspective. But that is not to say that we are not and should not be thinking about how the tokenisation more broadly,

but in this case of currency, what would that look like versus fiat currency? And what the impacts might be on the domestic banking system.

Alan DOCHERTY: The only thing I would add to that, Matt, is that...

Matthew WILSON: Would it be fair to say that – yep.

Alan DOCHERTY: Sorry, Matt. The only thing I would add to that is just the regulatory response has been interesting to watch around the world as well. So you have obviously seen the Genius Act in the US. A really important component of the Genius Act was that stablecoins in the US, for the US dollar, stablecoins operating in the US are now not permitted to pay interest. And so I mean, I think the regulatory posture, although it has made it much clearer and simpler from a stablecoin perspective, I think there was clearly a focus on maintaining the financial stability and maintaining the important role of banks in the US economy.

You have seen a very similar, well, actually a very different posture, but with a similar intent with the Bank of England and their working papers around stablecoins in the UK context. To back a stablecoin in the UK, you have to deposit the equivalent dollar at the Bank of England, and you will not be earning any interest on that deposit at the Bank of England. And again, it strikes me that those regulators in the US and the UK, in particular, are very focused on the advent of stablecoins, what the use cases are, and how they interact, side by side with a healthy banking system, which is important from a national capability perspective.

So it is an interesting one to watch. I think you might subscribe to Russell Napier's newsletter?

Matthew WILSON: I did, yes.

Alan DOCHERTY: He had a very interesting and informative piece on stablecoins in the last couple of weeks. So I think Russell's conclusion was actually

similar, that he did not see it as a direct competitive threat to banking, but obviously a marginal source of new Treasury security purchase over the next few years in the US economy, which could be important.

Matthew WILSON: Well, he also said that retail deposits become wholesale deposits, which is consistent with a McKinsey's paper as well. So this thing is evolving faster than any of us would have thought two years ago, given we have legislation now in both the US and Europe, and the banking system is still very much paper-based versus the digital trends that we are starting to see emerge globally.

Alan DOCHERTY: Yes, yes.

Melanie KIRK: Thank you Matt. The next question comes from Ed.

Ed: Thanks for taking my questions, and I will make them quick. Just one thing you have not mentioned and you did not call out in your NIM work was around deposit mix. You called out deposit competition, but in the Retail and Business Bank margin comments you did make comment around deposit mix. Can you just talk about historically, as we come to more rate cuts in a cycle, how you are seeing deposit mix at the moment and how you see it going forward, please, in a NIM context?

Alan DOCHERTY: Yes. I mean, you can see most clearly what has happened in deposit mix terms probably on slide 61, where you can see both for the Retail Bank and the Business Bank, how that deposit mix has evolved. There has not been dramatic moves in deposit mix over the period. You have seen, I would say, a stabilisation in non-interest bearing transaction deposits as an overall proportion of the deposits in both the Retail Bank and the Business Bank.

We have seen a slight reduction in term deposit mix within the Retail Bank. Much of that increase was absorbed in the at-call savings products. Again I mentioned earlier the higher rate of customers that are achieving the bonus rate, the award rate. And so there

has been an impact in both the Retail Bank and the Business Bank. The Business Bank, distinct from the Retail Bank, actually has seen a slight increase in TD mix over the period.

So I mean, the competitor, it is hard to separate the mix effect from the competitive effect. Because if the competitive effect has to offer generous, attractive bonus rates to a customer perspective, than that engenders some of the mix change that you see. So the two factors are sort of one and the same in my mind. We have noted in the divisional commentary that switching that we have seen at customer level and at the Group level. Yes, that is one and the same as the competitive effect that attracts more savings into higher yield products.

Ed: Thanks. And then just one very quick one on cost, just to clarify. Today you talked about increase in FTE and obviously staff costs still going up, but it is more of a mix impact. You talked about software replacement, or sorry, increasing costs coming through there. You have got the capitalised software balance has gone up, so amortisation will increase I imagine over time. It all sounds like you have got costs growing above inflation. And you have talked about historically looking at pre-provision profit over necessary costs and managing the Bank that way. But if revenue does start to fall a little bit, do you believe you have got the capability to pull back the costs if required?

Alan DOCHERTY: I mean, I would not so much say it is a question of the first lever is pulling back the costs, we are obviously investing behind our strategic priorities and pleased with the return that we are seeing on that investment. It is more of a question of the productivity that we continue to deliver.

So if you look at that last 12-month period, we delivered a productivity dividend, which was 3.4% of the Group's overall cost base. Now that is actually pretty close to the inflationary effect that we have seen over the period. And then we made some conscious choices as we talked about to invest behind the technology modernisation, the additional investment spend, the GenAI and the proprietary distribution spend.

And so that is where the productivity creates the optionality. And so the focus is to continue to generate the productivity that continues to generate that optionality, so that we can continue to absorb inflationary increases and then make decisions around the investment agenda. And so I think we have got a good muscle built over many years from a productivity perspective. We will continue to focus on that, and then make choices commensurate with how the top line is moving, how the productivity improvements are going, and where the NPV accretive options are from an investment perspective.

Ed: Thank you.

Melanie KIRK: Thank you. The last question comes from Tom Strong.

Tom STRONG: Thanks, Mel. Good morning. Just had another question around Business Banking. Yet another strong half of lending growth, but your business transaction accounts actually stalled in the half in terms of the growth. Does this reflect more of doing a better job lending to existing customers, or is this more new-to-bank lends only?

Matt COMYN: No. I mean, no change in strategy. I think the team have executed extremely well. And I guess one of the things, we look at it over the arc of time, particularly over the last like four or five years. I mean, really big gains in MFI. I think it was 180 basis points even in the last 12 months. Very strong share of transactional deposits. You can see that in terms of the relative growth in tran balances, which I think must be something like \$30 billion over that five years. You can see the mix effect of that and then the leverage. A big focus on lending into the customer base, and providing a full range of products and services.

Another strong period of asset growth. I think we are observing, we saw in the last set of results from peers some pretty sharp margin deterioration. And I think the team have done a good job of balancing both the strong volume but staying out of some of that really competitive pricing. So it will be interesting to see how that plays out across peers,

particularly given what we were talking about earlier in terms of their capital position and constraints.

And so, no, I mean, I think overall that underpinning of strong transaction account balance, notwithstanding maybe some mix effects in terms of deposits, but then growing into the existing customer base is our primary focus.

Alan DOCHERTY: Yes, Tom, maybe just to add. The Business Bank transaction accounts have grown and transaction deposit balances have grown, both over the year and over the half. What you might be referring to is in the Institutional Bank. We have seen a headline reduction in transaction deposits year-on-year. That is actually just a product change. So in the past we have had a product, a pooling facility product that grosses up both sides of the balance sheet. We have switched that to a new product over the course of the first half of the financial year, which resulted in a netting down of transaction deposits and associated lending against that deposit, effectively an offset account.

And so that led to a headline reduction in Institutional Bank in transaction deposit balances, but ex the mix effect of the product change that was actually underlying growth in those underlying transaction deposit balances. So pleased with the growth in transaction accounts and balances over each of the businesses over the course of the year.

Tom STRONG: Great. Thanks very much.

Melanie KIRK: Thank you. That brings us to the end of our time. Thank you for joining us for this briefing, and we look forward to continuing the discussions. Thank you.

END OF TRANSCRIPT