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Introduction

Melanie Kirk: Hello, and welcome to the Commonwealth Bank of Australia's results briefing for the half year ended 31 December 2023. I am Melanie Kirk, and I am Head of Investor Relations.

Thank you for joining us for this briefing. We will be having presentations from our CEO, Matt Comyn, with an update on the business and an overview of the results. Our CFO, Alan Docherty, will provide the details of the 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.

Matt Comyn – Business update and overview

Matt Comyn: Well, thanks very much, Mel, and good morning, everyone. It is good to be with you today to present the Bank's half year results.

Throughout the half, we have continued to focus on supporting our customers and communities, investing for the future, and providing strength and stability for the broader economy. We know that many Australians are feeling under pressure, and are finding it harder and harder to deal with the current cost of living. So let me say directly to those customers who are facing hardship or are feeling stretched; we are here to support you.

This includes home loan repayment pauses for up to 12 months, loan deferrals, interest only loans, and flexible payment plans. Each month, our digital tools also help three million customers save on everyday expenses, better manage their money, and plan for the future. This half, we have helped more than 60,000 Australians buy a new home, and prevented and recovered more than $100 million in scams.

Safety and security remains a priority for all Australians, and we are investing more than $750 million each year to protect customers from fraud, scams, financial and cyber crimes. We also recognise how important small businesses are to our economy, and this half, we have lent $18 billion to help them create jobs and grow.

All Australians benefit from strong and stable banks. We have further strengthened our balance sheet to ensure we remain well positioned to support our customers, communities, and the economy, both today and into the future.

We continue to have the largest ATM and branch network in the country, and all of our call centres are based in Australia. We have also made a commitment to keep every one of our CommBank regional branches open for at least three years.

We also recognise that many Australians rely on us for dividends to support their income. And this half we delivered $4 billion in dividends to over 12 million Australians.

Well, last week's Statement of Monetary Policy showed that households have decreased consumption in real terms, as well as reduced their savings. Our own data shows that those impacts continue to be felt unevenly across our customers and the economy.

Fortunately, unemployment remains near record lows. We realise that many people are needing to take on second jobs or work additional hours to supplement their incomes. Overall spending per capita has only risen by about 1%, as people cut back on both essential and discretionary spend in real terms. We can see customers using savings buffers to cope with higher prices and mortgage rates, and we recognise our younger customers have been impacted most heavily.

Overall household disposable income in Australia fell by approximately 3.5% last financial year. Pre-tax salaries increased disposable incomes by 8%, but rising prices offset most of these gains. Net interest payable also decreased disposable income by 2%. This is because Australian households hold $1.2 trillion more loans than deposits, and we are here to support our customers who need it.

We offer more options today than ever before, and we have made them easier to access. We have contacted every customer coming off a fixed rate mortgage, and discussed options with those looking for help, and 99% of these customers are continuing to make their repayments on time.

The higher rates continue to flow through the economy. Deposit customers received almost $7 billion in additional interest payments in the half, nearly three times more than in the prior corresponding period. The average interest rate earned by depositors has increased by more than the average rate paid by home loan customers.

For the Commonwealth Bank expenses increased 4% in the half due to inflation, but this has been absorbed, with shareholder profit decreasing 3%, or approximately $150 million. Because unemployment remains low, loan losses have too. In most years we write off around $1 billion in loans, but this figure was $320 million in the half.

Australia is more sensitive to the impact of rising rates given high household debt levels. According to the Reserve Bank data, Australian banks have passed on less of the rate increases to home loan customers compared with other markets, while passing on more of these increases to depositors. Australian banks also hold higher levels of capital than offshore banks, to ensure we can support our customers during challenging times. This additional strength does come at a cost, though, which we estimate to be between $7 to $11 billion per annum across the major Australian banks.

We often get questions about the scale of CBA's business and how this has changed over time. We lend over $900 billion directly to customers, and provide $75 billion of funding to Federal and State Governments for critical public services, like education and health. We also safeguard over $800 billion in customer deposits, and hold over $140 billion of low cost international funding, which benefits Australian households. Our strength allows us to continue investing, to improve the experience we provide and to attract more customers.

Over the past 10 years the Commonwealth Bank has grown significantly larger, with customer deposits almost doubling, and loans to customers increasing 57%. We are also significantly stronger, holding twice as much Tier 1 capital. CBA's profits have increased by around 18%, which is well below inflation of 30% over that period.

Now turning to our results. Our focus on deepening customer relationships has seen us finish the half with peer leading Net Promoter Scores across all key customer segments. This customer focus, coupled with consistent, disciplined execution, has delivered positive outcomes for all stakeholders.

Throughout the half, we have maintained strong liquidity, funding and capital positions. Our operating performance and strong capital position has allowed the Board to declare a first half dividend of $2.15, an increase of $0.05 on the prior corresponding period.

Operating income was flat for the half, supported by volume growth and falling margins. Operating expenses were 4% higher, driven by inflation and increased technology spend. Cash net profit was down 3% on the prior year.

We remain well placed heading into a lower growth environment. We have continued to strengthen our balance sheet with high levels of provision coverage, surplus capital, and conservative funding settings. The balance sheet is 75% deposit funded. Weighted average maturity of our long term funding is 5.3 years, and liquid assets are $187 billion. Our capital ratio of 12.3% is well above regulatory requirements.

Our portfolio remains sound, with arrears and impairments below long term averages, supported by a strong labour market and savings buffers. Troublesome and impaired assets decreased to $6.9 billion, primarily driven by upgrades and repayments across a small number of exposures. Home loan arrears have increased in recent months, but remain near historic lows at 52 basis points, reflecting ongoing pressures from higher interest rates and costs of living.

We remain well provisioned for a range of economic scenarios. We hold total provisions of $6.1 billion, which is $2.2 billion above our central economic scenario. We continue the disciplined execution of our strategy, which seeks to broaden and deepen our competitive advantages. We have talked before about how deep, trusted relationships lead to a higher frequency of engagement, a better understanding of customers' needs, and superior customer experiences. However, I thought I might also talk briefly about how this leads to value creation for our shareholders.

35% of Australians and more than 26% of businesses now consider the Commonwealth Bank to be their main financial institution. This MFI share leads peers by a considerable margin, and continues to grow. We are Australia's leading transaction Bank for both households and businesses. This business mix results in more stable and lower cost deposit fundings, and better risk identification. This underpins a structurally advantaged balance sheet with lower loan losses, higher franking, and higher, more stable capital generation.

We maintain conservative funding settings, hold excess capital, and market leading provision coverage. And this stability and consistency of earnings is reflected in a lower cost of capital, and allows us to invest more than peers over the long term. It also allows us to steadily grow the balance sheet, while consistently delivering strong, fully franked dividends, and managing down our share count.

One of the key ways we measure the strength of relationship we have with our customers is through the Net Promoter Score. For 13 consecutive months, we have held the leading NPS across all three of our business segments, and strong relationships underpin growth and performance across all of our businesses. Leading Net Promoter Score underpins our leading MFI, which has increased. This has translated into an increase in transaction accounts, with retail accounts increasing 6%, and business accounts up 10% versus the prior corresponding period. We have continued to grow business lending volumes above

system in the half, with more than 90% of lending customers also holding a transaction account with us.

Our Institutional Bank continues to play a very important role. It has contributed over $70 billion in funding over the past five years, and its cash NPAT has now returned to 2019 levels, with a substantially lower risk weighted assets. ASB continues to see strong deposit growth, and has been very disciplined with asset origination.

There has been interest in the competitive dynamics in retail banking. Home loan rates have increased by substantially less than the cash rate. The Reserve Bank has estimated that the interest rate paid by customers on variable mortgages in Australia has been discounted by around 70 basis points relative to the cash rate. However, the marginal home loan is wholesale funded, and these funding costs have increased by even more than the cash rate. This has resulted in significant margin compression in Retail Banking in Australia, and this has disproportionately impacted banks with more reliance on wholesale funding.

We have the strongest Retail franchise with the highest level of household deposits relative to the size of our Home Lending business. Our favourable business mix and disciplined execution mean that we have grown net interest income share in Retail by four percentage points over the past two years. Our Home Buying business continues to perform well operationally.

There has also been interest in the record period of fixed rate maturities that occurred in the half. We have contacted every customer coming off a fixed rate loan to offer support and have made personalised pricing offers using our Customer Engagement Engine. 90 day arrears for customers rolling off ultra-low rates have been better than the portfolio average. We have also seen large inflows of deposits as customers come off fixed rates and are now able to pay down or offset their loan balances.

The performance of our Business Bank has again been a highlight in the period. We have had a strategy for several years to build a high quality franchise through deep transaction banking relationships. We have grown our MFI share by 272 basis points since March 2020, and have a sizeable lead to our next competitor. We use our transactional banking relationships to continue disciplined growth above system in business lending and have increased share by more than 170 basis points since March 2020. We now hold $10 billion more Business Banking deposits than our next competitor, and more of our lending is

funded by stable transaction deposits. Our leading transaction banking franchise means we capture a larger share of the non-retail deposit revenue pool in Australia.

Our deposit gathering franchise is a clear differentiator in this part of the economic cycle, and its performance has been a highlight for the half. It is underpinned by our leading MFI share, digital and physical distribution assets and strong payments propositions. CBA now holds approximately 40% of stable deposits among the four major banks.

We further extended our market leading digital offering this half. Our CommBank app is used by more customers than any other financial services app in Australia, with over eight million users. Daily log-ins are up 28% year-on-year and a peer leading Net Promoter Score. On average, customers are now logging in around 45 times a month. We continually invest in tools in our CommBank app to help customers manage their money. For example, Benefits Finder has already helped CBA customers claim more than $1.2 billion in rebates and entitlements, and later this year, the tool will be made available to all Australians.

In an Australian banking first, we are also rewarding our customers through CommBank Yello, our customer loyalty and recognition program. In the three months since its launch, more than three million customers have actively engaged with the program.

We know that safe and secure banking is critical. The combination of our digital app and customer engagement engine helps us to protect customers from scams, fraud and cyber incidents.

We have invested in a number of digital innovations which have enabled us to prevent and recover over $100 million from scams targeted at our customers in the last six months. We bring our customers an extra level of assurance that the person they are speaking to is from the Commonwealth Bank, and that their payment is going to the right place. We are also piloting facial recognition identity verification in our app. And because this problem impacts every Australian, we are also working closely with the Government, banks, telcos and social media companies on a national approach to scams and fraud. We welcome the Government’s focus in this area, including mandatory scam codes for key industries. And looking ahead, we will continue to invest to support our customers and communities.

I will now hand over to Alan, who is going to take you through the result in more detail.

Alan Docherty – Results in detail

Alan Docherty: Thank you, Matt, and good morning to everyone who has dialled in. I will cover the various drivers of our financial results in a bit more detail. Starting with an overview of key changes in our operating context, how we have responded and what the implications have been.

So looking firstly at our operating context, as you heard Matt talk about, it has been a period of falling disposable incomes and increasing cost of living pressure. In aggregate, though, the economy continues to show resilience, given both the divergent impact on households, and also the fact that last year we had the largest net overseas migration to Australia since records began.

As expected, it was also a period of increased deposit competition, which is a normal feature of a rising rate environment. As a result, many Australians are now benefiting from higher deposit rates after many years of enduring a very low interest rate environment. On the global and domestic macro outlook, there is still uncertainty around the outlook for inflation and interest rates. So how are we responding to these changes in our operating context?

First and foremost, we are focused on supporting our customers in a number of different ways. Secondly, we have continued to invest strongly behind our strategy and made measurable improvements to the efficiency, efficacy, and yield of our $2 billion in annual investment spend. Thirdly, we have remained disciplined in our approach to volume and rate trade-offs across each of our businesses in Australia and New Zealand.

Lastly, we have continued to strengthen our balance sheet settings in the context of continued uncertainty in the macro outlook. As a result of these actions, the long term health of our franchise has improved. We have had continued improvements in customer Net Promoter Scores, and that is a key driver of the extension of our leadership in main financial institution share across the Retail and Business Banks.

Our economically rational approach to volume and rate trade-offs has driven an increase in our share of industry net interest income, and we have further widened our return on equity premium to the rest of the banking sector.

Our balance sheet strength also means that we can continue to weather a broad range of economic scenarios with greater relative earnings stability. We demonstrated this most

recently during the COVID recession, and our strength allowed us to continue to support our customers and the economy while still delivering sustainable returns to our shareholders. Looking at the shorter time horizon on the bottom half of the slide, you can see the key financial outcomes for the current half included very strong organic capital generation, another increase in interim dividends, and strengthened buffers in funding capacity, loan loss provisioning and capital.

I will now unpack the result in a little more detail. Statutory profit from continuing operations was $4.8 billion. The largest non-cash item was the loss on the announced divestment of our Indonesian bank subsidiary, PTBC. Excluding those items, continuing cash profit was a little above $5 billion for the half. On the prior comparative half, both cash profit and pre-provision profit were 3% lower due to competitive pressure on margins and inflationary increases in our cost base. Pleasingly, loan impairment expenses fell in the current half as the credit quality of our Retail business and Institutional Lending portfolios continued to show resilience in the face of tighter economic conditions.

Over the sequential six month period, both cash profit and pre-provision profit were 3% higher due to improving revenue trends and the non-recurrence of prior period one-off costs.

Looking firstly at the change in operating income over the prior comparative half. Overall income was flat at $13.6 billion. Net interest income fell despite a 4% growth in average interest earning assets due to competitive pressure on margins. This was offset by volume driven growth in fee income across our Retail, Business and Institutional divisions, as well as another strong period for our Global Markets business. Over the sequential half income growth was 1%.

As anticipated, we have seen continued margin pressure, and this slide decomposes the six basis point reduction in margin over the most recent six month period. The main driver was higher deposit funding costs. Price competition for term deposit products contributed three basis points of margin decline, and there was another three points of decline from customer switching from low rate transaction accounts.

Wholesale funding was only slightly more expensive this half, driving one basis point of decline. Our choices around volume and rate trade-offs resulted in only a couple of points of asset margin compression within our Retail Banking portfolio, despite continued heavy levels of discounting by some banks.

A replicating portfolio and capital hedges delivered a four basis point increase in margin, and competitive pressures in New Zealand drove a one basis point decline.

For some time, we have used publicly available information from APRA and the RBA, together with peer bank disclosures, to allow us to track our market share of industry revenues. This provides all market participants, including each bank's management team, with transparency on the impact of volume and rate trade-offs on earnings.

On the left, we can see the change in share of net interest income of the four largest banks in Australia, which is a total revenue pool of about $75 billion. The clear divergence of outcomes across the industry is very stark. We have grown our market share of that revenue pool by 50 basis points, which generated an additional $390 million of annual net interest income.

Now, part of that revenue gain relates to our structurally advantaged mix of liabilities. If we just look at the net interest earnings on home loans, which is the chart on the right, we have also grown our revenue share there by 50 basis points, or $80 million over the same period. We made a choice not to participate in unprofitable mortgage lending, and that shows up in the divergence between balance share and revenue share over the past year.

Turning now to operating expenses, they increased by 4.1% on the prior comparative half. This was largely a result of inflationary increases in wages and supplier input costs. We continued to invest strongly in our technology capabilities, the digitisation agenda, and in other areas such as cloud computing and scam prevention. Growth in these costs were more than offset by ongoing business simplification and productivity benefits.

Turning to our balance sheet settings, and looking firstly at credit risk. Loan impairment expenses were $415 million, as loan loss rates reduced to nine basis points in the half. Consumer arrears increased off a low base and remained below long run averages. Consistent with our past guidance on this item, we expect to see further increases in arrears, as pressure continues to build on household disposable incomes.

Corporate troublesome and impaired exposures dropped slightly over the half, due to a combination of upgrades to some single name exposures, and external refinancing of others. As you can see in the call-out box on the top right, TIAs remain well below long run averages. However, we would expect directionally higher levels of TIAs in the year ahead.

Our provisioning coverage remains steady at 164 basis points of credit risk weighted assets. Overall provisions increased to over $6 billion, reflective of volume growth in our lending portfolio, and a marginal increase in forward looking adjustments. We continue to hold a buffer of more than $2 billion to our central economic scenario, and this gives us approximately 75% coverage of our stagflationary downside scenario.

In August, I provided some details about our forward looking approach to provisioning through the cycle. We build our provisions bottom up, taking a very granular, data driven view at the individual customer level, and then overlaying top down judgements based on probable outcomes for the whole economy and each industry sector.

I have included here some of our sector level considerations. Every sector will experience the economic cycle differently, and in many cases, over a non-overlapping timeframe. Broadly speaking, our base provisioning and our multiple economic scenarios have not changed much over the past six months. We have slightly increased forward looking adjustments across elements of our consumer book, entertainment, leisure and tourism, and the agriculture sector.

The rest of our balance sheet settings remain conservatively positioned, with our deposit funding ratio stable at 75%. Deposits grew faster than lending over the six month period, which allowed us to both retire some expensive long term debt, and at the same time repay $19 billion of the RBA term funding facility. Short term wholesale funding remains at a historically low proportion of total funding of 7%. This will naturally increase over the year ahead, as we use some of that spare capacity, as well as $20 billion of excess liquids, to fund the final round of TFF maturities over the next four months.

On capital, we have delivered a Common Equity Tier 1 ratio at 31 December of 12.3%. This is 10 basis points higher over the half due to strong organic capital generation. We commenced our on market buy-back during the period, and also completed another DRP neutralisation. This marked the ninth neutralisation of our last 10 dividends, and the longest streak of consecutive neutralisations in CBA’s post-IPO history. That approach has saved our shareholders from a dilution of their holdings equivalent to 60 million shares, or 3.3% of our share count.

The interim dividend of $2.15 represents a $0.05 increase on the prior comparative half, taking our interim payout ratio up to 72%. Given our very strong capital position, the Board have decided to again neutralise the DRP in respect of the interim dividend.

In closing, we have again positioned our key financial settings to ensure we remain resilient, and can continue to support our customers, the economy and our shareholders, through a broad range of macroeconomic scenarios. We have again strengthened provisioning, and maintained significant spare funding capacity and capital surpluses, as the economy begins to slow under the effects of higher rates.

In addition our $159 billion structural hedge of interest rate risk represents a source of significant support to net interest earnings over the next few years. Our return on equity remains strong, supported by earnings growth and buy-backs. That has allowed us to generate strong levels of organic capital, which funds the extension of credit to our retail and business customers.

For our shareholders, we aim to provide sustainable dividends while efficiently distributing their franking credits, and continuing our post IPO track record of long term growth of our investors' capital.

I will now hand back to Matt, who will take you through the economic outlook and the closing summary. Thank you.

Matt Comyn – Outlook and closing summary

Matt Comyn: Thanks, Alan. The fundamentals of the Australian economy remain strong. The job market remains tight, with unemployment still near historic lows, with business investment and strong terms of trade. We recognise, though, that all households are feeling the impact of higher inflation and higher rates. Consumer demand has slowed, but immigration is providing a structural tailwind for the economy.

Even though wages are rising, real household disposable incomes continue to fall due to inflation, tax and interest payments. Higher rates are having the intended effect of slowing growth and demand in the economy. Inflation is falling, but still remains too high, and we expect economic growth to fall below 1.5% this year.

Our base case remains a soft landing, and we are expecting these pressures to ease as inflation and interest rates start coming down later this year. The economy remains fundamentally sound and stronger than many international markets, and we remain optimistic about the overall outlook.

So in summary, we remain focused on supporting our customers and the broader economy. The Commonwealth Bank remains strong and stable. This is underpinned by a

consistent, disciplined, operational and strategic execution. And we have a distinct proposition, and more customers are choosing to bank with us. We will stay focused on our customers, offering personalised support and financial flexibility, and we will continue to invest in our franchise over the long term.

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

Q&A

Melanie Kirk: Thank you, Matt. For this briefing, we will be taking questions from analysts and investors. I will state your name, but please introduce yourself and the organisation that you represent, and to allow others the opportunity, please limit it to two questions. We will now start with the first question from Andrew Triggs.

Andrew Triggs: Thank you, Mel. Good morning, Matt and Alan. First question just on slide 70, the deposit mix slide. The headline says the rate of switching has slowed, which you can see from a non-interest bearing transaction account perspective. But TD mix does continue to increase, especially in the Business Bank there. So I'm really interested in do you really see that slowing; what's happening in term deposits; and still interested I guess also on in the Retail Bank, whether there is a risk that households start to lock in TDs towards the period of rate cutting by the RBA?

Matt Comyn: Thank you, and good morning. Look, as we said in the slide and I think some of the commentary, we have certainly seen it stabilise, and even between the second quarter versus the first, you are quite right, there is switching in the context of TDs. And we think that is a factor in both the Retail and Business Banking customers.

I think one of the ways, and I think we have talked about this in the past, we look at the balance sheet and deposit mix composition in pre-COVID, and then clearly it changed quite substantially during the COVID period. And so we are still benchmarking against that starting point. I think what we are continuing to see is probably a slower rate of that mix shift and switching than we might have otherwise anticipated at the start of the hiking cycle. And clearly that is important. And we expect that is going to be a factor on customers' minds.

And one of the things that we watch fairly carefully, at least from our perspective, coming into the result, we felt overall that it had stabilised and slowed and will be one of the drivers as we look outwards in terms of margin.

Andrew Triggs: Okay. Thank you. And a question on costs. I'm interested in the outlook into the second half. You saw a modest pickup in productivity savings for the half, which was positive from a half-on-half perspective. Just interested in some broader unpicking of the other drivers around property cost, inflation returned. Yes, and software amortisation expense also rose, so the further headwinds from that side of things, please?

Alan Docherty: Yeah so, a couple of the key drivers that you have seen. You have obviously seen the wage inflation roll through on the staff cost line. Underneath that we have also – we are continuing with the program of insourcing of technology capability. So within the staff and IT lines there is still an element of additional staff costs, which are displacing some third party contractor costs which historically would have emerged in the technology line. So you will continue to see that as a feature of our result.

As you said, software amortisation, we have been continuing to invest strongly in a number of our technology capabilities and ongoing digitisation. That will continue, that will drive further increases in software amortisation, likely over the next three or four years, as we see that come up to run rate relative to the capitalisation rate of our investment spend.

So, yes, some of those themes have been very consistent for the last number of halves, Andrew, and I would expect them to continue into the second half and beyond.

Andrew Triggs: Thanks, Alan.

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

Jonathan Mott: Thank you. Can I ask a question about the home loans flow, and especially with the Commonwealth Bank brand, rather than including Bankwest in particular. If you look at some of the disclosure, what it shows is that the fundings via the proprietary channel has actually been broadly flat for 18 months, but the broker originations are down 35%, probably a good indication of the price sensitivity across proprietary and broker channels.

Now, Alan, you put that on slide 30, the revenue share at about 35% for the home loans net interest income. Have you been able to break that down in the change between proprietary and broker? And also, Matt, this goes to a comment you made 12 months ago about the returns above cost of capital. What does this tell you about the ROE that you're getting on a marginal proprietary versus a broker loan?

Matt Comyn: Yeah, well, maybe a couple of things, and then you supplement, Alan. So a little bit where you started, Jon, as well. I mean, if we go back a couple of years, and we can talk about the home loan cycle and some other observations we were having later. But, during COVID, a big basis of competition was turnaround times. That is no longer a factor. I mean, we are well inside in terms of operational execution our other major bank peers.

Clearly it has been a very price sensitive and competitive market, which is what you expect in a very high refinance market. You are quite right, insofar as the price sensitivity. And from our perspective, I mean, it has been a challenging last calendar year for, I think, things that were well known and discussed. We have sought to particularly compete in some areas, obviously, retention of our customer base and probably investor over owner/occupier higher margins, their purchase over refi. And in the same way that you are doing, we look very carefully at both the risk characteristics, through channel, the pricing, the return profile.

And without providing all the granularity across that, there is a skew and dispersion. Some would have been further below cost of capital at points of last year. There has been a slight improvement coming into the calendar year across the market. And so we try to think about that very carefully.

And I guess maybe the last thing we would say would be, as we looked at some of the customers that refinanced out, some of the risk characteristics of those customers were higher. They tended to be higher LVR, further behind on their repayments. And so trying to balance all of those in a very, very competitive market remains a key area of focus.

Alan Docherty: And to your specific question on slide 30, on the analysis we have done there, Jon. Yes, we have decomposed it. Two of the main drivers around that improving revenue share; one, obviously, the approach we have taken on volume and rate trade-offs, which we have talked a lot about in recent halves.

Another key driver is the better skew to proprietary flow that we have seen, particularly in the CBA and Unloan brands. There is a big dispersion in, as you know, the return that you can generate on a broker origination versus a proprietary home loan, and that increased skew towards proprietary relative to industry, which is skewed to broker, has been one of the drivers as we decompose that increased revenue share.

Jonathan Mott: Okay. And a second question, if I could, just on capital management. Obviously the balance sheet's in a very good position with CET1 very strong, but with the share price where it is, close to three times tangible book, I think this is the first time I've ever been able to say this as well, but the cost of equity is lower than the cost of debt. And buy-backs are technically EPS dilutive at this stage. So when you think about capital management, what do you think about various forms of potentially increasing the payout ratio, special dividends, or are you better off actually buying back senior and sub debt, which is more expensive?

Alan Docherty: Yeah, thanks, Jon. I mean, the weighted average cost of debt remains below the market implied cost of capital. It has certainly narrowed. And so it is economically less accretive obviously under current market conditions. But we are continuing with our on-market buy-back. We are pleased with the progress we made in that in the last six months. As well as the on-market buy-back, you will recall, we have also had the neutralisation of the August final dividend to conduct through that period.

So if you take the two of those together, we have bought back nearly $900 million of shares through that last six-month period. And it was a large DRP neutralisation, because the participation rate on that final dividend in August was a bit above 18%, which is the highest participation rate that we have had in about 10 halves. So we had a lot to get through between the DRP neutralisation and the on-market.

Your broader point is right; the economics of buy-backs are narrower now than they have been at probably any point in the last number of years. But overall approach to capital management is unchanged. We have got surplus capital. We have continued to focus on lowering the share count as we have done in this previous six-month period, and we will continue to keep an eye on market conditions, marginal funding costs and that cost of capital.

Jonathan Mott: Thank you.

Melanie Kirk: Thank you Jon. The next question comes from Richard.

Richard Wiles: Good morning, Matt. Good morning, Alan. A couple of questions relating to margins, please. The first one is that I think if we take your results and commentary from the first quarter, it suggests the margin was probably down four basis points in the second quarter. So no moderation in margin contraction.

Can I ask, what do you expect to happen in the second half of the year for the margins? And also, does your comment in November that home loan margins have stabilised, mean that the asset pricing impact in the second half should be close to zero?

Alan Docherty: Thanks, Richard. So, I mean, in terms of the quarterly margin trends, we do not go into a lot of detail on the quarters. But my observation was actually very consistent margin trends, between the first quarter and how that compared to the quarterly average of the second half of last financial year, and then heading into the second quarter. And it was all the things that we talked about at August. We had seen that switch and that increase in the headwind on net interest margin coming on deposits, both the pricing and particularly on term deposits, and also that continued switching. So that has been the dominant theme in the quarterly margin compression, that we have seen both in the first quarter and in the second quarter.

The second quarter was slightly, there was slightly more margin compression, as you say, in the second quarter. That was more a function of the timing of the OCR lags. We have seen more OCR lags in that previous quarter reverse, relative to the second quarter, because there was a quieter period in terms of RBA cash rate announcements quarter-on-quarter.

But the overall themes were very similar. And I think as you look ahead into the second half, I mean, we talked about this at August, we have not repeated ourselves today, but all of the factors that we talked about in August, I think you continue to focus on as you look ahead. What is the rate of switching? What we are going to see in terms of the competitive intensity on home lending and deposits? How are wholesale funding costs are going to behave? We have had a very benign basis risk premium, for example, over recent halves. And so we will keep a close eye on basis risk as we head out.

So really all the things we have talked about, which are very well known and I think well understood across the market, would continue to be the key active considerations as you look out to the second half.

Matt Comyn: Yeah. I mean overall, Richard, I would probably say that asset pricing is a bit less, the impact on that from home lending. There are a couple of points you can see in the Group NIM on the growth in reverse repos. And then, as Alan touched on I think well, a number of the factors that we are watching closely, clearly in and around deposits, and

we are getting the benefit of the replicating portfolio and the capital hedges that flow through.

Richard Wiles: Okay, thanks. And just my second question; pretty simple one. Do you think rate cuts would be good or bad for margins at CommBank?

Matt Comyn: There are a lot of elements within that, Richard. I mean, all things being equal, I mean, banks generally expand net interest margins in a rising rate environment. And if you look at a very long term, let's say, the last two decades of net interest margins at a Group level, that is basically the case. You tend to have increasing competition on one side of the balance sheet versus the other.

I think what we saw with a much more rapid increase in rates, a more rapid increase in asset competition, which compressed margins during that period of time. And so there will definitely be some different factors, obviously, that are going to play out as part of that. But I think the rate cuts, at least from our perspective, are late this calendar year.

Alan Docherty: And as you know, Richard, one of the things we are very focused on is interest rate risk. And your question, there is both an absolute observation and also a relative observation. How relatively do you perform through different rate cycles? And that is one of the reasons we focus on stability of earnings through the cycle. And it is a key reason behind the size of that structural hedge of interest rate risk that we have through the deposit hedge and the equity hedge; the $159 billion. So that will continue to create real stability in earnings, regardless of the temporary movements and the cash rate.

Richard Wiles: Thank you.

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

Matthew Wilson: Yeah, good morning team. Just two questions, if I may. Firstly, on Business Banking, given your outlook on the economy and the softening that you expect, are you already starting to see a change in the quality of applications, or has your approval rate changed in the Business Bank at all reflecting that deterioration, or is that too soon?

Matt Comyn: No thanks, Matt. I mean, look, again, consistent with the outlook, yes, we expect some softening. There are obviously some subsectors with within that. Overall, it continues to be relatively benign. And you can see that reflected certainly in some of the credit indicators that albeit are lagging.

I say there are probably two drivers. One, certainly on risk identification, and just being cautious again in some of those subsectors. Still finished the quarter strongly. It was probably slightly below where we would have otherwise anticipated. Some aspect of that was risk, it was actually as much, there were some pretty aggressive price-based offers in the market. And so look, if we feel that there are opportunities to continue to grow, which I am sure there will be, then we will look to take those up. But at all times we will be very thoughtful about both the risk characteristics, as well as the pricing that we are competing with.

Matthew Wilson: Yes. Okay. Thanks for that. And then secondly, further to Richard's question on interest rates, obviously with the spike in rates that we've seen over the last two years or so, that's all come through in the benefit to free funds. Your spreads continue to contract given the switching, given the competition that you alluded to. Your economist is pretty bearish. They've got 150 basis points of rate cuts both here and in New Zealand over the next 12 to 18 months. If that does ensue, and competition doesn't change, because clearly other players have a very different view to CBA on where they see returns, or what sort of returns they're happy to ride at, you could be looking at a net interest margin in the 170s. What are the levers that you can use to pull in that environment? And also we've got a Labor Government in place, so holding back rate cuts et cetera might be more difficult.

Matt Comyn: Yes. I mean, look, just a couple of things. Clearly being an economic forecaster is a difficult occupation. So there are a range of different outcomes about when rate cuts begin and the pace. But I think the broader essence is right. I mean, Alan touched on a couple of the things. We try to control the things that we can. I mean, the focus on building up a very high quality deposit franchise with the most stable source of funding, both enables us to provide and hedge some of those balances, to give us downside protection in a falling rate environment.

Also the closer we can get clearly to being fully funded, the more volatility or the less volatility we will have in our net interest margin. Which is why we see a competitor that is competing very aggressively on price, happens to also be much more wholesale funded than we are. You can see the volatility and compression on their margins.

And I mean, to your points, a similar observation that we have had, I mean, there are a number of other idiosyncratic factors that I think that have gone into some of the pricing

decisions that have been made, and maybe I will not speculate on some of those. But we have often wondered about actually if rates had risen slower, would there have been better pricing discipline? And I think there probably would have been. And clearly that was a real cause for concern because, as you are back-solving about where the net interest margin should be, versus where the cash rate is, versus prior cycles, clearly it should be above where it is.

You see a market like the UK where they are actually surplus deposit funded, they have got excess liquidity. It makes more sense to be putting some of those deposits to work in arguably, a lower margin. Whereas you look at like a market like Canada, which looks a bit like Australia, it is higher wholesale funded. They have actually passed on more of the cash rate increases through.

And so we look at both the absolute, the things that we can control, the relativities, try to plan for that as best we can. And we will try to manage and make the best optimal decisions that we can for the organisation, and of course, to support both our customers and our owners.

Matthew Wilson: No worries. Thanks for that. Cheers.

Matt Comyn: Pleasure.

Melanie Kirk: Thank you. The next question comes from Brian Johnson. Brian, can you hear us?

Brian Johnson: Good morning. Can you hear me?

Melanie Kirk: Great.

Brian Johnson: Yes I can. Can you hear me, Mel?

Melanie Kirk: Yes. Thank you.

Brian Johnson: Fantastic. Congratulations on the management discipline. But, Matt, what's interesting is that I can see you're losing market share in the broker channel, really focusing on the branch. And while I think that’s to be applauded, you can be very sensible to the point where you have no business left at all. Is there a point at which you think CBA has to respond more aggressively on price? And then I had a second question, if I may.

Matt Comyn: Yeah, no thanks BJ. Look, clearly it is a very competitive market. We are here to serve our customers. We can make, and we have made, very deliberate choices

about where to compete and how best to. We have sought to optimise as best we can for some of those pricing decisions. But ultimately, we are in that competitive market.

You are right. We think about a number of those factors in terms of the short term and the medium term. And we have certainly stepped closer to the market. It did see though, our recent volume performance. It is clear we are not contributing or leading any of that pricing activity. And so it remains a really big focus for us. And I think Angus and the broader team have done an excellent job of trying to navigate a pretty difficult context to get the best overall outcome. And as we can see, it has the potential to deliver a lot of value over time. And of course, we are going to try to continue to do that as best we can.

Brian Johnson: Okay, so we're not at that point yet?

Matt Comyn: Not at which point, BJ, the …?

Brian Johnson: The point at which the market share loss is so great that we come to a Telstra, Vodafone moment, where it just makes sense to just go out and price at the level the market is pricing.

Matt Comyn: Well, I mean, we think about volume, market share, franchise, customers, the whole relationship, obviously we are thinking about margin. You can see how that flows through into NIR. I do not know that it would be particularly helpful if I speculated on our exact positioning, other than to say we are going to be very focused on making sure we are making the most optimal decisions across all of those factors.

Brian Johnson: Okay. The second question, if I may, relates to slide 129. And one of the things I think the market is quite confused about is surplus capital, high share price, ongoing buy-back, which seems to have stalled. I get that the dividend reinvestment plan neutralisation is pretty significant. If we go through to slide 129, which talks about TLAC, is one of the considerations here, that the incremental cost of wholesale debt isn't, in fact, normal kind of debt, it's actually loss absorbing capital? Could you just explain to us slide 129 what it's actually saying if possible, Alan?

Alan Docherty: Yes, sure. So we are going to have to continue to issue Tier 2 debt on normal course and speed in order to meet the APRA TLAC requirements by 2026. So you have seen us continue to issue Tier 2 debt. Tier 2 debt is obviously one of the more expensive forms of debt. So, as we look at what are the potential uses of surplus capital, for example, then? An obvious substitution for carrying excess Common Equity Tier 1

would be issuing further Tier 2 debt. And so we look at the economics of our capital management position relative to the most expensive form of marginal wholesale funding, bearing in mind the TLAC requirements are going to be very long term requirements. They are going to be baked into the capital stack for many, many years. And so we will continue to have an orderly increase in the level of Tier 2 capital within the capital stack.

But the cost of, particularly US dollar, Tier 2 debt, peaked probably around September/October time. We have seen spreads compress in the US dollar market over the last, pleasingly, over the last two or three months. So the pricing of US dollar Tier 2 debt has probably come in around 15 basis points. So we have probably seen peak expensive Tier 2 debt earlier in the half. As we sit here today, the pricing has certainly come in a lot in recent months. So yes, it is an important part of the capital stack, an important part of how we meet the loss absorbing capital requirements. We will continue to weigh that along with all our other capital management considerations.

Brian Johnson: Alan, is there a risk that all banks in the world need to get to the same number at the same point of time, so we get a bit of crowded issuance start to develop?

Alan Docherty: Potentially, and that is one of the reasons why we have issued ahead of that schedule. And so we have made good progress against that. Those markets are functioning very well. They are very orderly. But yes, you do not want to be leaving it too late to get to your TLAC mark, and so that is why we have continued to have a very progressive issuance of Tier 2 over the last couple of years now.

Melanie Kirk: Great. Thank you. The next question comes from Carlos Cacho.

Carlos Cacho: Thanks, Mel. Carlos from Jarden. I just wanted to, similar to Jon's question around kind of some of the decisions you're making on the loan book, I noticed that the investor share has risen quite a bit. It's up about 5%, half-on-half. That compares to the market where the investor share is up just 1.5% over that same period. How much of that is a deliberate strategy to support margins, versus just a kind of result of where your pricing is versus peers?

Matt Comyn: The former, Carlos, I mean, it has been an area where we have chosen to engage. I think we try to be quite tactical and deliberate and disciplined in different areas. The margins are available there. We are very comfortable with the risk characteristics that we can see, and so it is an example of where we are prepared to grow faster there.

Carlos Cacho: Thanks, Matt. And then just another question, I guess maybe more on the ESG side but, looking at your chart, which shows the breakdown of originations by income, it looks like now we have seen a significant shift to higher income earners driving the mortgage market. One third of mortgage originations are now driven by customers with incomes over 200k versus less than 20% if we go back to December 19.

How much do you see, like – I guess this seems like it is becoming a bigger political and social issue – and how do you see what CBA can do in terms of your focus in supporting Australia, kind of helping society, et cetera. How do you, I guess, how do you think about that and what it means, and what you can do to support maybe lower income earners getting into the market? Because it seems like, based on this data, it is really stacked against them.

Matt Comyn: Yes. Look, I mean, the availability and affordability of housing has been a significant issue for many years. There is no question that it is an acute issue, and will continue to be this year and into the next couple of years, and obviously primarily driven around supply. And we can see the forward development pipeline and the availability and it is going to be very challenging. So I mean, what can we do about it? Clearly there are a number of different vehicles to contribute what we can, or anything that would be useful from a policy perspective.

I mean, where we can, and of course, we are restricted in terms of some of the borrowing decisions that we would make, but certainly continue to support our customers into the housing market. First home buyer has been and will continue to be an important customer segment. It has tended to be one of our strongest over time. Availability and supply of housing, when we talk about it in the context of both the Business Bank and the Institutional Bank, and also just try to bring in, or contribute, more capital into the development of some of the social and affordable housing. And so that balancing act, both strategically but how do we best support that? It is a very good question, and something that we are very focused on, and trying to think about how we can support that as best we can, because undoubtedly the strong population growth and migration growth is a big tailwind for the Australian economy.

Clearly the Commonwealth Bank is a beneficiary of higher economic growth, higher standards of living. Housing is an important economic and social issue. And so wherever

we can, it should be a real objective, which it is, to try to support that as best we can. I agree with you. I think it is a very difficult issue over the next couple of years.

Carlos Cacho: Thanks Matt.

Melanie Kirk: Thank you. The next question comes from Victor.

Victor German: Thank you, Mel. I appreciate, Matt and Alan, you've spent quite some time already talking about deposits, and answered quite a few questions, but given a lot of interest, I was hoping to get perhaps a little bit more colour on that. In light of your comments around the strength of the deposit franchise and the benefit that you have got both in absolute and relative terms, and noting your comments to previous questions on deposit mix. We still, when we look at the numbers you presented today, we've seen about 5% reduction in transaction deposits for Retail Bank, about 7% reduction in the Business Bank. And yet, still importantly, your transaction deposit balances are almost double the pre-COVID level in the Retail Bank and more than double in the Business Bank, while account numbers increased by around 40%.

So considering all this, it would be good to hear your thoughts on the outlook for transaction accounts. To what extent do you think you can offset those outflows with account growth? Or do you still think that customers are likely to shift their money to higher interest rate accounts given the settings that we have in place? And also given, as you discussed, market expects rate cuts to come through, whether it's later this year or next year, do you think some of the benefit that you've talked about in your presentations, relative to peers, are likely to unwind? Or do you feel like there's offsets elsewhere, perhaps maybe on the cost line? Thank you.

Matt Comyn: I mean, there are a number of questions within that, Victor. I will start, and Alan, you add. I mean, one of the points that you mentioned where I would start is, our consistent strategy for some time has been around winning a customer's main banking relationship. That is often thought through the context of the transaction account. So that has been absolutely critical for many years, in the context of Retail, particularly younger customers, obviously, and migrants. Business or our business transaction accounts being a really strong part of our performance, I think it is more than 45% now are digitally, I mean, you can open a business transaction account with us in less than seven minutes. So that primary account relationship; absolutely critical. We see that as quite a significant source of competitive advantage.

It gives us a whole range of other benefits that accrue from that. Obviously, in addition to just liability-led funding advantage, stability of and consistency of earnings, risk identification, et cetera, et cetera. So that remains critical.

Then of course, there are different factors in both personal and then in the business in terms of the period. Business accounts can be lumpier. Some aspect of the Retail performance is also a consequence of if you are below system in Housing, you are losing some of the transactional relationship or offset balances that are going with that. Certainly it weighs on our mind.

I think we see enormous strategic value, long term, in the deposit franchise and so some aspects of that are absolutely critical. We want to win every single day. There are some elements of it that we are seeking to, of course, be both competitive, but again, be thoughtful about some of the pricing that is in market. I know the notice product that Mike announced earlier last year, that is on track to hit $1 billion in balances. We want to be innovative. It links to our digital investments to have that deposit or main bank relationship. Payments is an important element of that, as well.

Alan Docherty: Yes, just to add a little bit of colour on a couple of the metrics. I mean, we were really pleased with the overall deposit balance growth, as I mentioned in the presentation, over the period, and that has obviously added to the funding. On transaction accounts specifically, the momentum in the Business Bank has been excellent now for many halves. Our average weekly business transaction account openings are running at around 4,000 a week. So we have been really pleased with the momentum in the Business Bank franchise.

In the Retail Bank, over the last 12 months, we have had net new openings of retail transaction accounts of something like 650,000, and about half of those have been new to bank migrant account openings. So we have historically, and we have seen it again over the past 12 months, a very strong market share of those new migrant account openings in Australia. And obviously with the record level of overseas net migration, that has provided real franchise improvement and momentum within the Retail Bank.

So both, I think the Retail Bank and the Business Bank, very focused on Net Promoter Scores, very focused on improving the service offering and the customer experience for our Retail and Business Bank customers. You have seen that translate in NPS. That is translating into MFI, and you are seeing it in the account openings and in the overall

balances. So yes, there is a temporary period of switching as we adjust to a higher rate environment; that is expected. And we are pleased with the overall, or the underlying momentum, that is sitting within our key franchises.

Victor German: I mean, I think no one disputes the strength of the franchise, and obviously your share price supports that view, as well. I'm just wondering to what extent, because of the strength of the franchise, you've seen that substantial benefit coming through in terms of the proportion of transaction deposits that you have. And as that normalises, that relative advantage that you've seen and you've highlighted in the presentation relative to peers in terms of interest income, starts to normalise. Or do you think that perhaps we are missing something?

Alan Docherty: No, thanks, Victor. I mean, I think, as you know, the way we set up the replicating portfolio is very deliberately to avoid the position where you have very volatile returns from your liabilities through periods of changing rates. I mean, the point of the replicating portfolio is to invest that over a five year term. And so although we have seen that sharp increase in the cash rate, we have not yet seen that translate into net interest earnings, because it occurs over a five year tractor period.

So I think we have provided a lot of disclosure around the size and the exit tractor rate on the replicating portfolio. We have continued that again in this result. And so I think the relative size of our household deposit share and business transaction account share, the size of that structural interest rate risk hedge, and then the forward profile of that, as you look at the three year swap rate on the equity hedge, and the five year swap rate on the deposit hedge, provides a structural tailwind to earnings both in an absolute and relative basis over the next few years.

Matt Comyn: Yes. I mean, look, absent that hedge, yes, we get more leverage. We have got a big deposit franchise and a rapidly rising rate environment. So we are able to benefit from that. As Alan said, the hedges give us consistency over a long period of time. We have got a big home loan book that is an extremely high yielding, high quality risk asset. There has obviously been a lot of pricing pressure there, so the deposit franchise has been able to offset that. And because we are the highest deposit funding, it gives us less volatility. Some of those are short term. But that long term feature in terms of consistency, predictability, we think flows all the way through into market implied lower cost of capital. And that flows through into valuation, amongst other things.

Melanie Kirk: Great. Thank you, Victor. The next question comes from Andrew Lyons.

Andrew Lyons: Thanks, Mel. Andrew Lyons from Goldman's. Alan, just a first question for you. On slide 34 you've recreated the slide you produced last half just in relation to the rough path of provisions under AASB 9 versus the previous accounting standards. Can I firstly just hazard you to guess as to where you think your baseline ACL modelling currently sits on the economic cycle?

And then more importantly, I guess, when we do at some point enter the early expansion path of the curve, is the relevant reference point for where provisions are likely to be lower versus that level, somewhere around the pre-COVID levels that you disclose on slide 33?

Alan Docherty: Yes. Thanks, Andrew. On the first point, I will repeat something Matt said earlier, which is it is a very tough time for economic forecasts. I mean, you have seen another inflation surprise in the US overnight. And the narrative can change very quickly. So I will not be drawn on where I think we are in the cycle, other than what we have said. There is increasing pressure on real household disposable incomes. The full effect of the rates are still to roll through the economy. And I think it was set out very well and clearly in the recent RBA Statement of Monetary Policy.

So we will look at it customer by customer, and we will look at it sector by sector. I mean, one of the points of this slide I am trying to draw out is each sector is going to experience the cycle over a non-overlapping timeframe. So there is going to be a number of sectors. For example, if you have got office properties with very long weighted average lease terms, that plays out over a number of years. Other sectors are exposed to discretionary consumer spending. You would expect those impacts to roll through over a shorter timeframe. So it is a very difficult business to forecast the cycle. The cycle will manifest in aggregate, but it will also manifest in individual customer and sectoral levels. So what we will do is continue to keep everyone informed around what we are seeing at a sector level. And so that is the point of slide 34, to provide that additional level, a level below what we usually provide at the total provisioning level, to what we are seeing at an individual sector level. What was the second part of your question, Andrew?

Andrew Lyons: Alan, I guess it was just trying to, to the extent that when we entered the early expansion part of the curve, whenever that might be, is a relevant reference point for that the 1.29% that you disclose in slide 34, which is where you were, pre that exogenous hit that was COVID?

Alan Docherty: Yes, I mean pre-COVID we had gone into the new accounting standard, AASB 9. So we were running a buffer to the central scenario I think then of around $1 billion. So we are currently running a buffer of $2.2 billion to that central scenario.

Look, as we look at it, it depends very much on what the economic situation is. If we look forward and we are seeing an improved, if we are coming out of the trough of whatever contraction we see, and we are seeing an improved set of scenarios, then we will run those top down models and see what does that look like? What probability would you assign to that? And that will determine where you end up in terms of the overall provisioning.

So it is going to be very dependent on what we see customer by customer, sector by sector, and how we weight the probabilities at that point in time. The last 24 hours I think have taught us things change quickly. So it is difficult to sit here today and make predictions about what we might do in six or 12 months around that overall level of provisioning.

I think, as you know, Andrew, we have got a track record where we have had industry leading levels of provisioning coverage, and that is a very deliberate choice, to have those levels of provisioning coverage, because it is another way that you can provide that long term earnings stability. Because undoubtedly you go through periods where there are tougher times and tougher conditions, and having greater earnings stability through those periods is one of the reasons we attract a lower market implied cost of capital. So there is real value tied up in having that additional layer of conservatism in some of the key balance sheet settings, including how we think about provisioning.

Andrew Lyons: Thanks, Alan.

Melanie Kirk: Thank you. The next question comes from Brendan.

Brendan Sproules: Good morning, Brendan Sproules from Citi. I have just got a question for you Matt. You made a comment in your presentation around the marginal cost of funding for home lending. You suggested it was wholesale funding. If I refer to slide 67, you show here in this slide that household deposits over the last six and 12 months have actually grown faster than home lending. To what extent is your strategy in the business side, where obviously lending has been growing much faster than business deposits, actually impacting the volume growth in your home lending book?

Matt Comyn: No, I mean, not at all, Brendan. I mean, look, I think we have talked a lot about deposit funding and the importance of it. So I will not labour that point. And then, we saw a very strong liability growth probably going up to three periods ago, exceeding in the Business Bank liabilities over assets. Clearly there has been a bit more of a contraction in terms of deposits, which you would expect across businesses more broadly in the economy. I mean, we think about the overall settings both at a Group and an individual level, we manage all of that through transfer pricing on both the assets and liabilities. We have a funding plan - we review that regularly around forecasts. We are not constrained in home lending from a funding perspective. The constraint that was most evident and visible to us all of the last calendar year was just the poor return profile it was earning, certainly to historical basis.

Brendan Sproules: So, given that, I guess my second question would be, what would have to change, I guess in the mortgage market for you to grow back at system?

Matt Comyn: Well, I mean, we regularly review pricing. We have to think about it both in the short term and in the long term. You have got to weight some of those factors. So we made our views quite clear last year. It was a challenging year to navigate, as you can see, tactically, and where we are choosing to compete, there are deliberate choices. We have certainly moved closer to the market on pricing, and we will continue to review that regularly.

I mean, if pricing or risk was not commensurate with, I guess, our expectations, so, i.e. if we are not generating a return above cost of capital and we look at that also in the context of, Alan talked about, basis risk or cash bills spread. I mean, that has been much lower. I mean, that could conceivably increase. And so we were thinking about that in all of those marginal pricing decisions. As I said, I think there was some improvement towards the end of last calendar year, and hence we have adjusted our posture. But I think it is important that we are managing both through the short and the long term on a number of those aspects.

Melanie Kirk: Great, thank you.

Brendan Sproules: Thank you, it’s very helpful.

Melanie Kirk: Thank you. The final set of questions will come from Ed Henning. Thank you.

Ed Henning: Thank you for taking my questions. Two quick ones, hopefully, for you. Alan, before you talked about some OCR lag. I just wanted to double check if you think about the margin walk, did that come through in the deposit price competition? And if it did, should that slow down in the next half, reducing that headwind there, as the first one?

And then the second one, just going back to capital. Obviously you have got plenty of surplus capital. Why haven't you accelerated the buy-back or looked at other capital returns? And should we expect the buy-back to accelerate in the second half, and you guys to look to utilise some of your excess capital?

Alan Docherty: On the first one, well, look, there were no hikes in the first quarter. There was a hike in the second quarter. So that was the comment on the timing of the cash rate lags that occurs on both sides of the balance sheet. So you will see there is – it is not a material amount, but it just changed slightly the dynamic between the first quarter, how that compared to the second half quarterly average in the second quarter, to an earlier question. But it was not a large change, but it just slightly changed the overall margin decline between 1Q and 2Q. And so given we have only seen one hike in the last six months, it would not be a material impact on second half margins.

On capital management and the buy-back, we are constrained by available trading windows, as you know. I mean, we are going to be, again neutralising the interim dividend. And so we are going to be onmarket buying shares to satisfy that DRP issuance through February and most of March. Then obviously when we go through our Q3 processes we are out of market. We are in a blackout period between the period where we closed the books for the third quarter and the reporting of that, which will occur in the early part of May.

There really is, as we have talked about before, limited available trading windows. We will continue to progress and prosecute our own market buy-back through that period. It is difficult to have accelerations of buy-backs without putting undue pressure, given our stock is not one of the largest volumes. And we have got a large volume of purchases to make. So you do not want to put undue pressure on daily trading volumes as you execute that buy-back. So we continue to monitor that closely. And we will continue to progress that through 2024.

Melanie Kirk: Great.

Ed Henning: Just with that, Alan, do you then have to look at alternative capital returns, if you can't buy back enough stock? But a $1 billion buy-back shouldn't be too big to get done in a half.

Alan Docherty: Well, I mean, we did – it depends how big the participation rate, for example, is in the DRP. So as I said, we had the highest level of participation in that August final dividend that we had had in 10 halves, and one of the largest undiscounted participation rates that we have seen over the last 10 years. So there is a substantial amount of on-market purchase required just to satisfy the neutralisation. And then we will look at available trading windows to complete the on-market.

Yes, we look at the – I mean there are obviously limited opportunities to return capital other than via dividends or via an on-market purchase. The off-market buy-back is no longer an option available to companies in Australia. And so you have got a choice of dividends or on-market purchases. And as you can see, and as a consistent part of our capital management framework, we want to pay a strong dividend. We want to pay a sustainable dividend. That is what we seek to do, and so that becomes part of the six-monthly Board decision around any capital management actions, including the level and any growth in the dividend.

Melanie Kirk: Thank you. That brings us to the end of the briefing. Thank you for joining us, and we look forward to continuing the conversation with you. Thank you.

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