Commonwealth Bank of Australia 1H25 Results Briefing

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Introduction

Melanie KIRK: Hello and welcome to the results briefing for the Commonwealth Bank of Australia for the half year ended 31 December 2024. 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 financial results; our CFO Alan Docherty will provide details of the financial results; and then Matt will 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: Well, thanks very much, Mel, and good morning to everyone. It is great to be with you today to present the Bank's half year results. During the half, we continued to focus on supporting our customers, investing to protect the community, and providing strength and stability for the broader economy. Every day we lend to more than 200 businesses, help almost 400 households buy a home, process more than 20 million payments, and send customers 18,000 alerts about suspicious account activity.

We know that many Australians are continuing to deal with cost of living pressures. This half we maintained our focus on supporting our customers with a range of options, which have included improved access to hardship assistance, more than 65,000 tailored payment arrangements for those most in need of support, and to help more than three million customers each month to better manage their finances through our digital money management tools. We kept our promise to keep all of our regional CBA branches open to support communities and jobs in regional Australia.

Keeping our customers' accounts safe and secure is our top priority. We invested $450 million in the half to combat fraud, scams, financial and cyber crime to better protect our customers. Our continued investment has reduced customer fraud and scam losses by more than 70% over the past two years. Our NameCheck technology has been used 80 million times and prevented more than $650 million in mistaken and scam payments.

All Australians benefit from strong and stable banks. This half we lent $21 billion to businesses to help them grow; helped more than 70,000 households buy a home; and paid $11 billion in interest to Australian savers. We maintained a strong balance sheet, and we remain well positioned to support our customers and the broader economy.

The Commonwealth Bank's future is tied to Australia's future. It is in our shared interest to see living standards improve, businesses grow, and for the country to prosper. We have the privilege of serving 16 million Australian customers and to provide employment to over 35,000 Australians. In the half, we paid $2 billion to over 3,700 suppliers, the majority Australian small businesses, and we continue to be one of Australia's largest taxpayers, with $2.2 billion in Australian Government payments in the half. And we returned $4.2 billion to shareholders, benefiting more than 13 million Australians either directly or through their superannuation.

It has been a challenging four years for Australians. Prices are up 20%, including rents up 18% and food up 22%. We hear from our customers all the time that they have been making real sacrifices. During COVID households saw real disposable incomes increased substantially due to the stimulus. It has been painful for households as this unwound in 2022 and 2023, primarily due to higher prices. Disposable income appears to have now stabilised, helped by the Stage 3 tax cuts. Spend on essentials has reduced, driven by lower inflation and energy rebates,

and households have been able to increase saving, and spending slightly more on discretionary items. The spending and savings gap between younger and older Australians has reduced.

Continuing to make progress on inflation over the next 12 months will be very important. We expect further relief for households as inflation returns sustainably to the target band, and interest rates start to fall. There has been interest in the impact of the Stage 3 tax cuts on households and the economy more broadly. The tax cuts have been mostly saved, not spent, and we can see these savings flowing through to deposit and offset accounts. Offset account balances grew $10 billion in the half, almost double the prior corresponding period.

However, we know the experience of all Australians is not even, and while we while we have been encouraged to see levels of hardship assistance reduced by 15% in the half, we are committed to doing more to help our customers manage their finances. This includes making it easier for our customers to access support.

We build a brighter future for all in a number of ways. We aim to help improve the standard of living by growing the economy and supporting our customers. We have increased business lending balances by 12% to $152 billion to help businesses create jobs. To help our customers achieve their life goals, we aspire to be the trusted partner at the centre of their financial lives. We have maintained strong MFI share in growth segments, but did see a softening in retail MFI from changes in immigration volumes and mix, and increased competition.

Through technology and digital, we deliver superior customer experiences. We have increased investment in technology to record levels during the half. This includes Australia's first GenAI powered messaging service for Bank customers. And we also recognise that we must continue to execute consistently so we are safe, strong, and always there when most needed.

We have continued to maintain our key balance sheet settings. We continue the disciplined execution of our strategy to build and extend our competitive advantages. The strength of our core franchise starts with customer focus and enduring customer relationships. Deep, trusted relationships lead to a higher frequency of engagement, a better understanding of customer needs, and superior customer experiences, leading to value creation for our shareholders.

Technology allows us to turn this flywheel faster. It changes customer expectations of what a deep and trusted relationship looks like, including how we protect customers from more sophisticated threats like scams and cyber. We have increased our technology investments this year to accelerate that progress.

Net Promoter Score is a key way we measure the strength of our customer relationships. In consumer NPS we have maintained the number one position for 26 consecutive months, and achieved the highest score of any major bank since tracking began. In business NPS, we have returned to number one. We also have peer leading digital NPS for our digital offerings, including the CommBank app, which is used by more customers than any other financial services app in Australia.

Our focus on deepening customer relationships is evident through our leading Retail and Business MFI share. Nearly 35% of Australians and more than 26% of businesses consider the Commonwealth Bank to be their main financial institution. We have continued to grow transaction accounts in both our Retail and Business Banks. These increases translate into home and business lending growth of 6% and 12%, respectively, over the past 12 months. More than 97% of home loans and 90% of business loans are linked to a CBA transaction account.

Turning now to our performance, which has been underpinned by operational and strategic execution. Volume growth has been a particular highlight. We have seen record lending to Australian businesses and home buyers in the half, with $144

billion in fundings.

We have continued to invest in AI to improve the customer experience, leading to reduced contact centre wait times and faster business loan decisioning. And we have been very focused on disciplined capital management with strong organic capital generation.

Strategically, we continue to build direct primary relationships through a differentiated proposition. The Commonwealth Bank now accounts for more than 45% of all proprietary home lending in Australia. We have launched a range of new products to deliver superior experiences for customers.

Turning to our results, we have delivered for all stakeholders through our customer focus and disciplined execution. The 2% growth in cash NPAT was supported by volume growth in our core businesses and a lower loan impairment expense. 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 $2.25, an increase of $0.10 on the prior corresponding period. And for the ninth consecutive half, we will be neutralising the dividend reinvestment plan.

Operating income has increased 3% for the half, supported by strong volume growth and stable underlying margins. Operating expenses were 6% higher, driven by inflation and investment in technology. We have consciously increased our investment envelope to accelerate the continued modernisation of our technology and our broader AI agenda. Our pre-provision profit was up 1%, reflecting strong operational performance across all of our business units. And as a result, cash net profit was up 2% on the prior comparative period.

Our balance sheet remains strong with 77% deposit funding and strong provision coverage. Our weighted average maturity of long term funding is 5.1 years, and liquid assets are $175 billion. Our capital ratio of 12.2% is well above the minimum regulatory requirement. The credit environment remains benign. Our portfolio quality remains sound, with steady arrears and impairments below long term averages supported by a strong labour market and savings buffers. Troublesome and non-performing exposures remain stable over the past 12 months. Home loan arrears have also stayed stable, with most home lending customers remaining in advance of scheduled repayments.

We remain well provisioned for a range of economic scenarios. We hold total provisions of $6.2 billion, which is $2.4 billion above our central economic scenario. We have seen consistent, disciplined volume growth in all of our business units this half. In our Retail Bank, we have grown home lending and deposits at 1.2 times system and 1 times system, respectively. We are continuing to grow our Business Banking franchise.

We now hold 1.3 million business transaction accounts, an 8% increase, and we are continuing to lead the market in business deposit market share and hold $7 billion more deposits than our next closest peer. We have also continued to grow business lending above system at 1.3 times, and our Institutional Bank has continued to play an important role in net deposit funding, contributing more than $60 billion. We have also reduced total risk weighted assets by more than $30 billion over the past eight years, and continue to generate good risk adjusted returns.

ASB has maintained strong reputation scores in the quarter, higher than the average of the New Zealand banks, and ASB has also seen strong growth in both business and rural lending and deposits.

Looking at our Business Bank in more detail, we have continued to innovate, to differentiate our customer proposition, launching new market first transaction banking innovations. This is translating into consistent growth in main Bank relationships and customer advocacy. This growth in primary customer relationships has seen a 45% increase in business transaction accounts in the past four years. We hold $30 billion more Business Banking deposit balances than we did in December 2020, and we are number one in deposit market share.

We have also continued to increase business lending volumes above system with lending balances increasing by $55 billion since December 2020. This is additional lending that is helping Australian businesses to grow. The deepening of primary customer relationships and prudent lending growth is driving strong earnings performance. The Business Bank now contributes approximately 40% of the Bank's profit after tax.

A core part of our strategy is delivering global best digital experiences for our customers. Our CommBank app, Australia's number one banking app, has more than 8.8 million users with over 12.3 million daily logins. Since its launch over a decade ago, the number of customers using the app has tripled, and the frequency of their use has also tripled. Through the app, we are focused on building distinctive customer experiences. An example of this is CommBank Yello, Australia's largest loyalty program and the only program of its kind in Australia.

With over 6.4 million customers now engaging with Yello, which is delivering millions of personalised benefits, discounts and cash backs, customers who are engaging with CommBank Yello are engaging with our app twice as often as other customers.

Digital scams are a scourge on society and anyone can be a target. Any loss to a customer through a fraud or scam is unacceptable. While losses for CBA

customers have dropped, we acknowledge there is much more that needs to be done. This half, we have proactively contacted 8.7 million customers to build scams awareness, and we now have more than 4,500 staff dedicated to fighting financial crime.

We have also launched a range of new measures to protect our customers, and are working with others on cross industry initiatives. Our NameCheck technology is now being used by three other banks and a number of other institutions. It has saved their customers more than $40 million in scams and mistaken payments, and it continues to create value for our business and retail customers. Last October, NameCheck enabled our team to step in and help a business customer avoid a $2 million loss via a business email compromise scam. Reducing the incidence of scams requires a whole of ecosystem effort to disrupt them as close as possible to the source. This is because most scams originate outside of the regulated banking system.

Over the next year, we want to extend this ecosystem approach to disrupt fraud and scam campaigns in real time, helping to make all Australians safer. And we will continue to invest to keep our customers safe and through collective effort between banks, government and other industries, we must stamp out this criminal activity in Australia.

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

Presentation by Alan Docherty

Alan DOCHERTY: Thank you Matt, and good morning to everyone dialled in. I will begin with an overview of how our operating context is evolving and our response, how that translates into key measures of our franchise health over

the long term, and how this manifested in our latest financial results and returns to our shareholders.

So looking firstly at our operating context, we are seeing evidence of improving conditions for stretched households as tax cuts, energy rebates and a gradual moderation in inflation have led to a modest but welcome rise in disposable incomes over recent months. We are also attentive to several global thematics which have implications for Australia. On the technology front, we are seeing an evolution of the capabilities of Generative AI, but to take full advantage of the opportunities in the years ahead, it requires an AI ready workforce data set and technology infrastructure.

We also live in a world of rising macroeconomic imbalances and geopolitical uncertainties. Australia remains relatively well placed and retains strong fundamentals as an attractive destination for both people and financial capital. But of course, we are not immune to the risk of exogenous shocks emerging from other parts of the world. So how are we responding to this context?

Firstly, we continue to focus on supporting those customers most in need of assistance, providing tailored help to those in hardship.

Secondly, we remain disciplined in our approach to volume and rate trade-offs, as can be seen in a rising share of industry net interest income. And we continue to exercise care around how we utilise our shareholders capital, always with a view to long term shareholder value accretion.

Thirdly, we decided the time was right to again increase the level of investment of shareholders' capital behind our strategy. This will help accelerate the time period over which we refresh our technology infrastructure and level of AI readiness, and ultimately drive an improved experience for our people and our customers.

And lastly, we have maintained strong balance sheet settings to further underpin the flexibility of the franchise, to support our customers and the economy under a range of future economic scenarios.

Key measures of our long term franchise health remain in good shape. The strengthening of the franchise translates into shareholder returns, and you can see some of the key financial outcomes for the period on the bottom half of this slide. Our pre-provision profits have grown strongly this half, and that is a reflection of strong operational performance delivering above system volume growth in both home and business lending.

All of our balance sheet settings have remained at the conservative end of the spectrum, and that combination of profitability and balance sheet strength has provided the Board with the opportunity to distribute a higher interim dividend. I will now step through the result in more detail.

Both statutory and cash profits from continuing operations were $5.1 billion, with little to no non-cash items in the current half. Breaking down the components of that cash profit, operating income showed an improving trend over both the prior comparative period and the sequential half. We chose to reinvest some of that top line momentum into higher operating expenses, while still preserving growth in pre-provision profits. Loan impairment expense reduced as the economy proved resilient to higher rates, and this translated into higher reported cash profits.

Looking firstly at operating income over the prior comparative period. Overall income grew 3.3% to a little over $14 billion. Net interest income was the key driver of that growth, increasing $530 million, due to strong volume growth across all our banking businesses in Australia and New Zealand. Other operating income was a slight drag on earnings due to lower trading income versus a strong prior

comparative period, partly offset by volume driven growth in lending fees and commissions.

One pleasing aspect of this result was a return to growth in our share of industry net interest income. 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 annualised revenue pool of about $75 billion. You will recall that this time last year we were able to grow industry revenue share, despite losing home loan volume share, due to strong pricing disciplines. Over the last six months, we have been able to maintain that pricing discipline, while also returning to above system growth in home lending.

This period also demonstrated the ongoing importance of investing behind our proprietary distribution channels, and executing with consistency in our operational teams. These are the essential foundations required for any bank to deliver sustainable multi-year organic capital generation.

Turning to net interest margins. While reported margins were higher, underlying margins were stable over the sequential half. Reported margins were inflated by mix effects, caused by lower liquid assets and also some changes to our institutional product offerings. This represents a cosmetic improvement to margins, and did not drive earnings growth in the period. Excluding those items, underlying margins were stable with the impact of competition for deposits and home loans offset by higher earnings on our capital and replicating portfolio hedges.

Turning now to operating expenses; they increased by 6% over the prior comparative half. Most of that growth was a function of inflationary increases in wages and supplier input costs of around 4%. Given our strong momentum in top line earnings, we chose to reinvest some of that into our tech infrastructure and frontline teams. We believe this is the right decision for the long term. Extending

our technology leadership and delivering better customer experiences and profitable franchise growth in the decade ahead. Pleasingly, the realisation of ongoing productivity benefits were able to finance some of that extra investment, after absorbing volume related cost increases.

We will now turn to our balance sheet settings, starting with credit risk. Loan impairment expenses were $320 million, as loan loss rates reduced to seven basis points over the last six months. Consumer arrears rates have reduced in the last six months across the credit card and personal loan portfolios, while home loan arrears have stabilised. Arrears do, however, remain higher than they were 12 months ago, as cost of living pressures continue to weigh on some borrowers. Corporate troublesome and non-performing exposures reduced slightly over the period, due to the repayment and upgrade of several single name exposures.

Overall, provisions have increased slightly to $6.2 billion, which was largely a function of growth in lending. We continue to hold a buffer of approximately $2.4 billion to our central economic scenario, and our balance sheet provisions now cover more than 75% of the expected credit loss of our downside economic scenario of a global recession. Provisioning coverage reduced slightly to 162 basis points of credit risk weighted assets.

As usual, we have set out how our sector level considerations have evolved over the last six months. Consumer provisions have again reduced slightly over the period due to rising house prices, as well as lower expected losses on credit cards and personal loans. Within corporate, there was not any significant change in the provisioning coverage for the retail trade, entertainment, leisure and tourism, or agricultural sectors. We did reduce forward looking adjustments slightly in the construction and commercial property sectors, as portfolio credit metrics improved.

Turning to our funding stack, we have maintained strong settings across the board. We delivered another pleasing period of growth in Retail and Business transaction deposits, and our customer deposit ratio is at 77%. Looking at the full funding stack in the middle column, you can see our short term wholesale funding mix remains well below historic levels at 8% of total funding, and long term funding remains conservatively positioned, with a weighted average maturity of 5.1 years. And on the right hand side, you can see the strong level of liquid assets that have been built over recent years, with our liquidity coverage ratio now back within target range following the term funding facility repayment in the middle of last year.

Our Level 2 Common Equity Tier 1 ratio was 12.2%, down 10 basis points over the past six months. As we have articulated under our capital framework, the first and best use of surplus capital is to support our customers and the economy and grow our franchise. You can see that that has again been the case, with growth and credit risk weighted assets driving 36 basis points of capital consumption. The interim dividend increased 10 cents to $2.25, and the dividend reinvestment plan will again be fully neutralised through a non-market purchase of shares. Normalising for long run average loss rates, that represents an interim payout ratio of approximately 75%.

As you can see on the bottom right of this slide, the underlying level of organic capital generated from our operations underpins the long term sustainability of the dividends which benefit millions of Australians. And that is one example of the disciplined and balanced approach we take to capital management. The reason we attract shareholders' capital in the first place, is because they trust us to deploy their capital carefully. The return on that capital helps fund a growing portfolio of lending, and also allows us to continue to invest strongly behind our strategic priorities.

In the last six months, we have deployed a record amount of capital to support home and business owners in Australia and New Zealand, and a record amount of franchise reinvestment to deliver better customer experiences, both today and over coming years.

Getting that balance right between the sources and uses of our shareholders' funds provides us with the flexibility to deploy surplus capital in the right way and at the optimal time. This long term approach has manifested in a consistent track record of delivery. Our combination of a high return on equity and a strong payout ratio continues to compare favourably with domestic and global peers, and our strategic investments, strong operational execution and disciplined capital management combine to deliver continued outperformance in net tangible assets and dividends per share.

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

Economic Outlook and Summary – Matt Comyn

Matt COMYN: Thanks very much, Alan. As I mentioned earlier, the past four years have been challenging. We know many households are looking forward to lower rates. Continued effort will be required to get underlying inflation sustainably into the target band, and there are some risks around the outlook. Housing affordability remains of great concern, and will no doubt be one of the dominant themes for many years. Productivity growth will also be critical, and is the only path to grow standards of living sustainably over time for all Australians. There are a number of uncertainties in the geopolitical environment.

However, there is reason for optimism in the Australian economy. The labour market remains robust with near record low unemployment. The Federal Budget

position is favourable relative to most developed economies, and real disposable incomes have started to lift. We expect them to continue to rise over the course of the year.

So in summary, we remain focused on supporting and protecting our customers, providing strength and stability to the Australian economy, maintaining consistent and disciplined strategic execution and building stronger relationships with our customers, and investing to strengthen our long term franchise. We will stay focused on our customers, offering personalised support and financial flexibility, and we will continue to invest in our franchise as the Bank for all Australians.

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

Analyst and Investor Q&A

Melanie KIRK: Thank you, Matt, for this briefing we will be taking questions from analysts and investors. When it is your turn, I will state your name and the operator will open your line. Please introduce the organisation that you represent, and please limit your questions to no more than two questions to allow everyone opportunities.

We now have the first question coming from Carlos. Thank you.

Carlos CACHO: Thanks, Mel. I am Carlos Cacho from Macquarie. Thanks for the chance to ask a question. I just wanted to start on expenses. Adjusting for the higher day count, it looks like your underlying costs were up about 3% on the half. And within that, IT spend was up about six. But if I look at the investment spend, which I know increased, but it actually went through the P&L, it looks like that was about flat half-and-half, so the majority of that spend looks to be supply costs. As we look forward, how should we think about that? Is that going to remain at that kind of mid-single digit growth rate? Was there some one-off in

the half that meant that was higher? I guess how should we think about underlying cost growth, and particularly IT spend going forward?

Matt COMYN: Yes, maybe I will start, then Alan, you can talk in more detail. Thanks, Carlos. Look, I think the more significant overall, as Alan touched on, we have been comfortable that we have been improving the level of efficiency and outcomes for the technology investment spend. We are also conscious that it has probably gone backwards in real terms over a few years. So we consciously wanted to increase that level of investment. So there is a number of FTE associated with that.

I think the trend that we have also been continuing is bringing more capability in-house. There is obviously an offset for some of the external providers. We have also got within that wages growth probably of around 4%. I guess they have been the key drivers. And yes, there are changes in any period around capitalisation depending on that level of investment. But I think where we can see some opportunities at this point to accelerate some progress, particularly on some of our longer term objectives, we thought that this was an appropriate time to step that up and over the course of this financial year.

Alan DOCHERTY: Yes. And as we touched on in the presentation, Carlos, we are going to – we made a choice around the level, the run rate level of expenses through the half. We have added more frontline teams, particularly in the Business Bank. We have brought more technologists into the Bank, which you are seeing come through. And that is coming through mainly in the staff cost line. There are some third party providers that we have brought on to work on some of that investment spend. So you see an element of that turn up on in IT costs. So we made a choice around that, that plays into the run rate.

I think on day count, there is a couple of extra working days in that first half of this financial year, against both the prior comparative period and the sequential period. So that plays into some of the growth that you have seen over the sequential half.

But as we have said in the past, we adopt a flexible approach to the cost line. And partly it is contingent on how we are going on the top line. So in this period, the top line momentum and our confidence in that gave us some room to accelerate some more costs through the period, which are embedded in that run rate. So we will keep an eye on that, how the volumes are looking going into the balance of the financial year and beyond, to continue to flex our cost approach accordingly.

Carlos CACHO: Great. Thank you very much, both. Secondly, just on margins, rewinding two years in first half of 2022, you gave us that maybe infamous slide to give the market a bit of a framework for thinking about how higher rates in the RBA would flow through your business. As we sit here, and the market is widely expecting a rate cut next week, and then another three, another almost three through the rest of this year, how are you thinking about how that flows through? And is there any guidance or indications you can give the market similar to what you provided on two years ago?

Alan DOCHERTY: Well, we have not provided any sort of additional guidance since that, which was I think first half of 2022. So yes, a couple of years back at the beginning of the rate cycle. And we talked about the sort of sensitivities to each rate rise. The thing that has really changed slightly over that period, I think the overall sensitivity, I think that bore out over the last two years, as you have seen the margins change in response to the rising cash rates. So we remain comfortable with the overall sensitivity that we have provided.

The thing that has changed slightly is we have hedged a little more of our non-rate sensitive deposits, and we have seen some switching out in terms of the unhedged

deposits. So there is probably a little bit of a mix change between the piece of it that represents the replicating portfolio earnings, which obviously take longer to manifest, versus the piece related to the unhedged deposits balance, because that was a little larger back a couple of years ago. But aside from that mix change, I think the overall sensitivity through the full passage of time remains similar to the guidance that we provided a couple of years ago.

Carlos CACHO: Great, thank you very much.

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

Jonathan MOTT: Jon Mott here from Barrenjoey. Firstly congratulations; 45% share of proprietary mortgage sales. I know that is something that the team has been working on for over a decade, that really reflects some really good work over a long time. So firstly congratulations on that figure.

I had a question firstly for Alan, then a follow up as well. The Retail Bank had a very low credit impairment charge, and you called out improving consumer finance coming through some of that seasonal in the second half, but also a lower collective provision given in house price improvements. I understand there is a lag between actual house price moves and bank valuations, but given house prices have started to ease in Sydney and are down in Melbourne, if we can stay at current levels, does that mean that you will start to see a higher collective provision charge or impairment charge in the Retail Bank over the second half and into 2026?

Alan DOCHERTY: Yes. Thanks, Jon. We have we have a pretty dynamic approach to revaluation. So we have a very regular health check, if you

like, on how the carrying value of the collateral against the mortgage is moving. So we keep pretty, relatively current I would say, with the movements in house prices.

What you have really seen is small changes around the margin in terms of the overall amount of collective provisions that we are carrying. And, as you can see on the actual provisions that we hold, we have got a significant buffer to that central economic scenario. And if anything, I think we have got more certainty now than we had six or 12 months ago around the probability of that central scenario playing out. So given, even with that marginal change in consumer collective provisioning, we are still very well provided relative to our base case.

Now I would not see that as a particular source of higher loan losses in the near term, as you see a sort of stabilisation, maybe a slight decline in house prices, because the coverage levels are very strong. And look, as we find out more about how customers are performing, how they are curing to the extent that they go into hardship, we can then refine the levels of overlays that we have against various segments of the consumer portfolio. So you are always going to see a little bit of movement one period to the next. This half there happened to be a slight decline, but I think overall we are feeling very comfortable with the level of provisioning we have got on both consumer and corporate.

Jonathan MOTT: I am just reading between the lines here; so you're basically saying that very low levels of provisioning are likely to continue into the second half, just effectively that is what you are saying with your confidence around the buffer?

Alan DOCHERTY: Well, I will let you opine on the future, I will not give guidance on the future, but where we sit today, we are feeling pretty comfortable relative to that central scenario.

Matt COMYN: And I think, Jon, specifically to any relative change in consumer arrears, which there is a little bit of seasonality, particularly in the unsecured, I think that is going to have a very modest impact.

Jonathan MOTT: Thank you. Second question, Matt. MFI share; it is another topic we have been talking about for a long time, and it fell a bit over the last 12 months, but especially in the young adult category, it was down about a percent. That came despite I think last time you called out 62% share of the migrant community. There were about 300,000 young migrants, mainly students coming into Australia last year, and you're obviously dominating that sector. So if you look at the number of young customers you want from migrants, it means that your share of the non-migrant Australian community has slipped quite a bit over the last 12 months. Just wanted to get a feel, despite all the technology investment, despite how well you are doing in the student and the school age category, what is going on with that young adult category?

Matt COMYN: Thanks Jon. I think we have been chatting about this slide now for just over a decade. There is a little bit, as you know, there is a little bit of volatility given the survey nature of it. But to your point, I also think there is some interesting things that happen, certainly over the medium term. I think a couple of things that we are looking at, clearly the full year for last year was very strong. We really benefited from higher migrant numbers. They have reduced. We are seeing increased competition for new migrants as well. I am sure you have seen at least one of the other banks is paying a cash back.

Secondly, there is actually a mix effect. So there are certain migrant flows, say from India, we get a much larger share than some other countries. So there is a little bit of a mix effect there. And then I think, look, your broader point, we are sort of – we look at it every period, but also particularly over the medium term for any

changes. We have done very well in youth over a long period of time. We see competitive intensity, particularly around some of maybe the deposit rates there. So we continue to watch that, I mean right the way through.

So I mean obviously we have a strong starting point. It is really important we continue to win a disproportionate share of youth and migrants. We try to back out some of the volatility, but notwithstanding that I think there are some important observations for us that we are looking into, about whether we need to respond. Because as evidenced by the fact that we have been talking about it for more than a decade, we think it is directionally a good representation of one of the strategic drivers for us.

Jonathan MOTT: Thank you.

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

Andrew TRIGGS: Thank you Mel, morning all. Just a couple of questions, please. The first one, just on the NIM walk slide, please Alan. A little bit surprised at the extent of deposit competition mix impacts still coming through in the NIM walks. It did fall half on half, but still a reasonably significant headwind. Could you please break out some of the key drivers of that, whether it is term deposit competition or greater qualifications for bonus rates? Because is from the deposit mix slide, it doesn't look like there has been a great deal of change in mix shift during the period.

Alan DOCHERTY: Sure, Andrew, and you would recall that I think for the last couple of halves we have been flagging deposit competition was going to likely be the single largest headwind facing us in the period ahead. So if I break down that, four points of deposit competition, two points related to retail savings,

price competition. Now really there is an element of mix to that. We are growing very strongly in our award saver product, GoalSaver, that is growing around three times faster than our traditional product, the Netbank Saver product.

We talked last time about the very high award rate that our customers enjoy on that product; pleased to see that that has continued to grow. So more and more customers are qualifying for that bonus rate. And so you have seen a mix effect if you like within retail savings because of the growth in the higher yielding products. So that is two points of the four points.

Retail term deposits was one point of the four points. That is just really a function of – you have seen that change in the 12 months swap rate over the period. There has been some changes to retail deposit pricing. We have had some specials on at various parts of the curve, but that is just normal competitive attrition from a retail term deposit perspective. And then there was a basis point of competition in business deposits. So we have seen some increased competition on both sides of the balance sheet actually on a price basis in Business Banking. And so that was the other point.

Andrew TRIGGS: Okay. Thank you. And maybe just take a step back and look at the performance over the last 12 months or so. You had 6% cost growth for the first half of the PCP on 3% revenue growth. And that was in, with a backdrop, a very strong or above system credit growth and a fairly stable NIM environment, at least in the second half. As you look forward, I mean, what hope do you have of returning to at least somewhere close to neutral jaws at some stage, given things will arguably get harder, getting harder on margins due to rate cuts coming through in the short term?

Matt COMYN: I think as Alan touched on earlier, we obviously try to take a medium term view. We are very conscious always of the revenue

environment. Which is not to say, we will not necessarily solve for the revenue and expense in that particular period. But as we go into softer environments, we are prepared to sort of scale back and look harder on the expense side, probably unlikely from an investment perspective. And where we have been prepared to probably go above what our base case would be in terms of expense growth, it has tended to be opportunistic, where we feel that we have gotten a good volume or revenue outcome. That was particularly evident, I think, during COVID.

But we increasingly believe that the long term strategic positioning and performance of CBA will increasingly be determined by our relative technology execution, and therefore we want to keep the investment high. And for the reasons outlined earlier, we thought it was the appropriate time to just step up some of that investment. But that rate of growth is not necessarily indicative of an ongoing effect.

Andrew TRIGGS: Thank you Matt.

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

Richard WILES: Good morning, Matt. Good morning, Alan. Just wanted to ask you about mortgage competition. Obviously you have won a little bit of share in the half. Your proprietary originations are going well. But did you see sort of sector wide competition ease in the half? And what's your view on some of the recent suggestions that it is picking up again?

Matt COMYN: So Richard, I guess over the – I mean maybe a 12 or an 18 month period, and particularly sort of evidence, let's say in the last six or nine months, I think margins have stabilised. It is still very competitive. I think most of that stabilisation has actually been an improvement in funding costs, which have

not in their totality been passed on. So there has been a slight improvement. We can see that in terms of average new business margins, but then also marginal ROTEs across the industry.

I mean, our base case is that level of competitive intensity will probably stay around the same levels. There are risks to that as well. I mean, clearly some of the funding spreads are almost at record levels in terms of the tightness of those credit spreads. We see upside risk in cash bills or basis risks that would compress margins. It is not as evident. I mean, they are very small moves at the moment and across the market. So I think our base case is probably a stabilisation. But I think there is, if margins, particularly from a funding or basis risk increase, I think that has the potential to compress margins. Because generally speaking, the market does not necessarily adjust in terms of the level of front book discounting in prior cycles.

So it will continue to be something that we are watching closely. That stabilisation is obviously at substantially lower levels than it was a few years ago in terms of the margins that are available. And that is putting pressure particularly, I think, on some of the smaller financial institutions which have an even larger concentration to home lending.

Richard WILES: Okay, thank you. And I note in this result you have not made any changes to your capital management approach or your settings around the dividend. You are making pretty slow progress on the buyback; I think only $18 million in the past half. You have just announced that you are going to get a near billion dollar benefit from the sale of a stake in Bank of Hangzhou. So the capital is building up. If the share price doesn’t go down, or in fact, it goes higher, how are you going to manage your excess capital?

Alan DOCHERTY: Yes, I mean, and how we will manage it will come back to the capital framework that we have been articulating for a number of years now. And I think you summarised it by saying we are taking a long term approach here. And as I mentioned in the presentation, and you can see it particularly in this result, first and best use of surplus capital is to grow the franchise. And it was a very strong level of credit, RWA growth, in fact a record over the last six months. And so we have not actually added to the capital surplus organically through the six-month period, because of the 36 basis points of capital consumption we have seen on credit RWA. So we are sort of geared for that growth. We are pleased with that growth.

Importantly the growth, it is the right kind of growth. Because when you are growing quickly you look at are we winning on price? And that is not where we are winning. Are we loosening credit? No, we are not loosening credit. Have we changed the hurdle rates? No. We have kept the same hurdle rate consistently for many, many years. So we are getting good risk adjusted return. It is good franchise growth which is going to benefit shareholders over the longer term. That is the first and best use.

You then increase the investment spend. I think that is a good use, to the extent that you have got NPV positive investments that you can make. And we continue to see that as we have improved. I think the execution of our change portfolio, the velocity, the engineering mix, we were open to increasing the level of run rate investment spend, because we think we can get more done over a quicker time period. So again, I think that is a good use of the surplus capital.

And then to the extent on valuation, I mean nothing has really changed from the conversation we had on this topic around August. The signal from the market is it is still accretive to buy back shares, because the cost of equity is still higher than

the after tax cost of debt. But the optionality value of running a higher for longer capital buffer outweighs that accretive nature over the long term of the buyback. And so we are on – we are making slow progress for that reason on the on-market purchase.

Now, things can change though. So if we are going to see an easing cycle in rates, which most people expect, then what you are going to see is that gap start to widen between the after tax cost of debt and the cost of equity. So with a few rate cuts coming through, that could change the dynamic over the next year or two.

So we will continue to be cautious around that. We want to make sure that our surplus capital is deployed in the right way and at the right time. And so yes, no change to the framework that we have outlined over the last few years.

Richard WILES: So just to summarise that, Alan, and I acknowledge the first and best use is to grow the franchise, you are managing to do that, and you are keeping your excess capital. I mean with Bank of Hangzhou and your existing unfinished buyback, you have got $3.5, $4 billion of excess capital. So are you suggesting that rates need to come down for you to reactivate the buyback? Is that what we should take from the comments you just made?

Matt COMYN: I mean, not specifically. I think Alan did a great job of outlining all of the different criteria. I mean, ultimately, Richard, there are a number of different considerations. The opportunity cost of having a little more excess capital at the moment has probably never been lower. We are prepared to be patient. We have got a preference in terms of how we can best deploy that from a value creation perspective.

And so there is no need to revisit any of that at this point in time. But we will continue to monitor a whole range of different circumstances, market conditions,

funding costs for alternative instruments. Outlook on risk weighted asset growth. What we think might be going to happen in terms of loan losses, franking balances. And we revisit that regularly, and certainly at this point in time we do not think there is anything that we need to change.

Richard WILES: Okay, thank you.

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

Matt WILSON: Hey good morning team. Matt Wilson, Jardine. Two questions if I may, and I assume you can hear me okay. Yes, on slide 27, the share of total net interest income, you present that as increasing. And alongside it, you give some data on home loan market share or home loan movements, et cetera. But the reality it is deposits that is driving that growth. 72% of your NII improvement from the Retail Bank came from deposit benefits. Home loans are only 13%. And indeed the consumer finance portfolio drove more NII than the home loan portfolio. Can you talk us through the deposit dynamics that are actually driving this NII outcome and the increasing share?

Alan DOCHERTY: Yes. I mean, there are obviously a number of products that are driving the overall net interest income outcome. The point we are trying to highlight on that slide, I guess, is the focus on proprietary distribution is important. Now proprietary distribution is very important for our deposit gathering. So you have seen a 4% increase year-on-year in our Retail transaction accounts. Double that in Business transaction accounts; 8%. So very strong momentum there on the proprietary deposit gathering.

On the liability side of the balance sheet you have seen it obviously in the mix of the proprietary versus broker originated home lending. On the asset side and again

on the Business Bank we have put more frontline people on, the productivity per banker, fundings per banker has grown very strongly. So again, very comfortable with the investments we have made in proprietary distribution, and the Business Bank paying dividends in terms of the overall business lending franchise growth.

So I guess there is a broader point to be made around the investments in proprietary, we think are important. That proprietary distribution has driven very strong volumes on both sides of the balance sheet. And it is that volume that has driven that increase in the industry income share. So we will continue to – we think it is important, we are going to continue to focus on that and invest behind it. But yes, the deposits are part of that growth on the left hand side.

Matt WILSON: Yep, okay. No, thanks for that. Look, I agree entirely. I think your liabilities are your real advantage, not your mortgages. And then the second question, if I may. On slide 8, pleasingly, you have seen the number of hardship cases fall by 15% in the half. You also call out in the MD&A that increased restructured home loans were the main driver of the increased non-performing exposures, which are up 7%, half-on-half. What percentage of those hardship cases migrate to actual restructured loans?

Matt COMYN: I think, Matt, we would probably need to double check, unless you know what…

Alan DOCHERTY: I mean, it would be a heavy proportion of the hardship cases would be restructured. Yes, and I think most cases that would turn up as a restructured home loan. The slight – where I hesitate though is there is a slight difference between a non-performing exposure, and the old measure of troublesome and impaired exposures. Now TIAs is a sort of institution specific definition. So that has been retired, because we have now got the new APRA credit quality standard which defines troublesome and non-performing exposures, which

is the disclosures we have made. That is comparable across institutions. Everyone has got the same definition. So I think that is a more helpful number.

The slight difference though is you can restructure a home loan that is not in default. And so if it is not in default it does not turn up in non-performing exposures. So if we look at the old definition, the old TIA definition, you have got a very similar trend. It is actually pretty flat over the six month period. A few more home loan restructures that were on default, but a bit less corporate troublesome exposures, given some of the single names have improved as we have called out in the MD&A and in the slides.

So yes, if you are in hardship, it is more than likely you have gone through some form of restructure, whether that is a payment plan arrangement, an extension of term, for some people it is interest only for a period. So those would all qualify as a sort of restructured exposure that would turn up in that impaired asset.

Matt COMYN: Yes. And I think that, I mean overall, I mean the vast majority of people in financial assistance, they tend to be of short duration, certainly less than a couple of months. But I mean, it is a reasonable proxy, you would probably expect that flow, or certainly for customers who are going out of financial assistance ultimately into the areas that Alan just covered. And I mean, the stabilisation in arrears over the period was interesting. We probably expect like a gradual – well, I think it would have deteriorated absent rate cuts which are more likely. So probably not a lot of movement in terms of arrears, certainly on the consumer side.

And then just going back briefly just to your point on liabilities. Certainly, if you take a slightly longer term view than the six months we were reporting today, from a cash rate of 10 basis points to 435, we have grown a lot. Our main Bank relationships and particularly in Business Banking, we have got a lot of positive

leverage to a rising rate environment. And the quality of that deposit franchise obviously allows us to hedge that. There has been, the switching has really stabilised and really the balance sheet composition across the liabilities between at call non-interest bearing savings and term, across personal and business, looks a little different to the way it did pre-COVID.

And then we have seen NIM headwinds obviously on the Retail side from either TD pricing or, we talked about it at the Full Year, increased alerting to our customers in products like GoalSaver to make sure they are qualifying for the bonus rate.

And then on the Business Bank side, I think in particular, we have seen more competitive intensity for some of the larger business deposits which we have been prepared to let go because they looked at negative margin to us. So I think our volume performance in that particular area of business was a bit weaker, but we feel like we are making the right trade-offs. But yes, I think fundamentally that growth in the deposit and main Bank relationship, given the expansion in cash rates has helped us certainly from an NII perspective.

Matt WILSON: And just linked to the hardship and NPEs, is Victoria generating a disproportionate share of those outcomes? You know, being a proud Victorian, it is pretty clear when I come up to Sydney, it is much brighter and rosier here versus what we are seeing down in Victoria.

Matt COMYN: Yes, that is right. I think where we are not performing and not well secured, which the numbers in totality are small, very small, I mean I think Victoria is 48% from memory of that. And I think it is probably broadly reflective of what we are seeing. And I think a number of businesses that have even reported the economic conditions and sentiment, do seem a bit weaker in Victoria relative to the other states.

Matt WILSON: Thank you. That makes sense. Cheers.

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

Brian JOHNSON: Hi. Thank you and congratulations on a great result. I had two questions, if I may. The first one is just on this AI investments. It strikes me that you have, and you have said today, you have got to have good data, good infrastructure, kind of good customers. But at this stage you seem to be investing in it. But we haven't – and we can see you growing the franchise. Is there a point where we actually see costs coming out on the back of it and does, even though that is good for the cost line, if this is kind of industry wide, does it create asset quality problems further on down the track across the whole sector? As basically a lot – quite a few people that are soundly employed today, perhaps won't be employed in the future. So can we just get a view on when we get an AI productivity saving on the costs, and what that does to the credit risk?

Matt COMYN: Yes, sure BJ. I mean, look, from an AI perspective, and obviously the investment is over a long period of time, we are primarily focused on improving the customer experience. We have done that in things like our customer engagement engine, bringing much greater automation and convenience to customers through some of the lending application processes in some of the areas where we are serving our customers. For example in the contact centre, where we are dealing with increasing in record numbers of payment disputes as more transactions, I think, have gone online. So it is as much dealing with probably some of that growth, that as you said, there are a number of elements that you need to invest in from the overall company's perspective including very high quality data, the technology and the architecture around that.

I think whilst we are very positive overall on the thematic, and we think having capability to both improve the customer experience as well as to be able to govern

and manage for the risks that inevitably come with newer technologies is really, really important. I think the exact timing of the cash flows across all industries is uncertain. And it is one of the things that we think about and debate is, obviously as we are increasing the investment envelope, and we are doing that on the basis that we think they are going to be NPV positive cash flows, the timing of all of those, I think will be more gradual, but for broader reasons across the economy, I think that is positive. But I think the rate of innovation at a global level in this area is only going to accelerate.

Brian JOHNSON: Okay. The second one, if I may, Matt, is if we kind of think about these calls, we sit and we spend a lot of time talking about NIM and costs, whereas what destroys shareholder value is kind of loan loss cycles. So I am just interested in this thing that you have got about $3 billion of surplus capital, but the flip side is that when I have a look at the difference between your ECL and the downside scenario, which has kind of been tweaked up a little bit in this half, I think that looks to me to be covered by basically the excess capital.

Should we be actually thinking that if we were, heaven forbid, to ever hit a crisis point and we do get the downside scenario play out, CommBank doesn't have to cut its dividend, doesn't have to raise its capital? Or is that a little bit too optimistic? Whereas some of your peers are not in that position. Is that how we should be thinking about that surplus capital?

Matt COMYN: Look, Brian, I think maybe it is a little hard to draw that specific conclusion. But going back to the start of your question, I think loan loss cycles are one of the areas. There are certainly others that can be very problematic. And we think about what are the areas that have created value over the last 30 years. And there have been a number of – the ability to perform well and be able to make the best decisions at times of crisis is definitely a differentiator.

I think that is one of the – and we are certainly not forecasting that nor expecting that, but I think the increased flexibility that we have in terms of capital levels, provisioning, I think, put us well placed to withstand a range of different economic scenarios.

And the sustainability and long term nature of the positioning for the Bank for us is really important to be able to deal with both the short term volatility and inevitably, at some point, something entirely unexpected and unforeseen at this point in time is going to occur. And if we are as well placed as we can be as a financial institution to support our customers and be able to make value accretive decisions and avoid, importantly, value destructive decisions, then there is an enormous amount of value in that.

Brian JOHNSON: Thank you.

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

Brendan SPROULES: Good morning, Brendan Sproules from Citi. I have a couple of questions on Business Banking. The first question is there has been an acceleration of Business Banking across the industry. And the RBA data shows that sectors that are growing above the average of the system tend to be watched less, sectors for banks like construction and wholesale trade and hospitality. Can you talk about the growth in your Business Bank and what sectors and types of customers that have been expanding their lending?

Matt COMYN: Yes. I mean, look, the growth at both a system level and our relative performance to that has been strong. The credit settings we are comfortable with; the loan losses that have flowed from that remain very low. But we also recognise that the determination of success is much more

appropriately judged over the medium and long term. We have tried to do that in a very diversified way, being far less dependent on individual sectors. So we are looking at pretty balanced growth.

So I mean across a number of those sectors in particular, but there are some big differences, even in terms of – and those categories are very broad and they are quite broad for us internally as well. I mean construction probably less so as an area, but then that has been challenged. Commercial property, but that has started to improve, particularly in terms of capital cities, perhaps less so in regional areas. Agriculture has been an area of growth that now there can be some cyclical factors clearly, but that has been an area we have been prepared to grow. In areas like entertainment, leisure and tourism, as an example, we have had strong growth in hospitality, which we see the trading performance still to be very strong. Whereas if we probably looked into maybe say cafés as a subsector, that tends to be weaker.

Even in wholesale trade, where one of the TIAs we were talking about in August was in, it was in wholesale trade, but we have also had some good growth. I think some of the individual decisions, some of the subsectors do matter, but typically are very good and tight inventory management. It makes a big difference in areas like wholesale trade. And even in Retail, probably the trading conditions have been a bit stronger than we would have expected across a across a number of our customers. Actually November and December, on the discretionary side, we were a bit stronger than were forecast.

So across the broad settings and in most if not all of those sectors, there are still idiosyncratic names that I think we are very comfortable supporting. So that continued growth has been a feature now over the last four years. But it is very much just to determine on what are the opportunities, where are credit settings in

the market, what do we think about outlook, and importantly, also what is the trade-off in terms of margins and risk adjusted returns? I think the Business Bank have done a very good job of growing across the segments as well. So not being concentrated either. At the larger end of Business Bank, we have started to see some broader growth, as I said, in areas like agriculture, but also in small and mid-size.

Brendan SPROULES: Thanks, Matt. That's very helpful. The second question, I'll refer to slide 56 of the presentation. One thing your slides generally show is obviously business lending has been the source of acceleration of lending growth. But business deposits have had very slow system growth. And in your answer to one of BJ's questions, obviously some competition in some of the more competitive parts of that deposit market.

Just looking at your overall balance sheet, it just seems in the period that the funding of this business lending growth is largely going to come through debt issues, which obviously are up 15% during the half compared to Group deposits at two. Is this, I guess, is this a trend that is going to continue where banks, to fund this above-average business credit growth, are going to have to more lean towards wholesale funding, the most expensive form? And what impact will that have on, I guess, the mix impact on NIMs as we look into the second half and even FY26?

Alan DOCHERTY: Yes, on the deposit side, Brendan, one important thing to unpack from the balance sheet is the big change we had on the institutional pooling facilities product. So for many years we had this large CMPF product which is a collectively managed pooling facility. We have migrated most customers to a new product, which allows us to offset the asset and the liability. So you had a big netting down effect on both sides of the balance sheet that primarily comes through the Institutional Bank segment reporting. So you will see in the profit

announcement we have articulated a large drop, a notional drop in deposits over the six-month and 12-month period, which is just a netting down of those product facilities.

On top of that, as Matt referenced earlier, we have seen aggressive pricing for what we describe as hot money, whether that is in the corporate banks or the top end of the Business Bank, in some institutions that is in the Institutional Bank, as you know. So we have seen some deposits leave, which we are frankly, we were okay to see leave, because they were very much suboptimal from a franchise value, and suboptimal from a profitability perspective. So we allowed some of those balances to drift out, because we were feeling very comfortable about our funding issuance and our otherwise strong growth, underlying growth in both Retail business and Institutional deposits.

So the combination of that netting of the product change, and you can see disclosures around that in the detail of the profit announcement segment, disclosures as well of some hot money that left. So I think overall we are happy with the underlying momentum in deposits. And so broadly I think that customer deposit ratio of 77%, absent a big change at the macro level, a big change in monetary policy, for example, and maybe an acceleration of a QT or the like, I think absent something like that, which we are certainly not forecasting, I think you will see that overall deposit ratio remain relatively stable. And so we will continue to fund the vast majority of our new lending with new deposit growth.

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

Ed HENNING: Thank you for taking my questions. Just a couple of quick ones from me. Alan, before you broke down the deposit competition in the margin, so thank you for that. I was just interested with that, and it looks like you

have still got continuing outlook for robust credit growth across business and housing, do you see that deposit competition continuing? Or do you see the delta starting to slow there? And also just touching on the deposit mix, it was slightly positive. How are you seeing that going forward?

Alan DOCHERTY: Yes, I mean I think that is going to be a function of two main things. One is going to be obviously the magnitude and number of cash rate cuts. So there is obviously a sensitivity on the unhedged deposits, and then over time through the replicating portfolio. So everyone will have a view on the trajectory of the cash rate in the economy. So that will be an important part of it.

The other important part in terms of deposit price competition is going to be the direction, again, of wholesale funding spreads. So we have had this very benign period of very tight credit spreads for banks issuing funding. To the extent that that changes and you start to see higher wholesale funding costs, whether that is through the transmission mechanism of three-month bills/OIS through basis risk or more broadly in term funding spreads. I think if you start to see significant increases in credit spreads, I think that will bring even more price competition back into the deposit gathering across each of the banks.

So I think they are going to be the two key factors around the extent of deposit price competition headwinds in the period ahead. And I think everyone will have their own perspectives on those market spreads and those market rates. And I think they are going to be the key inputs around your view on deposit margins going forward.

Ed HENNING: Okay, no, that’s great. Thank you. And then just the second one is a small one; in your risk weighted assets you got some benefit from portfolio mix and some data and methodology. And you have discussed today

excess capital. Can you just talk about do you see any more benefits around that going forward to help increase your excess capital further?

Alan DOCHERTY: I mean, from time to time you will see some changes in that data and methodology driver of credit risk weighted assets. It was a small change in the current period. It was related to a new loss given default model on our home loan portfolio that we implemented during the period.

And so as you clean up the data and improve the modelling, you will get some refinements. And sometimes they can be positive changes in terms of lower credit RWA. Other times you can bear higher credit RWA as you get a more accurate read. It has been a relatively small amount in the current period, but we continue to update our models, refine our models. The data, we continue to improve the data platforms and the measurement methodology. So from time to time you will see that.

When we look – we try and look through that when we look at what we talk about as underlying organic capital generation. I think it is important to take out – it is small for us in this period, but from time to time you can get bigger movements in that category. I think it is important to look through that from one-off changes in your underlying risk weighted asset intensity, and look at what through the cycle you are delivering, what is that generating in terms of surplus organic capital? And then how does that feed into your dividend decision making? So we try and look through some of the noise in that category, and take a medium to long term view on risk weight intensities.

Melanie KIRK: Thank you. That now brings us to the end of the briefing. Thank you for joining us, and we look forward to the follow up questions and engagement. Thank you.

END OF TRANSCRIPT