Start of Transcript

Introduction

Melanie KIRK: Hello, and welcome to the Results Briefing for the Commonwealth Bank of Australia for the year ended 30 June 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 an overview of the business and the results. Our CFO Alan Docherty will provide the details on 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.

Presentation from Matt Comyn

Matt COMYN: Thank you Mel, and good morning everyone. It is great to be with you today. This year we have continued to focus on supporting our customers, investing to protect the community and providing strength and stability to the broader economy. We know many of our customers are finding it harder and harder to deal with the higher cost of living. We are doing more to help, making that help easier to access, and we are encouraging people to reach out to us early if they need assistance.

We have taken a deliberate strategy to proactively contact customers, and have provided 132,000 tailored payment arrangements to those most in need. As a financial safety net, more than six million Australians can now access up to $2,000.00 in credit with no interest and no monthly fee.

To maintain service levels and regional Australia, we have delivered on our commitment to keep all of our CBA regional branches open. We have also adapted how we use branches to support regional jobs and maintain branch services.

Safe and secure banking remains a priority for all Australians. We invested more than $800 million in the past year to combat fraud, scams, financial and cyber crime to protect our customers. This investment has enabled us to reduce customer scam losses by more than 50% in the last financial year. During the year, we rolled out five market-first innovations, and we are sharing our technology and intelligence with other institutions. Using Namecheck, we screened 57 million account-to-account payments, preventing $410 million in mistaken payments and scams.

All Australians benefit from strong and stable banks. To support economic growth, this year we lent $39 billion to businesses to help them grow, and helped 120,000 households buy a home. We further strengthened our balance sheet, and we remain well positioned to support our customers and the broader economy. We have been rated by Moody's as one of only five banks globally with the highest financial strength. This year we delivered $8 billion in dividends, benefiting more than 13 million Australians.

Households and businesses have experienced a number of extreme shocks in the past few years. Lockdowns, a demand surge, inflation and rapid interest rate rises. The effects are still being felt. The cash rate has increased 425 basis points since May 2022, and the impact on households has been substantial.

Last financial year, the Commonwealth Bank actually paid $33 billion more in interest to depositors and funding providers than in the two years prior. This is equivalent to 80% of the one-off Government support package in the GFC. At the time, it was Australia's largest ever stimulus. This has resulted in a large redistribution of interest income and expense across the economy.

Households are net borrowers in the economy, which makes a rising rate environment particularly tough, with the increases in mortgage repayments predominantly impacting households aged 25 to 55. Rates have moved higher in response to price inflation. The Consumer Price Index has increased by 19% since the start of the pandemic. One quarter of this increase has been driven by housing, with new dwelling prices up 38% and rents up 15%.

Households continue to respond to higher prices and are finding it even harder than six months ago. More spend is being directed towards essentials, and discretionary spend is being cut back. We can also see that savings are being depleted, particularly for working families. Younger Australians who tend to have lower incomes and smaller savings buffers are the most sensitive to changes in prices. Those aged between 35 to 44 have the highest share of mortgage balances and are most exposed to higher rates.

The same data over a longer time period shows the impact of the pandemic, which is still being absorbed by households and the economy. Government stimulus had a disproportionate impact on younger Australians, who saw rapid increases in savings balances. Their spend levels increased substantially, but both spending and savings have been pulling back over the past two years. It has been a particularly challenging two years for households, with real disposable income declining until recently. We expect a recovery in GDP growth and a rebound in disposable income over the next 12 months.

Our role as the Bank for all Australians is to support all customers through good times and bad. Our purpose, building a brighter future for all, recognises that the Commonwealth Bank's performance and future is inextricably linked with Australia's prosperity. We think about our purpose in the following ways.

We want standards of living to continuously improve for Australians by growing the economy and supporting customers. We have grown business lending balances 11% this year to help small businesses create jobs. And we have grown sustainable lending 74% to $7.4 billion to help decarbonise the economy. We want to help customers achieve their life goals and aspire to be the trusted partner at the centre of their financial lives.

We have scaled Yello to be one of Australia's largest rewards programs with over five million engaged customers. We are now considered the main financial institution for 62% of migrants and 46% of young adults. Through technology and digital, we seek to deliver superior customer experiences. Through our market leading app we continue to drive engagement, with in-app messaging preferred by customers, and now accounting for twice as many interactions as over the phone. We significantly increased the number of technology changes delivered this year, while reducing operational incidents.

We also recognise that it is important that we continue to execute consistently, that we are safe, strong and there when most needed. This year we repaid the $50 billion of the term funding facility, and further strengthened our balance sheet.

Our strategy aims to build on and strengthen our sources of competitive advantage. The strength of our core franchise starts with customer focus and strong relationships. Deep, trusted relationships lead to a higher frequency of engagement, a better understanding of our customers' needs, and superior customer experiences, leading to value creation for our shareholders.

We are Australia's leading transaction bank for both households and businesses. This favourable business mix results in more stable and lower cost deposit funding and better risk identification. We maintain conservative funding and capital settings, and have market leading provision coverage. This stability and consistency of earnings is reflected in a lower cost of capital, and allows us to invest more than our 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 our relationship we have with our customers is through the Net Promoter Score. Retail NPS has increased for eight consecutive months, and we achieved the highest score for a major bank since tracking began. 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. We also now hold the leading major bank NPS for our mortgages, transaction accounts and the contact centre.

Our focus on deepening customer relationships is evident through our leading MFI shares, which leads peers by a considerable margin. More than 35% of Australians and 25% of businesses consider the Commonwealth Bank to be their main financial institution. This has translated into an increase in transaction accounts. Over the past five years, retail accounts have increased by 29% and business accounts by 55%. We now hold the largest share of stable household deposits in

Australia, which have grown over $110 billion since June 2019 and are 65% higher than the nearest peer bank.

Turning now to our performance. Operational performance has been strong. We have been disciplined on volume margin management in home loans where we led a number of changes and increased net interest income share across the market, but we also ceded 61 basis points of market share. We have implemented a number of changes, and scaled operational capacity to respond to a very substantial increase in disputed transactions, scams and other emerging threats, and we have been very focused on disciplined capital management.

Strategically, we continue to build direct, primary relationships through a differentiated proposition. Proprietary new lending mix increased seven percentage points to 66%, compared with only 28% for the overall market. We have continued to extend our digital ecosystem, launching new propositions in travel, auto and real estate and growing our telco, energy and health propositions. And we were the only Australian company named in Kantar’s global 100 most valuable brands with consideration at 54% in Retail and 58% in Business.

Our customer focus, combined with consistent and disciplined, strategic and operational execution, has delivered good outcomes for all of our stakeholders. Net profit after tax was supported by our volume growth in our core business. The 2% reduction in NPAT was driven by the impact of inflation on our operating expenses, partly offset by a lower loan impairment expense.

Throughout the year, we have maintained strong liquidity, funding and capital positions. Our operating performance and strong capital position has allowed the Board to declare a fully franked, full year dividend of $4.65, up $0.15 on the prior year. For the eighth consecutive half, we will neutralise the dividend reinvestment plan.

Operating income was flat for the year, supported by volume growth but offset by falling margins. Operating expenses were 3% higher, driven by inflation and increased technology spend. Our cash net profit was down 2% on the prior year on lower loan loss provisions. We remain well positioned heading into a lower growth environment. We continue to strengthen our balance sheet with high levels of provision coverage, surplus capital and conservative funding settings. Our balance sheet is now 77% deposit funded, up from 75% last year. Our weighted average maturity of our long term funding is 5.2 years, and liquid assets are $177 billion. Our capital ratio of 12.3% is well above regulatory requirements.

Our portfolio credit quality has remained sound, supported by a strong labour market and savings buffers. As anticipated, troublesome and impaired assets have increased in the quarter to $8.7 billion, reflecting movements in four well-secured, single name exposures and higher home loan restructures.

The TIA ratio remains well below the historic average. We expect to see further increases in arrears in the months ahead, given continued pressure on real household disposable incomes. 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.

In our Retail Bank, our peer leading MFI share has seen retail transaction accounts increase 5% versus the prior corresponding period. We are continuing to grow our Business Bank franchise. We now hold 1.25 million business transaction accounts, which is a 9% increase. We are leading the market in business deposits, which have grown by $68 billion over five years. We have continued to grow business lending above system at 1.2 times, with more than 90% of our lending customers also holding a transaction account with us.

And our Institutional Bank also plays an important role and has contributed net deposit funding of over $66 billion. Our total risk weighted assets have reduced by $30 billion over seven years, and risk adjusted returns have improved.

Looking at our Business Bank in more detail; we have continued to innovate to differentiate our proposition for our customers. We have enhanced our health proposition and recently launched CommBank Smart Health for pharmacies, and have 3,400 health providers enrolled. Our capital growth account allows customers to withdraw funds with just 48 hours or seven days’ notice, and now has more than $1 billion in balances after its first year in market.

In May this year, we launched a new term deposit product to help our small business customers withdraw up to 20% at any time without interest adjustment or fees. And we are also extending our CommBank Yello program to eligible business customers to provide personalised benefits on business related purchases. And to make rental payments simple and easy for tenants and property managers, we have partnered with MRI, the leading real estate software provider.

Another core part of our strategy is delivering global best digital experiences. Our CommBank app is used by more customers than any other financial services app in Australia, with over 8.5 million active users. Since the app was launched over a decade ago, the number of customers using the app has close to trebled, and the frequency of their use has also trebled. Every year over the past 10 years, we have invested and innovated to meet more and more customer needs digitally. This has resulted in consistent year-on-year growth in overall customer usage and engagement.

Our unique customer recognition program CommBank Yello is central to our strategy, delivering millions of personalised benefits, discounts and cash backs to customers every day. Yello is the only recognition program of its kind run by a big bank in Australia, with more than eight million customers now eligible to receive benefits.

As in many other countries, Australia has seen a substantial increase in criminal activity focused on fraud, scams, cyber and financial crime. We are working harder than ever to prevent, detect and disrupt this activity and protect our customers and the broader community. We are spending more than $800 million a year and have over 4,000 people working full-time across these areas. It is one of the largest areas of operational activity within the Commonwealth Bank. This year we have rolled out a number of market first innovations, improved controls, increased alerting to customers and continued customer education and awareness. We have also made our technology and intelligence available to others, including globally, and are piloting new approaches with three of the telcos.

In June, we became the first bank to share information into a new anti-scam intelligence loop to enable faster action to take down scams across banks, digital platforms and telcos. We have decreased scam losses to customers by more than 50% in the last financial year. However, we also acknowledge that there is more that we can do, and we are absolutely committed to making as much progress as possible.

I will now hand over to Alan to go through the financials in more detail.

Presentation from Alan Docherty

Alan DOCHERTY: Thank you, Matt, and good morning to everyone dialled in. I will cover the financial aspects of our result in some more detail, starting with an overview of key changes in our operating context, how we have responded and how that manifests in key measures of our franchise health.

So looking firstly at our operating context, the Australian economy continues to show resilience. Our strong migration flows and higher depositor incomes continue to offset the fall in disposable incomes felt by renters and borrowers. We continue to see competitive intensity in our banking businesses, which can be seen in both lending and deposit margins. Industry revenue shares have been relatively stable over the most recent six months, after a particularly volatile period in the previous calendar year.

As we look at the global and domestic economic outlook, there is still uncertainty around the forward trajectory of inflation and interest rates. However, the Australian economy continues to be positioned well, and benefiting from strong fundamentals.

So how are we responding to this context? Firstly, as Matt has already talked about, we continue to focus on supporting our customers and keeping their money safe and secure. Secondly, we have been consistent in the strong level of investment of shareholders' capital behind our strategy. This work is driving Improvements in enterprise-wide measures of better digital experiences for millions of our customers.

Thirdly, we have remained disciplined in our approach, not just to volume and rate trade-offs, but also across the broader potential uses of shareholders' capital, such as M&A and our execution of capital management activities. And lastly, we have continued to strengthen our balance sheet settings to further underpin the flexibility of the franchise, to support our customers and the economy when needed.

As a result of these actions, the long term health of our franchise has improved. Our main financial institution share has again increased across both Retail and Business Bank customers, and we have delivered a new major bank record customer Net Promoter Score in the Retail Bank.

This strengthening of the franchise translates into shareholder returns, and you can see some of the key financial outcomes for the year on the bottom half of this slide. Our level of organic capital generation reached $10 billion over the last 12 months, and that represents a significant widening of the gap to the next highest peer. We have again strengthened our levels of deposit funding, interest rate risk hedging, loan loss provisioning, and capital.

That long term balance sheet strength has been recognised by Moody’s this year, who upgraded CBA to an A1 baseline credit rating. There are only four other banks in the world with that rating, and we are the only Bank to have achieved an A1 rating on the strength of our financial settings. And that combination of profitability and balance sheet strength allowed the Board to again distribute a higher dividend. I will now unpack the result in a little more detail.

Statutory profit from continuing operations was $9.5 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 $9.8 billion.

The overall P&L line item trends were relatively consistent at the headline level over both the full year and the sequential six month period. Operating income was relatively flat over both the year and the half, although there were important compositional differences between the two periods that we will cover in a moment.

Operating expenses increased, while loan impairment expense reduced, and we have seen a small decline in both pre-provision profit and cash profit. Looking firstly at operating income over the year, overall income was relatively flat at a little over $27 billion. Net interest income fell despite 3.4% growth in average interest earning assets due to competitive pressure on margins. Volume growth was particularly strong in business lending over the year as momentum continued in our Business Bank.

This was more than offset by higher other operating income due to volume driven growth in fee income across our Retail, Business and Institutional divisions, as well as another strong year within our Global Markets business.

I mentioned earlier that the drivers of operating income growth were different year-on-year versus half-on-half. You can see here that net interest income turned from a headwind over the year to a tailwind over the most recent half, as net interest margins stabilised over recent months. By contrast, other operating income grew strongly over the year due to growth in fee and commission income, however reduced over the most recent half on lower trading revenues and dividends from minority interests.

If we look more closely at the change in net interest margin over the sequential half, home lending margins were down one basis point, and the pricing and mix of term deposit and savings products drove six of the seven basis points of funding cost increases. Higher earnings on a replicating portfolio and equity hedges added eight basis points, and there were minor changes in the other items.

We do not normally comment on quarterly margin trends, however, given the large buildup of liquid assets to fully repay the RBA Term Funding Facility, there was some volatility in headline margins over the last two quarters. Excluding those impacts, the underlying quarterly margin trend was stable.

Turning now to operating expenses, they increased by 4.1% over the year, including one-off restructuring provisions. Expenses increased by 3%. This was largely driven by inflationary increases in wages and supplier input costs.

We continued to invest strongly in our technology estate, and related to that incurred a higher software amortisation charge. Pleasingly, growth in these costs were offset by ongoing business simplification and productivity benefits.

If we now turn to our balance sheet settings, starting with credit risk. Loan impairment expenses were $802 million, as loan loss rates reduced to nine basis points this year. As we previously indicated, arrears rates increased across home loan, credit card and personal loan products, as pressure continued to build on household disposable incomes.

We also expected corporate troublesome and impaired exposures to trend higher in the second half, and that has been the case. Over the most recent six months, gross impaired assets increased $700 million. Most of that increase relates to a 1,000 more home loans, which were restructured during the period to assist owner occupiers suffering under cost of living pressures. Given the very strong subsequent cure rate and security position of these mortgages, the expected loss on that cohort of loans is very low.

Corporate troublesome exposures increased by approximately $1 billion over the year, principally due to the downgrade of four single names. These loans are well secured, and no significant loan losses are expected.

We edged up our provisioning coverage to 166 basis points of credit risk weighted assets. Overall, provisions have been kept above $6 billion, with lower expected losses in our consumer book, and slightly higher provisioning of our corporate portfolio. We continue to hold a buffer of $2.2 billion to our central economic scenario, which provides nearly 80% coverage of our downside scenario.

As usual, we have set out how our sector level considerations have evolved over the last six months. Consumer provisions have reduced slightly over the period due to rising house prices, as well as lower expected losses on credit cards and personal loans. This led to a reduction in our modelled base collective provisioning in the Retail Bank.

Within Corporate, there was not any significant change in the provisioning coverage for the retail trade, ELT or commercial property sectors. We did reduce forward looking adjustments slightly in the construction and agriculture sectors, as portfolio credit metrics improved and expected drought conditions did not materialise.

Going the other way, we rebalanced our multiple economic scenario weightings to take account of slightly higher geopolitical risks. This led to the small increase in corporate portfolio provisioning in the half.

Taking a look at our funding settings, we have seen another pleasing period of growth in Retail Business and Institutional transaction account balances. This has taken our customer deposit ratio to a new high of 77% of total funding. Looking at the full funding stack in the middle column, following the full repayment of the RBA Term Funding Facility, you can see our short term wholesale funding mix remains below historic levels and long term funding remains conservatively positioned with the weighted average maturity of 5.2 years.

On the right hand side, it is worth noting at this point in the rate cycle, the relative cost of different equity and debt instruments. We obviously monitor these variances very closely as we seek to carefully manage the balance between the cost of capital and the after tax cost of issuance of new term funding. For example, we estimate that the current spread between the shareholder cost of senior debt and capital is around 3%. That is at the lower end of the range. We have seen in that spread over the last 15 or so years. That will be one factor, among others, that influences the choices we make around the quantum and timing of share buybacks, the level of new debt issuance and the optionality value that comes from running higher capital levels.

Our Level 2 Common Equity Tier 1 ratio was 12.3%, unchanged over the past six months. We completed another DRP neutralisation in the period, buying $480 million of shares at an average price of $117.00, and we made some more progress on our $1 billion on market share buyback program. We have today announced a 12 month time extension of that program until August 2025.

The final dividend increased $0.10 to $2.50, and the dividend reinvestment plan will again be fully neutralised through an on market purchase of shares. This takes our full year dividend to $4.65, up $0.15 on last year.

Our payout ratio has moved to 79% at the upper end of our target range, supported by that strong level of capital generation. Our continued preference is to pay strong and sustainable, fully franked ordinary dividends rather than small and temporary top ups to dividends. This is one example of the long term approach we take to our business strategy and our key financial settings.

Our funding composition remains conservative. Our structural hedges of interest rate risk now total $170 billion. We have the appetite and the track record to continue to invest strongly behind our strategic priorities. Our franking surplus is at a stable and healthy level, and we continue to manage our investors' capital and share count carefully. This long term approach manifests in a track record of delivering strong and sustainable shareholder returns. Our combination of a high return on equity and a strong payout ratio compares favourably with domestic and global peers and our strategic investments, strong operational execution and disciplined capital management, continue to deliver, continued outperformance in net tangible assets and dividends per share.

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

Closing Summary by Matt Comyn

Matt COMYN: Thanks very much, Alan. The economy is still absorbing the shocks of the past few years. Higher rates have had the intended effect of lowering household demand. Inflation is falling, but the pace has slowed. Households are finding it more challenging to respond to the higher price environment. They can expect some relief this year with disposable incomes set to rebound. It will be important to keep demand constrained across the economy so that inflation returns to the target band.

Domestic challenges remain around productivity growth and housing affordability. Globally, uncertainty remains around several issues. The domestic economy remains fundamentally sound and stronger than many international markets. Unemployment remains low, business investment high, and exports are strong. Australia has a number of structural advantages that provide optimism for the future.

So in summary, we remain focused on supporting our customers. The Commonwealth Bank remains strong and stable. This is underpinned by consistent, disciplined, operational and strategic execution. 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.

I will now hand over 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 and the operator will open your line. Please state the organisation that you represent and to allow as many people as possible to ask questions, please limit it to no more than two questions.

We will now take the first call from Andrew Triggs.

Andrew TRIGGS: Thanks Mel and good morning Matt. A question, and Alan, a first question just on deposit mix and price impacts on the half-on-half NIM walk. It was similar to the first half at six basis points. Interested if, Alan, perhaps you could separate those two impacts out? And it does look a little bit higher than you would expect given the mix shift slide did appear to show a slowing in that deterioration of mix in the deposit base.

Alan DOCHERTY: Yes, sure, Andrew. So the six points, we can split that; savings would be four points of that, savings pricing. And one of the aspects we called out earlier in the presentation was the significant amount of bonus, the proportion of deposits that are earning bonus rates above 80% and our Goal Saver product. And so that you have seen a mix shift in there and favourable pricing from a deposits perspective. So that is four of the six.

Term deposit spreads have come in around 20 basis points over the half. We have got a slightly higher mix of retail term deposits relative to industry. So that is two points of the six point compression.

Andrew TRIGGS: Okay, so it sounds like it was, I guess, mix in a sense of qualification for bonus rates rather than movement out of transaction accounts and into higher cost deposit products per se.

Alan DOCHERTY: Yes, that was the preponderance of the move this half.

Andrew TRIGGS: Thanks Alan. And maybe just to follow up just on that same NIM walk, just the replicating portfolio tailwinds, eight basis points combined between the deposit and equity hedges. Could you talk to, that was higher than I had expected in the half. Should we be expecting a similar level of tailwind in the first half of 2025? And just also interested; did the increase in the size of the deposit hedge to $119 billion play at all into the margin tailwind that you achieved in second half 2024?

Alan DOCHERTY: Yes, I think I would say the short answer would be yes to both of those questions. So we increased the level of replication, as we have seen that stabilisation in the level of deposit switching from transaction accounts, we decided to hedge a little more proportionately over non-rate sensitive balances. You will recall through the COVID period when we had that big increase in our core transaction accounts, we tended to wait until we had seen the relative stability of those flows before we hedged them in the replicating portfolio. Obviously, given the timing of rate moves, I think that was the right course of action as we look back with hindsight.

But as those non-rate sensitive balances have stabilised, we decided to upsize the size of the replicating portfolio. And you are seeing some of that come through those replicating earnings through the period.

As we look ahead, look, it is going to be a function obviously of where three year and five year swap rates land. We have seen a lot of volatility in both those swap rates over the course of the last few weeks. We have seen something like a 40 basis point movement between low 400s and low 360s in both those swap rates in the last couple of weeks alone.

So I would not like to hazard a guess around where they are going to be over the course of the next 12 months. We will watch those rates closely and with interest. And you know, that will be the big determining factor in terms of the absolute and relative level of both replicate and equity hedge returns next year. But I think the dynamics of that portfolio, I think are well known.

Matt COMYN: Probably, Alan, [inaudible] compare, maybe the base into 2025, we would not expect as much benefit in 2025 versus 2024 versus 2024 to 2023. So I think Alan stepped through the (a) lots of variables. But I guess as we look forward into NIM for next year, I do not think we would be counting on quite the same magnitude of absolute increase.

Andrew TRIGGS: Okay, thank you.

Melanie KIRK: Thank you. The next questions will come from Andrew Lyons.

Andrew LYONS: Thanks, Mel. Andrew Lyons from Goldmans. Alan, just a quick question firstly on your NIM. Your Group NIM was up one basis point in the half, and you noted that the quarterly underlying trends were broadly stable. However, if you look at the divisional NIMs, your two largest divisions saw NIMs down five bpts in RBS and two bpts in Business Banking. So can you perhaps just talk more specifically to the NIM performance in each of these divisions? And just the extent to which the stable Group NIM trends were also observed in these two divisions.

Alan DOCHERTY: Yes. I mean, there is a small element, and we called out in the walk a small element of Treasury earnings which were higher over the sequential half. So we had one basis point there that sits outside of the divisional margins. The same underlying trends were evident across both the Retail and Business Bank for the period. So you have seen in Retail that impact of the higher savings pricing, the migration of the term deposits, and obviously the preponderance of the home lending mix change impacted there. And the Business Bank, it was actually relatively – we were pretty pleased with the overall margin performance in the Business Bank. It was down only very marginally over the sequential six month period.

But again, we have seen some interesting changes in competitive behaviour, particularly at the larger ticket sizes on both lending and deposits within the Business Bank. We made the decision not to participate in some of that activity, which I think from a volume rate perspective protected Business Bank earnings well in the period.

So I would say similar trends between the divisional results and the overall Group result, albeit Treasury within a positive aspect of the overall Group margin.

Andrew LYONS: That's great, thanks, Alan. And then just a second question. Just looking at slide 85, the bottom right chart, shows your FY23 and 24 mortgage books are performing somewhat worse than the pre-22 books at the same time since origination. Can you maybe just talk to any specific trends you are seeing in those vintages that we should be aware of? And just to the extent to which this performance is maybe a bit worse than you would have expected, or is it broadly as expected, given the rate rises?

Alan DOCHERTY: I mean, it is actually a little better than we expected. If we went back six, 12 months, we had a slightly higher trajectory that we had assumed on the home loan portfolio. So overall a little better than expected.

The performance of the recent vintages, it is not surprising. We have got a much lower stock of fixed rate home loans that are in the more recent vintages. Obviously, that higher stock of low rate fixed rate mortgages were in the earlier vintages. And so the relative performance is not surprising. And obviously recent vintages, you have got less time to build up prepayment buffers. So you would expect a higher incidence of arrears given the changes in rates that we have seen over the past 12 to 18 months. So the performance by vintage and the overall performance, actually a little better than we would have forecast 12 months ago.

Matt COMYN: Yes, and look, I think as Alan said, the factors that we have found most predictive in terms of arrears performance, which has come in slightly ahead of what we might have otherwise modelled, is really just that financial resilience, fewer savings buffers. And so the more recent cohorts, that has been much more predictive of where we would say there is lower financial resilience versus some of the fixed rate maturities, which I know we have covered substantially in the past. So I mean, we would expect a gradual deterioration going into 2025 depending on obviously outlook on rates at some point.

Andrew LYONS: Thanks so much.

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

Jonathan MOTT: Hi guys. Two questions if I could. The first one just on the Retail Banking Business, and just delving into the results in a bit of detail. Consumer Finance has seen a bit of a recovery in net interest income, even though the volumes have been pretty flat over the last year and a pick up in the fee income as well. Is this actually any rate movement, or is it more customers now accruing interest? Why are we starting to see, after an extended period of fall in consumer finance revenue, a recovery coming through, especially in the last half?

Matt COMYN: There is a mixture of a bit of both, Jon. I mean there is some fee income not just in that product in the Retail Bank that is flowing through. I mean, unlike cards, the rate environment PLs is responsive to the interest rate environment. I mean, the corollary of that is, younger borrowers, higher rates. We are starting to see, as we saw in the period, the pickup in arrears, which we anticipated, we started tightening in in December, and obviously we are watching that closely. So a combination of both of those factors.

Alan DOCHERTY: I mean the other element that particularly we have seen in the six month period, was we aligned the amount of interest free days on our credit card product through the period. That resulted in an interesting change from a volume rate perspective. So we have seen balances drop out, but the overall, from a volume rate perspective, net interest earnings were improved as a result of that change.

Jonathan MOTT: Okay. So does that mean there'll be a bit more of a follow through into the next period, or is that a one-off?

Alan DOCHERTY: Most of that is in, that is all in the half.

Jonathan MOTT: Okay. The second one is, a phenomenal outcome, and I think Matt, you commented on this as well. So in slide 44, you highlight that your MFI share of migrants is now running at 62%, which I've never heard of a number like that. Given there were 750,000 arrivals into Australia last year, you're looking at half a million new customers roughly, just coming through, the migrants. Can you give us a bit of detail on this?

Obviously what are the profitability of these new customers as they come through? How long do they tend to stay? Do they bank with you because you are the Commonwealth Bank of Australia, and a lot of people think you're still owned by the Government? What's going on that you've got such a phenomenal ability to acquire customers from this channel?

Matt COMYN: Yes, no, thanks Jon. As you know, we have spoken about this over many years. The sources of new accounts, youth and migrant, we have done well over an extended period of time. Like you, we were pleased to see the share of both young adult, but to your question, particularly in migrant. I think as we have also said on this survey, we find that the numbers are directionally accurate, but not necessarily precisely correct. But I think broadly it holds, and as you mentioned, very large numbers of migrants. So that has been a real driver of new account growth for us.

And look, that mix is really reflective of the mix that is coming in. There is obviously a lot of temporary visitors to Australia, students. So I mean, our tenure of those customers would match. Obviously we have a specific focus on those with pathways to permanence.

Look, I think it is a long standing advantage that we have at least to date been able to hold in terms of preference and consideration. I do not know how much the name itself holds on that relationship. I do think, I mean, I can remember serving in branch in 385 Bourke Street when someone came straight from the airport when I was in the Retail Bank, and they got a mobile phone plan and came into the Commonwealth Bank with their suitcases to open an account. I think some element of that is just awareness and the benefit of scale.

We are also pretty active in signage and arriving, and so we think about it in the context of overall making sure we are very visible. And that has been and continues to be a really important focus for us, given those two markets in particular are such a driver of new account growth.

Alan DOCHERTY: And just on the numbers you quoted, Jon, obviously it is net new migration that is the important driver of the retail tran account net movement, because we are obviously opening accounts for new migrants, but we will close accounts for migrants who depart. So it is not quite as the 700,000. I would not be extrapolating that to the 60%. Net new migration would be more 450 to

500,000 on an annualised basis. So the MFI share is going to be proportionate to net new migration in terms of that growth.

Jonathan MOTT: Thank you.

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

Richard WILES: Good morning. I have two questions. One on is on mortgages and the other is on capital management. Just starting with mortgages. Matt, your growth improved in the June quarter. The annualised rate was something like 5%. Does that mean you're now more comfortable with the pricing and the returns on new home loans?

Matt COMYN: Yes, we are Richard. I mean, maybe I will take a little bit of that arc of the overall financial year. Obviously going back to pre the start, removing cashbacks, and we felt the pricing was unsustainable. Obviously at the start of the financial year, a significant proportion of that share loss came in the first half, obviously as you said, touched on some slight growth in the last quarter. We saw margins improve, probably as much a function over that time actually, as wholesale funding spreads and therefore just an improvement in the overall margins. We are looking at it pretty cautiously.

A number of you are tracking, as we do, changes in terms of front book origination margins as well. And so we have seen a little bit of deterioration on that front in the last month. A couple of players who perhaps have been a little more disciplined have started to ratchet up discounting again. So we are certainly a lot more comfortable than we were 12 or 18 months ago. But very watchful about margins. And clearly that is going to be one of the big swing factors in terms of how margins will play out in 2025 and beyond.

Richard WILES: Thank you. And then on capital, you haven't been particularly active on the buyback. You've done less than 300 million in last year. Certainly your peers have been more active. So can we get some sort of sense for how you're thinking about the buyback? I mean, your previous commentary suggests that you're not particularly keen on special dividends. Is that still the case? And alternatively, why not increase the target payout ratio? I mean, you talked today about the strength of your capital generation, why not go to a payout ratio of something like 85% to distribute that large excess balance of franking credits?

Matt COMYN: Yes, maybe I will start and let Alan add if he would like to. I mean, no change to the payout ratio. I know we have said that a number of times. We have talked about being prepared to operate at the higher end of that range, which we are. Clearly we have the flexibility if we wanted to, to go beyond that. We have got healthy but not excessive franking balance. No change in posture around our views on special dividends, as you touched on. And I think Alan highlighted some of the key points. There are a number of different considerations that we take into account, including obviously market conditions. When we are neutralising the dividend, we are probably buying somewhere in the order of four million shares or so. There is quite a lot of buying activity overall.

We look at the opportunity cost of holding capital. We look at the differences in spreads between various funding instruments against implied cost of capital. And so we weigh all of those factors up, but fundamentally our views and core principles are unchanged. We see value obviously in reducing the share count over time. We obviously want to embark on activities that we think are going to create as much value as we can based on where we are and alternatives are in the cycle.

Alan DOCHERTY: I mean, we have been active from a capital management perspective, obviously to neutralise the DRP as well as the 300 million of progress we made on market buyback. Over the course of the last 12 months, we have bought back $1.5 billion worth of shares, at an average price of around $107.00. So I think from a shareholder deployment of capital perspective, that has been time and capital well spent.

We showed the relativities of the market implied cost of equity versus the after tax marginal cost of debt. Obviously there are different spreads on those numbers between CBA versus peers. So I think that does result in different decision making around pace, quantum and timing of share buybacks. And I think you have seen that over the course of the last six months in particular. And so yes, we will continue to weigh all of that up.

And one other point I would make, just lastly on the payout ratio, we have obviously got capacity there given the level of organic capital generation. However, one thing I would say is that one of the reasons for that lower market, and the relative market implied cost of equity is the stability of the dividend. And when you start creeping up in terms of the level of payout over a period of time, that can create some more uncertainty around the sustainability of the payout ratio at very high levels. And so again that is another factor that we will look at around what is the – we want the dividend to be strong, but we also want it to be sustainable. And we want to have confidence in that ability to continue to sustain and grow at a level of the ordinary payout.

Richard WILES: Thank you.

Melanie KIRK: Thank you. The next question has come from Victor German.

Victor GERMAN: Thank you, Mel. Can I please follow up first on the hedge question? First of all, would I be right to say that shifting that additional $11 billion of deposits into replicating portfolio is a small headwind to margins, given the current cash rate is about 30 basis points above the five year swap?

And also, I appreciate that I'm not exactly comparing apples and apples here, but historically your replicating portfolio only slightly exceeded your business and retail transaction deposits, whereas now it is about $25 billion higher. Is that because you're trying to protect the P&L from future potentially lower rates and lock in higher rates for now? Or has the structure of your deposit book fundamentally changed? And as you alluded, Alan, earlier, you now don't expect any more migration. How do we holistically think about those deposits? And then I have a question on costs as well if possible.

Alan DOCHERTY: Yes, so for the replicating portfolio we start with the total balance of non-rate sensitive deposits for the Group. That is more than just the non-interest bearing transaction accounts. There are a larger stock of non-rate sensitive balance because you apply historical behavioural experience in terms of the level of pass through rate across a number of deposit products. So there is a much larger pool if you like of non-rate sensitive balances than just those non-interest bearing tran accounts.

So we feel that the level of hedging that we have got in the replicating portfolio, the $119 billion, that is still proportionately less than the overall stock of non-rate sensitive balances. So we have got plenty of headroom between the level of replicating and the level of non-rate sensitive. And you continually look at how behaviour changes over time and model that out, and that leads to changes in the level of hedging that we apply.

Yes, the point that you started with is correct. So obviously given where swap rates are, relative to the current level of cash rate, then there is a near-term headwind, if you like, from the increase in the size of the replicating on those at call transaction account balances. Obviously we are taking a view over the long run in order to create that stability in the deposit net interest earnings, as you have seen over many, many years, we have had the replicating portfolio in place since the mid-1990s. And you see a lot of obviously ebbs and flows in the rate cycle, and we took – one of the things as you look ahead, is obviously where do you think cash rates are going to head and swap rates over the course of the next few years.

And, again, that is part of the thinking around why we upsize the size of the replicate.

Matt COMYN: Yes, and I guess maybe Victor, to your point and underscoring what Alan said, that growth in non-rate sensitive deposits has been really important for us to be able to support that. And it seems to be most evident in the Business Bank. I mean compositionally I think the deposits would be up something like $124 billion if we compared June to say, pre-COVID at the end of 2019. And at least that mix to more transactional everyday banking seems to be holding together well and will give us, as Alan said, yes, maybe a near-term absolutely, NIM headwind, but much better protection in a falling rate cycle over the medium term.

Victor GERMAN: No, that makes perfect sense. I mean, obviously that increase has happened in the last couple of years as opposed to the last half.

Matt COMYN: Yes.

Victor GERMAN: So I guess I'm reading in terms of what you're saying, it sounds to me like you have more confidence now that some of those increases in stable deposits are likely to stay with you in the medium term, whereas in the past you were not sure and you thought that they would potentially migrate out. That's the message I'm assuming that you were leaving us with.

Matt COMYN: Yes, that is the right conclusion to draw.

Victor GERMAN: Okay. Thank you. And then the second question, and I appreciate you haven't specifically discussed the potential benefits of the investment that you're making in technology. But at various times throughout the year, your executives have commented on some of the potential cost benefits. For example, reduced engineering time from AI and things like that. Just be interested in hearing from you how you think about the trade-off between that investment and cost savings, and if you see potential cost saving opportunities coming through the P&L over the next couple of years, or do you envisage to continue reinvesting those benefits, into the business over the medium term?

Matt COMYN: Maybe I will start, and Alan certainly can expand. I mean, I think it is two elements; one the productivity saves in year. And Alan has touched on that, and sure, happy to expand. We look at the productivity benefits that we have delivered this year. I think it is overall a good year. A number of those are enabled by the technology investments that we have made, particularly in digitisation. That is going to continue to be an important theme. And so we think about it in the context of what is our productivity and what are all the different initiatives over the course of the year and how that is going to ladder up in 2025 and beyond.

And then alongside that we are thinking about the investment portfolio, and we feel that this year has been one of our more effective years in terms of development deployment. Obviously, we talked about the number of changes that we have made, but just in terms of yield and improvements, it has been an area of real focus for us. And so we are certainly prepared to contemplate higher levels of investment, where we feel like we are getting a commensurate increase in the quality and quantity of either productive or customer enhancing technology delivery. And so we solve for both of those, both in the near term, but importantly taking a long term view, what sorts of capabilities and competitive advantages do we really want to press on over the next five years?

And there are a number of elements within our broader technology strategy which we think are really critical to that competitive position.

Alan DOCHERTY: And maybe just a small add to that; an important area, Victor, of the governance around these aspects of both the productivity, the initiatives that underpin that, the accountability that goes for delivering against productivity targets. That is a very separate process to then the strategic investment priorities and where reinvestments may or may not be made, because what you do not want is the automatic bias to reinvest any savings, because that might not necessarily be the best marginal use of the marginal piece of shareholders capital.

So we have two very separate processes around that. We have run those processes very separately for a number of years now. That creates then confidence around the ability to deliver and continue to generate productivity. And then we can have a separate discussion around where do we want to deploy some of the capital that that frees up. What does that mean in terms of the pre-provision profitability of the organisation? What does that mean for, at the end of the day, to the dividend and the level of growth in the dividend over a number of years?

And so I think it is very important that the governance around those two aspects of how we manage the investments, where we invest, how much we invest, where we want to target those investments, it is a very separate conversation to where we deliver the productivity, we both get commensurate focus.

Victor GERMAN: And productivity benefit around $400 million this year, not too dissimilar to last year. I mean, do you expect that number to be broadly similar next year, or do you see scope for that to increase?

Alan DOCHERTY: I mean, that is probably the best, well it is actually, it is the best in year productivity that we have generated over the course of the last, at least the last six or seven years. I would say that we were pleased with the performance from a productivity initiatives perspective over the course of the period. It obviously helped offset some of the cost inflationary increases in costs that we have seen over the period.

One of the aspects, as you know, as we look ahead, looking at the level of amortisation, excuse me, software amortisation. That will continue to grow, commensurate with the level of strategic investment that we have had on foot for a number of years.

Inflation should be a more moderate upwards driver on costs, as we look out over the next couple of years. But productivity, we had a good year this year. We will continue to focus very much on it. I would not be banking on the same number or a higher number next year. We will set very aspirational targets in and around that. But you tend to, we will take a multi-year view of that. We do not want false economies by chasing a productivity number that is excessive.

Victor GERMAN: Thank you. Thank you very much.

Melanie KIRK: Thank you. The next questions come from Brian Johnson. Brian, can you hear us? Brian?

Brian JOHNSON: Can you hear me?

Melanie KIRK: Oh, we can hear you now.

Brian JOHNSON: Can you hear me?

Melanie KIRK: Thank you.

Brian JOHNSON: My apologies. The first question I'd like to ask is probably a slightly unpleasant one. If we were to go back to the JP Morgan result, they came out, Jamie Dimon came out and quite explicitly said we'd be mad to buy back shares at greater than two times book. The share price fell about 4.5% and subsequently rallied back to actually be more. But from what you're saying today, is it fair enough to conclude that the absence of the buyback basically reflects the fact that the share price is too expensive?

Alan DOCHERTY: It would not be fair to conclude that.

Matt COMYN: No.

Alan DOCHERTY: We noted the JP Morgan commentary. I mean, one of the – slide 37 we included a number of banks and payout ratio and return on equity. The maths around the Jamie Dimon comment is a function of the profitability of the franchise. And when you include the beneficial impact of franking, CBA's return on equity is higher than JP Morgan's. Therefore commensurately you would expect a higher break-even point if you like on the on the economics of the buyback. It is still accretive. Buybacks remain accretive.

The question is not whether they are accretive or not. And you can see that when you look at the relative cost of capital versus after tax cost of debt. The question is, are they, in terms of the pace of buybacks, are they accretive enough to offset the optionality value, which is real, which is running higher capital buffers through periods of uncertainty and avoiding dilutive capital raisings from a shareholder perspective. And so it is more a question of pace optionality.

But the sort of economics that remain accretive, less accretive than they were 12 months ago but still accretive.

Matt COMYN: Yes, BJ, I mean, look, it is not unpleasant. And I think Alan has touched on a number of the key factors. I think if you look at that sort of heuristic that Jamie used, that you gross up for the benefit of franking, obviously then that book value would be 2.5, 2.6. And then as Alan said, there are lots of other temporal issues that are really important and actually bring a lot more nuance to it, like the difference in the cost adjusting for tax, franking, alternative funding instruments, that spread, the implied cost of capital. And then you know as well as anyone, because you have been covering the banks for a long time, if you take a 30 year view and look at what the average raising was, every six years and what the discount was, which is probably mid-20s, you can calculate an optionality of that cost of capital. It is going to be a function of those market conditions, the interest rate environment, a number of different factors.

Brian JOHNSON: Okay. Thank you. I'm going to take it that still means perhaps it's pushing the boundaries of relative value. The second question, if I may, and I think this is a real shortcoming in the regulatory capital. We've got CommBank and NAB that have still retained much of their COVID-19 provisions, whereas ANZ and Westpac have written it back. Today we've got you increasing basically your weighting to your severe downside scenario on geopolitical risk. But when we have a look at the balance sheet, the real risk, I would have thought, basically sits in the home loan book. Could we just get a feeling what kind of downward movement in house prices would trigger a provisioning shortfall for CommBank?

Alan DOCHERTY: Well the simple answer to that is that if you take the downside scenario, which has I think there is a 25% fall in house prices in the first year on the downside scenario, I mentioned that the current level of provisioning that we hold, and that is across both retail and non-retail portfolios, but obviously home loans would be a part of that. We are currently providing an 80% coverage for that downside scenario. If you have higher house price falls, then obviously you would conventionally have higher expected credit losses.

One of the reasons the capital intensity of our mortgage book has reduced over the course of the last six and 12 months is because the equity position and the LVR position of the mortgage book has continued to improve in an environment of rising house prices. So you would have to see a very significant change in the current trajectory of house prices, and obviously many factors that go into that, including the broader economic conditions, supply and demand and new housing, given migration flows in the country.

So yes, a very significant change in house prices would be required to create anything like a material change in our level of provisioning. So as we sit today, the level of provisions that we have on mortgages is significantly higher than the expected losses that we have under the central scenario. And obviously the central scenario is a very continued growth in house prices over the course of the next two or three years.

Brian JOHNSON: Fantastic. Thank you and congratulations again.

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

Brendan SPROULES: Good morning. Thank you for taking my questions. I have a couple of questions on NIM. Alan, maybe could you tell us around the trends you're seeing in switching out of low cost deposits into higher rate deposits, such as term? Page 92 of the profit announcement gives a split of your deposits by geography, and you can see there New Zealand and even other overseas are still seeing a transition towards term deposit. But in Australia it has fallen back. Maybe you could make some comments on that trend?

Alan DOCHERTY: In page 92, oh, yes, page 92 of the profit announcement. Yes, on the term deposit trends there which are down in the half, they are influenced by more by the higher end of Business Bank and outflows there, as well as some institutional clients. So that is really what I would describe as low to negative margin hot money, at the upper end of Business Bank and Institutional Bank that we have allowed to flow out over the course of the six month period.

When I referenced earlier where we had seen some of the competition, it was in large ticket sizes, and it was large ticket sizes at the top end of Business Bank and Institutional, and it is both lending and deposits. And so we have allowed some of that hot money to come out over the course of the last six months. So that is why you can see that trend on page 92.

The broader trend is very similar, in that six months to the prior period, although the rate of switching obviously slowed. So we continue to see switching over the period. The note of caution I would give on the rate of switching; there is still switching. And we are seeing some of that switching offset by growth in new accounts, including the new migrant accounts and non-migrant increase in retail transaction accounts that we have talked about.

There is a seasonal increase in noninterest bearing transaction accounts in the Business Bank. You see that every – at the end of financial year, 30 June each year. So that masks the level of switching that we continue to see in the six month period on a spot basis. But you have continued to see an element of switching. It is at a much slower rate than it was this time last year, but there is an element of that that remains.

Matt COMYN: Yes. I mean, the only thing I would add is, on an absolute level of term deposits, the margins would be higher than what we had seen for some time. So naturally the competitive intensity has increased. At least when we look, at Australia looks to be the only market in the world where TDs are pricing above the cash rate.

The other element that we have observed, which makes sense given where we probably are in the rate cycle, customers are seeking longer duration in their term deposits. And so it is a combination of the mix, competitive intensity, lower margin and the longer tenure. And the combination of those and the elements that Alan talked to are obviously going to be one of the drivers in terms of NIM headwinds into 2025.

Brendan SPROULES: That's great. Thank you. And my second question just relates to the impact of rate cuts on your NIM. Obviously it is a debate in the market. Many investors are starting to think about this, not just in overseas jurisdictions, but even potentially in Australia. During COVID, you indicated that at the time there was a roughly a four basis point impact on NIM for every 25 basis point cut.

As I look at your, particularly the funding of your balance sheet today, as you said, you've got a lot more transaction accounts, particularly in Retail and Business where you've had a lot of success, you've got much lower portion of TDs. Would we expect that sensitivity to be higher? And what would be some of the offsetting factors that we should be considering?

Alan DOCHERTY: I mean, the sensitivity is obviously going to be a function of the decisions we continue to make around the level of hedging, and the replicating portfolio. So the main protection that we have on the rate cutting cycle in terms of earnings stability of the deposit and interest earnings, obviously the replicating portfolio. So both the size of that overall portfolio, then the proportion of non-rate sensitive balances that we hedge, that has increased today relative to where we were through that pre-COVID period.

We provided that sensitivity I think in the, I think it was February 2020 – February 2021, if memory serves. We have not updated that sensitivity in terms of the current composition of the balance sheet. But we have provided a lot of information around the size and shape of the replicating. And you can see there is also disclosures in the Annual Report around the net interest earnings sensitivity of 100 basis point rate shock across the portfolio.

But obviously any of those changes are going to be the function of pricing decisions that are made on both the asset and liability side of the balance sheet. So you cannot – it is impossible for anyone, if you like, to have perfect foresight around the level of pass through on both sides of the balance sheet through changes in rates. The best thing you can do from an earnings stability perspective is give yourself optionality by having more stable earnings, which we do through the size and the increase in the level of replicating.

Matt COMYN: Yes, and I think you are right. I think it was that Feb 2021 we gave that. So I mean the non-rate sensitivity to the tran deposits. But we also, given where the cash rate was, more of the savings portfolio, we would not have been able to pass that on, because we were very low in terms of the cash rate. So the sensitivity by definition will be different for a few different factors.

Brendan SPROULES: That's great. Thank you.

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

Matthew DUNGER: Yes, thank you for taking my question. You've called out the bonus savings rates as a key driver of deposit, the downside on deposits on the NIM. Just noting the deposit funding has grown to 77% of the funding mix, and wholesale spreads continue to fall. So can you give us a sense of what the optimal funding mix is, and at what point you could optimise some of those higher cost deposits?

Alan DOCHERTY: Yes, I mean, we have been optimising some of the higher cost deposits over the six months, but allowing some of the higher cost deposits to flow out, particularly in the term business and institutional term deposits.

So we do not have a particular target in mind in terms of the overall deposit, the customer deposit ratio. Pleasing to see it continue to grow. And we have obviously got a big focus on growing as well as customer advocacy, main financial institution share, and net new transaction accounts in both the Retail and Business Bank. So that will continue to be a strategic focus. And you would hope that that would continue to support the customer deposit funding ratio. So yes, we feel comfortable with the level of mix.

If you look at the wholesale side, one of the things that has benefited margins in the industry really over the last few years has been the level of basis risk. That has been very low. That bills/OIS spread. One of the reasons that was very low was there was a large amount of liquidity across the banking system parked within the RBA's exchange settlement accounts. You have seen both for CBA and across the industry, a draining of that excess liquidity as we roll through the TFF maturities, and we get more normal monetary and fiscal settings post-pandemic. And so I think that is likely to put upward pressure on basis risk, as we look ahead in terms of the direction of wholesale funding settings.

So it is going to continue to be important to manage carefully that growth in deposits. But obviously we have been very mindful around the relative pricing and the relative margin of different categories of deposit.

Matthew DUNGER: Thank you, Alan. And if I could just follow up on the impairments, are you able to talk about how the loss development has happened, how it evolved relative to your expectations across the sectors? You've talked about reductions in forward looking adjustments on construction and agri. Are these where some troublesome loans have eventuated, or they are coming up in other places?

Alan DOCHERTY: On the corporate troublesome side, the four single names, the preponderance of them are in the commercial property sector. Although as we commented in both the profit announcement and the presentation today, we are very comfortable with the level of security on those single names. So we have got very low expectation of any loss on those single names.

And so the construction and agriculture, we had specific forward looking adjustments for risks in both of those sectors. And we have seen as we look at the forward views of portfolio credit quality improvements in both those industries, and so we had, they are not large numbers, but we had a small reduction in the forward looking adjustments that were applied to both construction and agri.

Importantly, obviously in agri at the turn of the year, the weather forecasters were assuming we would be in drought conditions this year. And given there has been a lot of rain and wet weather, pleasingly, that has meant really good seasonal growing conditions for a number of our agricultural clients. And so we have commensurately reduced forward looking adjustments in agri for that particular change in the weather.

So we have had small changes up and down across a number of the sectors which we have set out. But overall, a small top up to corporate portfolio provisioning which we feel comfortable with.

Matthew DUNGER: Thank you.

Melanie KIRK: Thank you. Our last question will be from Ed Henning.

Ed HENNING: Lucky last. Thank you, Mel. Just two questions from me. Just firstly, just again on the margin walk and the four basis points you called out on the bonus saving and people in the Goal Saver now getting that bonus savings about 80%, is that now at record highs? And if you think about that going forward, is there potentially still a delta on that going forward, or that's now embedded in your margin walk for the next year?

Matt COMYN: Yes, I believe, I mean I believe it is a record high. It is certainly up over the period, and reflects a concerted effort to do more alerting to customers and notifying them. So we certainly have expanded the way that we do that. There may be a delta beyond that, but I would not anticipate it is anything like the magnitude that we have seen.

Ed HENNING: Okay. No, that's helpful. Thank you. And then just a second one; like you've called out today a number of headwinds creeping up a little bit in mortgages, talked about deposits and TD pricing and all. Is there anywhere you'd call out going forward that you're seeing – obviously there's competition across all your business lines. But any significant changes in delta of competition across business lines, whether it's on the lending side or the deposit side that you're seeing at the moment?

Matt COMYN: I think we have touched on many or all of them. I mean, clearly there was an improvement over the course of the year in mortgages. As I said, it has probably deteriorated a little more recently. Deposits we have talked about from a TD and particularly switching to savings. Business, we are probably pleased with where the margin has come out from a lending perspective.

We have seen a lot of active competition, particularly at the upper end of corporate, what we would consider a now major client group. I think they have missed or let go of probably $7 billion of deals at the upper end, mostly for pricing and occasionally for credit. So the team has done a good job of being very disciplined there.

We have had a softer Q3. We have had a very strong Q4. But we feel like there is certainly competitive intensity there. But we have been able to operate pretty effectively from our perspective. And I think Alan has touched on the other big trend from a deposit perspective, where we have seen some of those larger deposits with very, very low margins. We have been prepared to let those move, and continue to really focus on building that main Bank relationship.

Ed HENNING: Okay. That's great. Thank you very much.

Melanie KIRK: Thank you. And thank you for joining us for this briefing. Please reach out with further questions or if you would like to speak to the CBA team across the afternoon and through the following week. And thank you for joining us.

END OF TRANSCRIPT