

Company: Bendigo and Adelaide Bank Limited

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Sam Miller: Good morning, everyone, and thanks for joining us for Bendigo and Adelaide Bank's 2026 half year results briefing. Let me begin today by acknowledging the Traditional Owners of the lands on which we meet today, the Gadigal people of the Eora Nation. I pay my respects to their Elders past, present and emerging, and I also extend my respects to the Aboriginal and Torres Strait Islander people who are present on the call today.

Moving to the agenda, there's been a minor change to our presentation today, and we will broadcast audio and slides only. Our CFO, Andrew Morgan, has tested positive for COVID, and our CEO, Richard Fennell, will present the first half 2026 results, with Richard and I handling the Q&A. I'll now hand over to Richard.

Richard Fennell: Thanks, Sam, and good morning, everyone. Appreciate you taking the time to join us today. Our half year result reflects a period of intensive strategic execution, disciplined margin management and a significant reduction in operating costs in the second quarter of the half.

We've taken a patient approach to deliver against our strategic priorities, which is strengthening our business. These actions are delivering momentum that is building and is expected to deliver stronger balance sheet growth in the second half.

Our customer numbers continue to grow strongly and are expected to reach three million in Q4. This growth is supported by our Bendigo Bank and Up Net Promoter Scores that are respectively 25 and 42 points above the industry average.

During the half, we saw the benefits of our deliberate strategy to focus on growing our share of lower-cost deposits, which grew by 3.6% to now represent 53.8% of our total customer deposits. Our investment in digital capability is a key driver of this outcome, with digital deposit sales accounting for 41.4% of total deposit sales, an increase of 7.4% for the half.

On the lending side, we are regaining momentum in residential mortgages, with strong application flow in December and positive growth for the month of January. The more balanced approach to residential loan growth follows the decision to exit our legacy mortgage partner

business, allowing us to deploy our capital into higher-returning channels. This decision has led to higher discharges in that channel, which has been offset by 6% growth in our digital channel. Meanwhile, application momentum in our higher-returning channels is building, placing the bank in a stronger position over the long term.

Our second quarter expenses were 6.4% lower than the first quarter, reflecting higher seasonal cost drivers in the first quarter, such as the annual salary adjustment process. A highlight for the half, with our digital bank, Up, achieving its first month of profitability in September, more than six months ahead of schedule. This is a significant milestone and tangible evidence that our investments in digital are creating value and continue to contribute positively to the Group's competitive position.

As we announced back in November, we are acquiring RACQ Bank's loan and deposit books. This is a valuable opportunity for us to grow our business in Queensland and welcome a new group of customers to the fold.

Finally, towards the end of last year, we identified and self-reported the shortcomings in our management of AML/CTF risk. We continue to engage proactively with regulators and are developing a comprehensive action plan to address the issues identified. We are committed to strengthening our processes and meeting our regulatory obligations, and I'll have more to say on this matter later in the presentation.

Returning to execution. The first half was a period of intense focus and significant process on the delivery of initiatives aligned with our strategic pillars and enablers, which we shared six months ago. I covered some of these strategic achievements at our investor update in December, so I'll only briefly recap them here.

In just three months, our digital and technology engineering teams rebuilt and delivered our in-app digital onboarding capability, which is delivering significantly increased new customer flow through this channel. We finalised the full rollout of the Bendigo Lending Platform, with it now being available across all of our retail branches, and we migrated 180,000 Adelaide Bank customer accounts onto our core banking system, delivering on our long-held objective of one core banking system and two main customer-facing brands.

One aspect I didn't speak to at length at our investor update last December was our new five-year partnership with Google. This partnership will provide enhanced cloud capability, access to enterprise-wide AI tools and industry-leading cyber security defences. Over 2,200 of our people

are already utilising the Gemini AI tools, with early adoption showing significant productivity benefits. Examples such as generative AI for hardship detection, improving timeliness of engagement, accuracy and productivity are supporting improved customer outcomes.

These initiatives I've highlighted are tangible examples of the early progress we are making to deliver on our 2030 strategy. I'm excited by the benefits we're starting to see flow, which I'll walk through shortly in our progress update.

But first, I'd like to turn to our financial performance. For the half, cash earnings of \$256.4 million were up 2.8% on the prior half, driven by a 3.7% uplift in total income. Notably, this is the first half in the bank's history that we have delivered more than \$1 billion in income. Income benefited from a four-basis point improvement in margin, as we focused on delivering a more favourable mix of lower-cost deposits, following a moderation in lending growth.

Operating expenses increased by 4.2%, reflecting expected increases in software costs and amortisation charges, additional workdays during the half and higher remediation expenses. Our investment spend declined by 19% for the half, as major technology projects, such as the rollout of the lending platform, came to an end.

Finally, in credit expenses, we saw a \$2.4 million writeback for the half, as collective provisions reduced, reflecting lower overall loan balances, together with the repayment of some larger impaired loans. The overall credit portfolio has remained resilient and we remain focused on helping customers that face difficult choices due to cost of living and other pressures.

Turning now to our divisional performance. Our consumer division delivered strong earnings growth of 5.9% for the half, with net interest income increasing by 4.9%. This performance was largely driven by an eight-basis point improvement in margin, supported by the previously mentioned strong growth in lower-cost deposits.

Residential lending declined by 2.6% for the half. As noted, this reflects our strategic decision to exit less-profitable legacy partners in our third-party originated channel, which contracted by 7.4% over the half.

However, our digital lending channel grew 6%. This deliberate shift in focus towards more profitable channels is expected to continue to lift the returns for our consumer division over the longer term.

Our business and agri divisions' cash earnings decreased by 1%, with higher net interest income largely offset by higher expenses. Higher NII benefited from higher average interest earning assets and additional workdays, while expenses were impacted by the ongoing investment in our business lending platform.

While overall loan growth was largely flat for the half, we have a strong pipeline of business coming into the second half, with momentum building across our broker channel, agribusiness and equipment finance.

At the FY25 full year result, I shared three areas of focus for the next two years that will be critical to progressing towards our ROE target. As I said then, at each half and full year result, I will update you on the progress we're making across each area of focus. To recap, these areas are optimising our deposit franchise, enhancing productivity and delivering sustainable growth.

Let me step you through the progress we've made this half. We've previously highlighted that we'll be taking a deposit-first approach to growth, targeting lower-cost deposits as the primary source of funding for our lending activity.

To enable this deposit-led approach, we've strengthened our digital deposit franchise through the refresh of our in-app digital account-opening capability for Bendigo's new-to-bank customers, and we've enhanced app functionality to deliver improved digital experiences for all our customers. We're now seeing weekly volumes of 400 to 500 new customers joining us through this digital onboarding functionality.

Our frontline teams are proactively engaging with our existing Bendigo customers who don't currently have a Bendigo transaction account, and we've also continued to upskill the sales capabilities of both our frontline and virtual banking teams.

These initiatives have already delivered benefits, with lower-cost deposit growth of 3.6%, particularly in EasySaver, and increased digital deposit sales of 7.4% for the half. Up's Grow & Flow product drove an additional \$190 million of lower-cost deposits over the half, and we expect this momentum to continue, as highlighted at the investor update. We are targeting digital deposit sales of 45% by the end of the financial year.

Following the announcement of our productivity program in August, the outcome of the first phase is evident in the half year results. Investment spend has reduced, supported by a 48% reduction in contractor numbers over the half. Our full-time equivalent employee numbers have

reduced by 5% on the prior corresponding period and 4% over the half. This is a result of several support function and technology division restructures.

But let me highlight a couple of the outcomes this half. Through our focus on operational excellence within our operations teams, we've successfully realised a \$9.6 million benefit this half, and we're elevating our AI and automation program in partnership with Google, which continues to empower our people to self-drive productivity and process improvements. Our entire workforce has access to the Google AI suite and we're seeing organic people-led innovation outcomes.

Our productivity program has now entered its second phase, which comprises two key initiatives. The first initiative is a new information technology partnership, for which we are now in advanced negotiations, and the second focuses on business processing, where planning activity continues. Together, these initiatives will enhance our technology and operational capabilities, drive innovation and support our guidance of keeping business-as-usual costs no higher than inflation through the cycle. We'll provide further updates to the market through the course of this half year.

Our third area of focus is maintaining a disciplined approach to capital allocation to drive long-term sustainable growth that exceeds our cost of capital. This discipline is reflected in our NIM to credit risk-weighted asset ratio, which despite slightly moderating this half remains well above the level of two years ago.

Our recent decision to exit less-profitable legacy mortgage partners is another example of this discipline in action. By prioritising growth in our higher-returning channels, we're actively managing our portfolio to improve returns. We expect decisions like this will continue to support our NIM to credit risk-weighted asset metric over the longer term.

In business and agri, we saw the usual agri seasonality, with high loan repayments, driven by strong yields for our grain growers, particularly in WA and New South Wales. This seasonality is expected to reverse as funding is redrawn down in the second half. In addition, growth in the business portfolio remains robust, particularly across portfolio funding and business lending, with a strong pipeline heading into the second half.

Finally, I'd like to take a moment to provide an update on our approach to addressing the deficiencies in AML/CTF risk management at the bank. We recently appointed a new, highly

experienced Chief Compliance Officer and Head of Financial Crime Risk, Steve Blackburn, to lead our response.

We've now received detailed recommendations, actions and a roadmap from Deloitte, which we're using to guide our remediation and uplift program, with a focus on enhancing our enterprise-wide AML/CTF risk management, including transaction monitoring.

Our current expectation of the total cost over a period of up to three years will be \$70 million to \$90 million, of which we expect an initial cost of \$15 million will be incurred in the second half of financial year '26. These expenses will be contained within our existing 2026 investment slate. In parallel, Deloitte are also completing an additional root cause analysis across our broader non-financial risk management.

I'll now move to the financial results in more detail. This result reflects improved momentum across a number of metrics following our first quarter trading update. We've slowed the decline in residential lending and expect a return to growth into the second half. We've also seen an improved funding mix, with stability in transaction accounts and continued strong growth in savings accounts. This has enabled us to deliver a lift in net interest margin in the second quarter, despite the lower cash rate.

We've also carefully managed pricing decisions to stimulate growth in key target segments, and we've tightened our management of business-as-usual costs in the second quarter, with quarterly costs reducing over 6% on the first quarter. Our operating performance was 2.8% higher than the prior half, mostly due to strength in income, and cash earnings of \$256.4 million are 2.8% higher than the prior half. Our balance sheet is in a strong position going into the second half, reflected in strong capital, funding and liquidity.

On this slide, we show you the usual reconciliation of cash to statutory earnings. You can see that the Adelaide core consolidation was in line with the higher end of the flagged range and most of the restructuring costs booked in the first half was in relation to the productivity initiatives which I mentioned earlier.

Growth in house prices in Sydney and Melbourne boosted Homesafe unrealised income, and going into the second half, we expect a very small amount of residual costs associated with the Adelaide Bank core consolidation. We also expect to incur further restructuring costs in relation to the next phase of our productivity program and also preparation work for the completion of the RACQ transaction.

Turning now to total income for the half. Income of \$1.01 billion was up 3.7% on the prior half. Net interest income increased 3.2%, reflecting a slight contraction in average interest earning assets and an improved margin. This was further bolstered by stronger other income, which was up almost 7%.

Other income, excluding Homesafe, was up 6%, reflecting improved wealth and cards income. Homesafe income was up 8%, reflecting 5% growth in completed contracts on the prior half and a stronger average profit per completion.

In respect of key considerations, as previously flagged, income from the Homesafe portfolio will reduce over time, subject to the rate and profit on contract completions. This half saw the number of open contracts reduce by around 3%, which is a rate consistent with the last two halves, whilst the average life of contracts completed through the half was around eight years.

Turning now to net interest margin. Compared to the prior half, our NIM was up four basis points to 192 basis points. Asset pricing negatively impacted three basis points, which was due to a combination of front book pricing pressure in residential lending and ongoing retention pricing pressure in business and agri.

Deposit and funding pricing improved three basis points, mostly reflecting the benefit of term deposit repricing, and mix provided a four-basis-point benefit, reflecting a combination of improved funding mix and improved asset mix. Income from our replicating portfolios was flat, as expected, as was revenue share. Our exit NIM was slightly higher than the second quarter average.

Looking forward, key considerations for the second half of '26, we think it likely that a further cash rate increase will happen later this financial year, and we expect a small amount of NIM pressure as lending volumes improve into the second half, following some selective repricing during the second quarter.

We also continue to see customers rolling off fixed rates and mostly favouring variable rate mortgages. First half maturities were around \$2 billion, and we expect around \$1 billion of further maturities into the second half of 2026. Higher swap rates could see replicating portfolio contribution turn from flat to slightly positive. The unknown factor, as always, is the degree of price competition on both sides of the balance sheet.

Turning now to residential lending. Settlement volumes in aggregate were down 15% on the prior half, particularly in third-party channels. Discharges were also elevated, mostly due to the closing down of one of our partner channels.

We continue to prioritise the deployment of capital into channels where both the economics are compelling and growth opportunities exist, being self-serve digital mortgages and broker-intermediated mortgages through our new lending platform.

This half, almost 50% of new settlements came through our physical network, a third through broker-intermediated channels and 17% through direct digital channels, including Up. We do see further growth opportunity in our physical network following the completion of the rollout of the new lending platform, which was completed in November 2025.

The positive trends in our mortgage book continue. First, around 40% of new loans are below 60% LVR, and almost 90% of new loans are below 80% LVR. Second, the average credit risk weight on new mortgages has continued to improve. Third, critically, the ratio of NIM to credit risk-weighted assets on new business as a proxy for risk-adjusted returns is up strongly on 12 months ago.

Momentum in the book is improving. Applications per day steadily improved over the second quarter, and we saw the strongest volume of applications per day in December and expect these loans to settle during the third quarter. Discharges have also slowed progressively over the second quarter, so with this momentum in mind, we are targeting growth around system towards the end of the second half of FY26.

Our deposit gathering franchise remains an ongoing strength and is improving. Across both our proprietary network and community bank partners, we delivered growth of just under 2% on the prior half, and we continue to see good momentum in digital deposits. In our Up business, digital deposits increased 24% over the half, whilst Bendigo digital deposits grew 13% over the same period.

Whilst deposit growth over the half looks modest at 1.1%, deposit mix has continued to improve. We continue to see strong growth in EasySaver accounts, which were up 7% on the prior half, and overall savings accounts up 5%.

Following a dip in the first quarter, transaction account balances had a strong second quarter, finishing marginally higher than the prior half. Partly as a result of tax receipts, we saw offset

accounts rise 5% over the half. Through careful management of our funding requirements, we also managed to reduce term deposit balances, which were down 4% on the prior half.

The overall picture on deposits is that lower-cost deposits increased to almost 54% of total deposits, up from 52.4% just six months ago. Critically, our household deposit to loan ratio remains strong at 77%, which is nine percentage points higher than the industry average.

Turning now to operating expenses. Total costs increased 4% for the half, as previously flagged. Second quarter costs came in 6% lower than the first quarter. Business-as-usual costs, excluding the increase in remediation costs, grew 5% over the half. Inflation, software licence fees, amortisation and three additional workdays impacted our BAU costs, contributing 6.1% overall cost growth. Spot FTE were 4% lower than the prior half, reflecting a number of restructuring activities through the half.

In respect of second half costs, we are targeting to manage total BAU costs to no higher than the first half. Longer term, we reiterate our cost guidance, which is to keep BAU cost growth contained to no higher than inflation through the cycle.

I want to spend now a few minutes on our investment spend, including its composition and how we think about investment spend for the second half of the year, in the context of the recently disclosed AML/CTF issues.

As a reminder, coming into this financial year, we had said we expected cash investment spend to be roughly the same as last year or around \$230 million, plus non-cash spend of \$30 million at the upper end of the Adelaide core migration. So, in total, around \$260 million. Around half of the \$230 million cash spend was expected to be expensed.

For the first half, we spent just under \$89 million on cash investment spend, with 65% of that expensed. In addition, we spent \$35 million on non-cash investment spend, mostly on the completion of the Adelaide Bank core migration. Our early-stage estimate for the AML/CTF uplift program is that it will cost approximately \$70 million to \$90 million and will run over the next three years.

The remainder of this year will be about mobilisation and early-stage activity, costing an estimated \$15 million in the second half, and then the work will ramp up into the next financial year. We intend to cover the costs of the AML/CTF program inside our previously flagged FY26 cash investment spend, and expect expensed investment spend in the second half to be slightly higher than the first half.

Moving to credit quality and credit expenses. Our key credit metrics remain sound, and we continue to carefully watch trends in the industry and within our book. Through the half, we booked a net writeback of \$2 million, mostly reflecting reduced collective provision on the lower residential lending portfolio.

Gross impaired loans have remained stable at 15 basis points of gross loans, and arrears across the book remain low but are increasing. Ninety-day arrears in residential lending have increased in the low-single-digit basis points in the last six months to 85 basis points.

In agribusiness, arrears have been stable over the half, and the dollar value of arrears has reduced. The technical issue that we described at full year around expired facilities has not yet been fully resolved, though we do expect third quarter arrears to return to more normal levels. Whilst asset quality remains sound and arrears are at relatively low levels, we do expect bad debts to trend upwards over time.

Our funding and liquidity metrics remain strong and well diversified. Our average liquidity coverage ratio for the second quarter was strong, at 135%. The proportion of customer deposits to total funding improved on the prior half to just under 80%, and our coverage of household deposits to loans at 77% is well above the industry average.

Through the half, we retired some wholesale debt, bringing the proportion of our funding needs met by wholesale down to 21%. Our Community Bank partnerships importantly provide us with a net \$15 billion of funding, which provides further diversification and a relatively cheaper funding source than wholesale funding.

Finally, turning now to capital and dividends. Our CET1 ratio increased 37 basis points to 11.37% over the half, and this reflected lower capital consumption through reduced lending. Our capital remains well above the Board target of above 10%. On a pro forma basis, our 1 January capital position reduced by 18 basis points, reflecting the inclusion of the \$50 million regulatory capital overlay.

Directors have determined to pay an interim dividend of \$0.30 per share, which will be fully franked. This represents a 67% payout ratio for the half, and on a cents-per-share basis, is flat on the prior comparative period.

As a prudent measure, this half, we will be underwriting around 70% of our dividend, which will in effect mean we retain 31 basis points, or approximately \$120 million, of our CET1, following the payment of the interim dividend, further strengthening our capital position.

In summary, we are in a strong capital position going into the second half. I'll now open it up for questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speakerphone, please pick up the handset to ask your question.

Sam Miller: Thank you. I'd like to go to our first question. We have Annabel Ross from Barrenjoey.

Annabel Ross: (Barrenjoey, Analyst) Good morning and thank you for taking my question. I just had one on expenses, specifically BAU costs. Turning to slide 20, when you talk about, you're targeting to limit business-as-usual expenses to no higher than inflation through the cycle, I'm wondering, do you mean 2.5%, which is the RBA target, or 4%, which is the current inflation rate?

Then, just a second part on BAU costs as well. They were down - in the first quarter, they were \$299 million and then in the second quarter down to \$280 million. Should we extrapolate from that second quarter number when forecasting and going forward? Thank you.

Richard Fennell: Thanks, Annabel. In relation to inflation, the reality is that we face the inflationary environment that exists in the economy, so we obviously recognise the RBA is targeting 2% to 3%, but when we're sitting more in the 3% to 4% range, that's the inflationary environment we're operating in and that's the basis upon which, right now, we're focusing on trying to keep our BAU costs no higher than that inflationary environment.

Clearly, over time, if the RBA is successful in getting that down within its range, then our target will likewise reduce to that 2% to 3% range, rather than where inflation sits at the moment at 3% to 4%.

In relation to looking forward to the second half of '26, the guidance we are giving on costs is to keep our second half BAU costs no higher than the first half BAU costs. So, rather than looking at it quarter by quarter, if you look at the cost numbers for the first half, that's the target we've set ourselves to not exceed in the second half.

Annabel Ross: (Barrenjoey, Analyst) Thank you.

Sam Miller: Thanks, Annabel. Our next question comes from Kelsey Bentley from J.P. Morgan.

Kelsey Bentley: (J.P. Morgan, Analyst) Hi Richard, hi Sam. Thank you for taking my question. Just looking at the NIM walk on slide 17, could you please describe what drove the three-basis-point headwind of lending pressure, just given the fact that there was negative credit growth in the period?

Then, just as a follow-up, per your guidance point, how much should we expect margin to come under pressure as growth builds? As you said, it has already begun.

Richard Fennell: Yes, thanks Kelsey. A couple of factors on the lending pricing pressure. The reality of the fixed rate lending that is expiring is a lot of that was written at a time during the COVID period when funding costs were at all-time lows. So, the margin on those loans as they then roll into variable rate loans often has a slight headwind.

We're also seeing on the business and agri side of it, there is intense competition. The competition to retain and write new business is continuing to have a slight impact on margin through that channel. Overall, the B&A side was about two basis points of the three-basis-point contraction. They're probably the two key factors there.

Looking forward, the pressure in the second half, it's going to be an interesting one to see how that plays out. We're comfortable with where our pricing sits right now on the lending side of it, but the reality if we do see continued growth in application flow leading to stronger growth in the second half, and if we are able to get up to that expected level of around system growth by the end of the half, we will need to fund that growth, and the reality is, moving from little or no growth to stronger growth, we may need to look at utilising some other funding sources such as wholesale or term deposits, which are slightly more expensive.

That's really what we're pointing to with some potential impact, with some slight margin pressure from that higher growth. The reality is, there are going to be a lot of moving parts, as there always are, with NIM, with the higher cash rate. That obviously has generally some positive impacts. Also, with the higher swap rates as well, we expect to see some slight positivity from the replicating portfolio versus what we saw in the first half when that was no positive impact.

Kelsey Bentley: (J.P. Morgan, Analyst) Thank you very much, Richard.

Sam Miller: Thanks, Kelsey. Our next question comes from Sally Hong from Morgan Stanley.

Sally Hong: (Morgan Stanley, Analyst) Good morning, Richard and Sam. Thanks for taking my questions. On margins, what benefit do you expect to get from higher rates? What's the sensitivity for every 25-basis-point increase in the cash rate on your unhedged deposits?

Richard Fennell: Sally, generally, it's around two basis points, maybe one-and-a-half to two-basis-point range for every 25-basis-point move. The interesting aspect though, as always with interest rate moves in either direction, is what the price setters in the market - and obviously with us sitting here at a couple of per cent market share, we don't have that luxury of being a price setter - what they choose to do on both sides of the balance sheet as far as passing all of that through or not.

I think a decent rule of thumb that we have traditionally used is around that two-basis-point level. But as I said, the competitive dynamics will always be interesting to watch as the cash rate moves up or down.

Sally Hong: (Morgan Stanley, Analyst) Thanks, Richard. Just a second question. You had a three-basis-point benefit from term deposits. Would you see that as a one-off benefit, or do you expect to get further benefits in second half '26? Do you think the deposit mix benefit of two basis points can continue if the loan growth improves?

Richard Fennell: The term deposit - we have a really strong deposit franchise, as I know you understand, and over the last half, with less demand on funding, we haven't needed to price our term deposits as sharply as some competitors have done. The reality is, as we move to stronger lending, I don't think we'll have that luxury again, and we'll probably need to make sure that we are priced more closely to where our competitors are. I don't expect that TD benefit to play out again.

From a deposit mix perspective, I'd love to sit here and say, yes, we will continue to see stronger growth in our savings accounts and lower-cost deposits in general. That's the reason we've invested to improve our digital deposit gathering capability, but it's very hard to make that sort of commitment with a forward view, again, given the competitive dynamics and also with the expectation that we'll be growing the balance sheet in the second half.

I'd love to say, yes, that's what's going to play out in the second half, and I'll be delighted in six months if we can report that, but I don't have a strong level of confidence that we'll see a similar benefit in the second half.

Sally Hong: (Morgan Stanley, Analyst) Great. Thanks, Richard. That was very helpful.

Sam Miller: Thanks, Sally. Our next question is from Andrew Lyons from Jefferies.

Andrew Lyons: (Jefferies, Analyst) Thanks and good morning. Richard, just a question that somewhat relates to what's been asked already around margin, but maybe from a higher level. If you look at your divisional revenue performance on PCP, your consumer division saw strong revenue growth in the face of a shrinking loan book, while your business and agri division saw strongly negative revenue growth, I think minus 5% or 6% in the face of what was pretty strong loan book growth on the PCP.

While I accept you can't shrink to greatness ad infinitum, from a higher level, what does it say about the state of the business when the cost of loan growth seems to be such significant revenue margin pressure, and I think it's particularly relevant given you are looking to accelerate growth into the second half?

Richard Fennell: It's an interesting conundrum, isn't it, Andrew? What we need to do is try and get this balance right. One of the reasons we - or that influenced the lower growth in the residential side or the consumer side of things - well, there's two factors there.

One of those was what I spoke about earlier with exiting one of the third-party channels which has seen accelerated runoff in the back book there. But the other factor is, we really did want to wait until we had the functionality in place from a digital perspective to see stronger growth in our lower-cost deposits before we felt comfortable to move back to a more competitive position and hopefully drive stronger growth going forward.

The reason we did it that way is so we can hopefully keep that balance in check between, in the consumer business, the lending side and deposit growth, so that we don't face the margin crunch that we saw on the back of the finalisation of the government support on the back of COVID, when margins got crunched pretty badly.

On the B&A side of things, when rates fell, our low, rate-sensitive savings accounts really did get a - took a hit in that space. B&A, the deposit business in B&A is heavily skewed towards those transaction accounts, those lower-rate accounts, and so they are more sensitive to moves in interest rate.

I would be hopeful then we'll see some improvement from a margin perspective, with higher interest rates. Not quite sure how high they will go. Also, I'm not sure - I'm trying to think back. I've been in this business nearly 20 years now with this bank. I'm not sure I've seen such competitive pressure in the business and agri space during that time. The reality is that's a

challenge. We want to retain our book, we'd like to grow our book, we've got a good offering, but the reality is we've got to price competitively in that space.

We'll be doing our best to maintain a solid NIM in that book going forward. It is a NIM that has a reasonable premium over the consumer business, we don't want to give it all away, but it's the ongoing challenge we face and it's a challenge for the industry as a whole.

Andrew Lyons: (Jefferies, Analyst) Agreed. Richard, just that comment on business and agri being as competitive as ever, is that a comment on both sides of the balance sheet or is it particularly in that space biased to one element?

Richard Fennell: They tend to be related, because if you do a good job of bringing a B&A customer onto the books, hopefully you get both sides of their balance sheet. But the reality is, the competition, actually, it's manifesting as much as anything in the competition for business and agri lenders and business and agri business managers.

We've seen these things happen from time to time. Again, I do suspect that will ease at some point, but right now, it seems to be flavour of the month. One of the other aspects that I think will help us, although it's still probably a little way away, once we've finished the build-out of our consumer digital onboarding capability, we've swung that team now across to start looking at building digital onboarding capability for our business and agri customers.

That's a more complex build, because, as you can imagine, onboarding the complexity of a business customer versus an individual, it is by its nature more challenging to do that in a digital environment. But that's some work we've kicked off, and we think that will help us continue to grow the deposit side of that business once we've got that in place. I'm not going to be able to give you an exact date. It won't be this half, but I would hope that to be up and running during FY27.

Andrew Lyons: (Jefferies, Analyst) Thanks. Then, just a second question, just on expenses, your overall expense, sorry, investment spend guidance, is broadly unchanged from what you said in August. But since then, you've had two additional things that you've got to effectively include within that envelope, being the AML and then the RACQ acquisition, which does somewhat imply that you are sacrificing investment spend to grow the business, in inverted commas.

Are you really in a position to allow this to happen in an environment where your major bank peers are ticking up investment spend and reshaping it more towards growth? You've obviously

got what's going on just in the broader revolution in relation to AI. Just keen to understand the decision to hold investment spend in the face of additional costs.

Richard Fennell: One of the real positives that we've been able to deliver over the last six months is actually a significant increase in productivity in the technology development space. A really great example of that is one we've probably banged on about a bit, which is the build of the consumer digital onboarding capability in just three months for about \$500,000.

We expected that to take a lot longer and cost a lot more. We are in the process of materially changing our technology development operating model. That was one of the first areas operating under a new operating model. So, we're seeing greater efficiency and productivity coming through that space, which has actually freed up space in our investment slate for us to then reallocate funding to AML/CTF and also RACQ.

The other aspect that actually has allowed us, as we've been generating this productivity, that has allowed us to free up contingency that historically we haven't necessarily been able to free up because we've had to use it on major projects. So, again, I'd like to say this is a foresight of what we'll continue to see with a significant improvement in productivity, and that includes the use of AI tools in the development of new functionality and coding and the like, which is actually having a positive impact in our tech productivity space.

We don't think reallocating funds to these areas are going to impact our growth agenda. We think we've got enough allocated to those aspects that will drive growth, such as the digital onboarding for B&A. But the reality is you're always making tough choices when it comes to the investment slate, because there is always an excess of demand over the amount that we're prepared to allocate.

Andrew Lyons: (Jefferies, Analyst) Great, Richard. Thank you.

Sam Miller: Thanks, Andrew. Our next call is from Tom Strong from Citi.

Tom Strong: (Citi, Analyst) Thanks, Sam, and thanks, Richard, for the chance to ask a couple of questions. Just going back to the TD pricing. You have lagged your peers considerably over the last few months, since it's below them. Is there a point of catch-up regardless, in terms of getting back into flow, or is it more just contingent on the growth dynamics between your digital deposit and low-cost deposits versus getting back to system?

Richard Fennell: You're right, Tom, we have deliberately lagged some of the pricing there. We did make a move in our 12-month TD, I'm trying to think - whether it was late December or January, I'm trying to remember exactly when we did make a change, but that has put us - we found with that 12-month one, which has become positive again as the curve has moved higher, we had to move back to a more competitive position there.

We will continue to monitor the different terms across the TD profile to make sure that we've got certainly one or two competitive rates out there, generally one in the shorter terms, sub-six month, and generally one more around that longer term of around a year. I think, from memory, we did make some other tweaks, just going back in the last week or so as well, just to make sure we've got competitive positioning there.

Obviously, that also reflects the cash rate change that happened a week or so ago and locking in a higher curve where everyone's adjusting their TD rates to reflect that.

Tom Strong: (Citi, Analyst) Great, thanks for that. Just a second question on capital. You mentioned the strength of capital, which is popping up further. You did get a considerable benefit in this quarter from the cash flow hedge and some of the reserve movements. Can you just touch on the sustainability and what's driving that?

Richard Fennell: This is one that I'd probably normally throw to Andrew to give me all of the detail on this, but the cash flow hedge reserves, the movements there do depend on when those hedges have been set and obviously movements in rates. I don't expect you're going to see an additional tailwind in the second half.

But maybe to give you a fulsome answer on that, we might pick that up in our one-on-one discussion later today, because if you'd asked me six or seven years ago when I was sitting in Andrew's seat, I would have been all over it, but I must admit it's not one that I've necessarily focused a lot of attention on that specific point.

Tom Strong: (Citi, Analyst) No problem, thanks.

Sam Miller: Thanks, Tom. Our next question is from John Storey from UBS.

John Storey: (UBS, Analyst) Hey. Thanks so much, Sam. Hi, Richard. I just want to go back to your deposit franchise. One of the things that definitely sticks out to me, obviously, you've got a fantastic offering there and obviously you've got a great client value proposition, as reflected by a very high NPS score. [27% of the deposit base], so if you go and have a look at it, it is

effectively at a cost of 0% to 1%. I'm just thinking more structurally, as your client base becomes more digital, how price sensitive would this client base be and how sticky are those deposits within that context?

Richard Fennell: Sorry, you just got a little bit muffled there. Was that in relation to the Bendigo business or the Up business or both, you were talking about?

John Storey: (UBS, Analyst) No, that's in relation to both, Richard.

Richard Fennell: Okay, yes. On the Bendigo side of things, it is interesting, most of our customers who do most of their banking with us will have a transaction account and a savings account, and they will actively move funds between the two.

As I mentioned earlier on the call, one of the important elements of our business banking franchise is actually a pretty significant transaction account balance, where you generally see a higher float being held in the transaction accounts.

So, just because they're moving to a digital channel, what we're seeing, interestingly, from the - I'm trying to remember how many thousand customers we've already onboarded through the new digital capability through Bendigo Bank - we're seeing them then open a transaction account as their first account and then open additional accounts, often a savings account, so there is a mix then of funds sitting in those zero or very low interest rate accounts, and then also putting money into savings accounts. In some cases, in fact, actually then going on and taking out lending with us.

On the upside, the move to the new Grow & Flow product has actually been really positively received by their customer base, with significant increase in funds going there. From memory, the Flow rate is around 1.5% or thereabouts and the Grow rate is above 4%. Again, it's a reasonable mix.

There are some specific requirements such as no withdrawals from your grow account to get that higher interest rate. But again, what we're finding, the customers - and I was talking to my son about this over the weekend, about how to manage his cash flow so he can maximise the amount in his Grow account versus his Flow account which pays 1.5% - is they end up having funds in both. So, I'm not sitting here overly worried that we're going to see a significant reduction in those lower-cost deposits on the back of the digital channels.

Sam Miller: I think, Richard, the aspects you talked about yesterday with the emotional drivers and the strong NPS, it seems to be coming to fruition.

Richard Fennell: Absolutely.

John Storey: (UBS, Analyst) Yes.

Richard Fennell: We've been really encouraged by the early customer flow we're seeing through that new digital channel. I mentioned 400 to 500 a week. We're hopeful that we can get that up above 100 a day in the near future with some targeted promotion and marketing. It's been really pleasing to see the customers voting, I was going to say with their feet but it's really with their fingers, in taking up those digital accounts.

John Storey: (UBS, Analyst) Great, Maybe just quickly, my second question, just around lending growth and obviously your ambitions to try and accelerate that in the second half of the financial year, maybe you could just comment around the ability of Bendigo to lean on some of its proprietary channels to try and drive growth.

It looks like, as the mix has changed more towards proprietary, obviously your new business volumes are coming off pretty substantially. Just thinking about it from a volume margin trade-off, if you can drive lending growth through proprietary, obviously you'd be able to hold margin a little bit better. But if you're reliant more on third-party channels to try and accelerate growth, particularly in the second half of the year, arguably, there would be more of a margin impact. How do you think about those dynamics there?

Richard Fennell: Thanks, John. I'm really quite positive about what we can do in our proprietary channels this half. We didn't actually move our largest geography by customer, Victoria, onto the new platform until I think it was either late November or even early December last year.

Getting onto that new platform drastically reduces the amount of time a lender needs to work on actually delivering a home loan and processing for a customer that home loan. It literally takes it from many hours down to minutes. On the back of that, we're looking for an increased flow through our lenders out in the retail network.

The other element, historically, we've seen a disappointing percentage of applications to settlement. Roughly, through our retail channel, we were seeing only about 60% of applications settling, and a large reason for that was the amount of time it was taking us to get to unconditional approval. In many cases, many weeks.

Conditional approval is within minutes. Unconditional approval tends to be dependent on the customer getting any additional information back to us, but at the moment through the retail channel, that's down to about seven days, on average, from, as I said, weeks. On the back of that, [we have the] early signs of the loans going through the lending platform through retail are seeing a higher proportion of applications settling. So, that's a significant productivity and also growth improvement opportunity for us.

John Storey: (UBS, Analyst) Excellent. Thanks very much, Richard.

Sam Miller: Thanks, John. Our next question is from Matt Dunger from Bank of America.

Matt Dunger: (Bank of America, Analyst) Thank you very much, Richard and Sam. Richard, if I could ask you around the residential lending flows on slide 36, I understand that the value of third-party flows has more than halved versus the first half of '25. You've talked to the net interest income to credit risk-weighted asset improvement.

Just wondering how you can maintain this? How much of this do you expect to unwind in the second half as you return to growth? What sort of cost of capital targets are you going to set? Will you be able to maintain the improvements that you've got through from pricing discipline?

Richard Fennell: We are certainly hoping that we can hold out our margin and therefore the returns we're generating through our residential lending book in the second half. The reality of that drop off in third party, I expect that, on a percentage basis, it not to rebound all the way, because I do expect we'll probably continue to see some elevated runoff in some of those third-party channels that we've closed.

But I do also expect that we may well see some additional new business flow, as we have moved some of our price points in some of the higher-returning points across the competitive market into a position where we are price competitive.

That's the real challenge in front of us, to hold that return in new business through our margin. The one thing though that does help us is the significant productivity benefits we are now getting through that new lending platform. The cost of manufacture of a lot of those loans is a lot lower than where it was a couple of years ago before we had that platform.

The price points we've got there are above our cost of capital across those different products. The challenge, though, as I mentioned earlier, is as we get that higher growth, is to not give that margin back through funding. That's the art and science of this business.

As I said, we've now got more capability from a customer deposit perspective in that digital space. Up is making a positive contribution, a net positive contribution, with its deposits as well. We're going to be working damn hard this half to not give back margin as we start to see growth come through.

Matt Dunger: (Bank of America, Analyst) That's very helpful, thank you. If I could just follow up on the cost side, and thank you for quantifying the \$70 million to \$90 million of AML/CTF costs. Just wondering if you could talk to the scope and composition of this spend. Why is this the right number? Does this Deloitte program [that's scoped out the work], does that draw a line in the sand?

Richard Fennell: The way we've come up with that number is through working with Deloitte, who have the experience of working with a number of other banks that have gone through similar processes. One of the few positives out of this experience is that we're not the first bank to experience this, so we can leverage the experience of others.

They have identified from the review they undertook, which we obviously identified to the market late last calendar year, they have then done work to map out the actions they believe we need to take over the next few years. They've also given an estimate of the cost to do that.

We've worked our way through that. We've also assessed each of those actions against what we believe our capability is to deliver on those and then done a bottom-up analysis of the potential contingency around the different actions we need to take. So, that's where we end up with a range, whether you've got it with or without contingency.

As far as drawing a line in the sand, we are very hopeful that this timeframe and this investment will get us to a position of addressing the shortcomings that we've identified. Steve Blackburn, who I mentioned, who has just joined us, comes with the experience of working or doing this same role with one of the major banks when they went through this process, and also another large, listed organisation, not in the banking sector, who went through a similar challenge.

He's only been with us a couple of weeks now. He's now working his way through a review of that estimate. Early days. He's only been with us a couple of weeks now. He thinks it looks reasonable, but there's still more work for him to do, and his team, to really forensically assess whether that's the right plan and the right cost.

But we thought it was really important, given we've got this initial estimate, to get it out there. It may change, but if it does change, we will certainly keep the investment community abridged of

that. I'm very hopeful that we're allowing sufficient funds and sufficient time to fix the issues we've identified.

Matt Dunger: (Bank of America, Analyst) Thank you very much.

Sam Miller: Thanks, Matt. Our next question comes from Ed Henning from CLSA.

Ed Henning: (CLSA, Analyst) Thanks for taking my questions. Just following on from the question from Matt there, on the \$70 million to \$90 million, does that include, there's still analysis going underway of the root cause? Is there potentially any add-on from that and change of scope?

Richard Fennell: This is specific to the AML/CTF, Ed. Yes, as we've identified, we're doing an additional piece of work to see if there's any read-through from the shortcomings we've identified on AML/CTF to our broader non-financial risk management within the organisation. That will report back to us late this half, and we will see what comes of that.

If that requires further activity to be undertaken to improve our non-financial risk management, then we'll address that. We've already been doing work for some time to uplift our capabilities in that space. So, if anything, that would probably see a continuation of that work, which is already work that is included within our existing slate.

We'll just have to wait and see what comes and what findings come from that work, and then if there's additional activity that needs to be undertaken, I would hope that that would again be something that we could manage through a mixture of BAU costs and existing slate.

Ed Henning: (CLSA, Analyst) Okay, thanks for that clarity. Just further, just to confirm, I think you said during the presentation that you'll expense 65% again in the second half of your investment spend. Was that right?

Richard Fennell: I'm just trying to get exactly the words so I can - we were certainly guiding to above 50%.

Ed Henning: (CLSA, Analyst) Was it greater than?

Richard Fennell: Yes, above - more than half. For the first half, 65% was expensed. In the second half, we're expecting the expense ratio to be more than half. I wish we could forecast with exactly that level of precision, but - so we're being a little bit more general in saying that we

expect more than half to be expensed. We'll have to wait for a few things to play out, but it was 65% in the first half.

Ed Henning: (CLSA, Analyst) Okay, no, that's fine. Then, as you know now, with the [AML] program, and you're talking about an investment spend of around \$230 million for this year or broadly, a bit under that, is that what you expect going forward, including the AML spend as well?

Richard Fennell: I'd love to sit here and be able to confidently say we'll be reducing that into FY27. That's something we will know further and have a better feel for later this half. We highlighted that we're in advanced negotiations in relation to a new partnership in the technology space. That's going to be an important factor in our ability to continue to drive efficiency in our ongoing development. So, I'm hopeful, but I'm not going to be able to sit here today and give you guidance on that one.

Ed Henning: (CLSA, Analyst) No worries. Just one final one, just another clarification. You've talked today about getting back to system on the mortgage side. You got a benefit during the half on the asset mix side. Do you think that reverses or it just becomes more of a neutral going forward? How should we think about the margin on the asset mix side, please?

Richard Fennell: I think asset mix will probably be more neutral in the second half, I'd expect. There was some benefit from the runoff in the lending book versus growth in average interest earning assets on the business and agri side of things. If those two are running more in line, then the mix shouldn't see a significant movement one way or the other.

Clearly, there are some tailwinds though from a margin perspective coming into the second half. As I mentioned, the replicating portfolio should have a slightly positive impact and the rate leveraged with higher rates.

Not that I want to make a big deal of it, but our exit NIM at the end of the year was slightly higher than the average. So, again, it gives us some positivity around margin in the second half as we move into what we expect to be a slightly higher growth - well, certainly a higher growth on the resi lending side of things.

Ed Henning: (CLSA, Analyst) Nice. Thank you very much.

Sam Miller: Thanks, Ed. Our next question is from Carlos Cacho from Macquarie.

Carlos Cacho: (Macquarie Group, Analyst) Thanks, Sam. I was just curious, on the capital side and your decision to do the [effectively small \$120 million] raising, when you announced the RACQ acquisition, it was fully funded by cash reserves, so the 31 basis point raising is now largely funded by new capital.

I'm curious, can you talk us through what changed since December? Obviously, the APRA overlay is added, but the potential for that was probably known at the time. Is there something else that you're concerned about? What's shifted there?

Richard Fennell: Thanks, Carlos. When we announced the AML/CTF issue in concert with the RACQ piece, we weren't aware of the \$50 million overlay from the regulator. In hindsight, should we have expected that? I don't know, but we weren't aware of it. So, that is one element that has changed.

I think also, as we are looking forward with some growth levers available to us, I think the Board has decided, let's make sure we're in a strong capital position, knowing that we've got that RACQ drag of pretty much the same amount that we're underwriting here, so that we know that we have plenty of capital available for whatever comes up in future periods.

It really is making sure that we maintain our very strong capital position both pre and post the RACQ acquisition completing.

Carlos Cacho: (Macquarie Group, Analyst) Thank you. Then, just, on the deposit side of things, you have spoken to the strong growth you've seen in lower-cost deposits, but we've seen incredibly strong system growth over the last three to six months. So, your growth, if we compare it to that, it's probably been a bit on the softer side. I understand you're shrinking in TDs, but still, it's probably been half system overall [on the housing book].

How much capacity do you think you have to get back towards system growth [in] deposits? Because it would seem that without that, the risk is the mortgage book growth you're hoping to achieve potentially becomes a negative for returns and margins.

Richard Fennell: We will continue to hopefully see strong growth through these digital channels I've spoken about. We only went live with the digital onboarding, I think it was in October. In fact, I do recall, it was 2 October. It was a birthday present to me. That's only been in place for a quarter, and the volumes are increasing through that channel.

Having said that, we do know that we will need to see some growth in term deposits, and I guess our flagship deposit product of EasySaver continues to grow above system, and that continues to be a really attractive product for our customer base, so we'd hope to see that continue.

But your question's a fair one. As we start to grow the lending side of things, we need to make sure that we maintain our deposit-led approach to lending and not let that lending get to a position where the funding of that's going to have a material negative impact on margin.

Carlos Cacho: (Macquarie Group, Analyst) Great. Thank you.

Sam Miller: Thanks, Carlos. Our next question is from Brendan Sproules from Goldman Sachs.

Brendan Sproules: (Goldman Sachs, Analyst) Good morning, Richard. Congratulations on doing the whole presentation by yourself. You're probably sick of answering questions. I've got a question on slide 40 around the composition of your business lending mix. Eighteen months ago, Bendigo came to the market with a new strategy around business lending, but what we've seen since then is growth really in equipment finance, and we haven't really seen the growth in those four target areas of micro, SME, property and agri that you outlined.

In terms of the equipment finance, you have had one of your competitors say that they're exiting that market, citing very low returns on equity. Can you maybe talk about the returns on equity in that part of the business? Then, secondly, around when we should start seeing some growth in those four target areas that you outlined 18 months ago.

Richard Fennell: Equipment finance is an interesting one. We actually see really strong returns there but we are not generally offering - our book is not dominated by distribution through third parties. We often see it as actually a great first product for a relationship with a business customer that allows us to then build out from there. So, it's a really important part of our offering, and certainly, the direct returns for equipment finance have been strong. That actually goes not just for business, but agri as well.

On the agri side, we've actually seen [growth in] customer numbers through the agri business, and prior to the seasonal runoff that we saw with the paybacks in November, December, the book was actually in a really strong position. If you look where it is versus a year ago, it's slightly higher than where it was at December '24. I would be really hopeful that we'll continue to see good growth there as we continue to build out the mix of agri sub-industries that we're seeing growth come from and being a little bit less reliant on the cropping and livestock side of things.

So, I'm really positive on the agri business. As I said earlier, it is damn competitive though, but one thing I do know about agri is it is a really important relationship business. People remember you. If you stick by your customers through the good times and bad - and unfortunately, there have been some challenging times in South Australia and Western Victoria and then throw on some floods in Queensland. We have got a good reputation amongst that customer base, so hopefully we can continue to grow that.

SME is one that is - this is one where I think it's going to be really important for us to build that digital deposit capability. A lot of SMEs we're seeing now in the market are looking to use digital channels in how they look to interact with their bank. Less and less of them are cash reliant. That's where we see a real importance to build that digital capability to allow us to grow, again, what is often the first product for an SME customer, being a deposit product, and then potentially moving into the lending side of it.

There's a number of factors there. We are seeing some growth on the business lending side. As I said, I'm pretty comfortable that the agri side is in a good place. We need to enhance our digital offering. We did consumer first, now focused on business and agri, and I think that we'll hopefully then, in the next 12 months, we'll see continued growth in business and agri. Certainly, the team, I caught up with them not just a few weeks ago, they're pretty excited about the half year ahead.

Brendan Sproules: (Goldman Sachs, Analyst) Thank you.

Sam Miller: Thanks, Brendan. Our next question comes from Brian Johnson from MST.

Brian Johnson: (MST Financial, Analyst) Thank you. Thanks, Richard, and well done on a great result. Richard, a few questions. The first one is, if we have a look at the slide on the AML program, I think I asked this question last time, but I'm just wondering, can you explain to us exactly what happened, in very simple language? The other one is, could you talk to us about the prospect of a fine? Then I have a few other questions.

Richard Fennell: Okay. In very simple terms, Brian, we identified some suspected money laundering occurring through one of our branches. When we identified that early last calendar year, we reported that to the appropriate authorities, both the regulatory authorities and law enforcement. We worked with those authorities over a period of time until action was taken.

I've got to be careful how much I speak to here, because these legal matters are not an area of great expertise for me, but once that action had been taken, we then pretty much immediately

assigned a third party, Deloitte, to come in and review the root cause of the issue that we had identified.

They undertook a review over several months to look at the underlying - or the issues that we'd identified and the underlying root cause. They identified deficiencies in our AML/CTF risk management, the way we were doing that, that had allowed this to occur, and that's [why] as soon as we got that report and the report was finalised, we self-identified that and self-reported that to the market.

On the back of that - and as you can imagine, through that whole process, we were in regular contact with the regulators to keep them informed of the process we were undertaking, to make sure that was an appropriate process. On the back of that, just before Christmas, the prudential regulator imposed the \$50 million capital overlay and asked us to undertake a broader non-financial risk management review, which is underway, and AUSTRAC initiated an enforcement investigation.

If you like, there are three streams of work going on at the moment. The AML remediation, the \$70 million to \$90 million, that we've kicked off. There is the non-financial risk management review that we're undertaking for the prudential regulator. We are working with AUSTRAC to provide them with all the information they need to complete their enforcement investigation. What comes out of that enforcement investigation, I really don't know, and I don't even know the time frame.

Brian Johnson: (MST Financial, Analyst) So, Richard, [unclear] that this was facilitated by Bendigo staff?

Richard Fennell: This was not - actually, I'm not going to go there, Brian. There was clearly a breach of AML/CTF activity going on, and it went through one of our branches. That's, I think, all I can say. If and when law enforcement activities are completed, then I'll be happy to make public anything that is made public through that, but I've really got to be careful what I do and don't say.

Brian Johnson: (MST Financial, Analyst) No worries, thank you very much. Richard, the other one is just on the net interest margin slide, very cautionary outlook, but then if you have a look at the considerations, we're talking about cash rates rising, but you're talking about some margin pressure. You're talking about returning to growth perhaps in the fourth quarter. You're telling us

that the exit rate is actually higher than the December rate, which was higher than basically the September quarter.

That sounds to me as though you're telling me in the next quarter, the NIM is up, and then it falls quite dramatically in the quarter thereafter, and then when we have a look out in the year after, are we talking about this three-basis-point decline on the asset side that we see coming through each quarter, going into '27?

Richard Fennell: You're right, there are some tailwinds, but it is really hard to be that precise. If I could precisely forecast our NIM in the fourth quarter to the basis point, I'd probably be in a different job or retired. Yes, there are some tailwinds for this quarter, absolutely. The challenge we're leaning into is to not see significant margin degradation as we return to growth.

You can all form your own judgments as to our ability to deliver on that. I hope in six months I'll be sitting here, hopefully alongside Andrew so I'll only have to do half the presentation and talking about maintaining our NIM in parallel and seeing some stronger growth come through.

Brian Johnson: (MST Financial, Analyst) Richard, the final one from me, just the slide on capital and dividends. If we have a look at the pro forma capital ratio, 11.19%, but then we've got to take out RACQ out of that. So, we've got the operational risk overlay, we've got the dividend comes out, and then we've also got basically RACQ comes in.

What is interesting is that you guys keep on talking to a greater than 10% common equity tier 1, whereas your direct peer, Bank of Queensland, actually talks to greater than 10.25%. I see where that figures in the ROE. Can we just get a feeling, a little bit more precision on that greater than 10%? Does it actually mean greater than 10.25%, like your peer? Or if it is, in fact, just greater than 10%, why is your capital requirement lower than your immediate peer?

Richard Fennell: That last question is one I'm not, I can't answer, but our Board limit is 10% and our Board requires us to keep our common equity tier 1 ratio above 10%. Clearly, anytime you pay a dividend, then that has a negative impact, so we need to run a significant buffer above that 10% running into dividend period, assuming we're not going to be underwriting a DRP every time. But 10% is our Board limit, and we're required to keep it above that from a risk appetite perspective. I can't comment on our northern neighbours.

Brian Johnson: (MST Financial, Analyst) Richard, just on the 11.19%, when you think about all the bits and pieces, can we be relatively confident this has got any APRA - any AUSTRAC fine

that may be incorporated, that you could fund it basically without resulting to another capital raise?

Richard Fennell: As I said to your earlier question, I have no idea what potential penalty, if any, will apply, and we'll cross that bridge when we get to it. Post-RACQ and dividends, I think our adjusted common equity tier 1 ends up around [10.70%] or something, ex-div. That clearly provides about \$270 million of capital buffer above that 10% limit.

I'd love to think that's all going to be available to drive value-creating growth. But we'll continue to make sure that we're in a conservative capital position, and we think that's the right way to run this bank, balance sheet first.

Brian Johnson: (MST Financial, Analyst) Fantastic. Thanks, and congratulations again, Richard. Great operational performance during the period.

Richard Fennell: Thank you. Thanks for that, Brian. We appreciate it.

Sam Miller: Thanks, Brian. Our next call is from Christian Mazza from Jarden.

Christian Mazza: (Jarden, Analyst) Morning, and thanks, team. Two questions, if I may. Firstly, as discussed, we've seen FTEs fall over the recent halves as a result of your productivity initiatives. Where exactly are these employee reductions coming from? If we include contractors, are FTEs still down?

Richard Fennell: Thanks, Christian. The FTEs have come - I guess I'll talk through a number of factors over the half. Early in the half, we did a number of reviews of our support functions, so across a number of support functions, there were headcount reductions, employee reductions.

Then, following that work and following the relatively recent appointment of the new Chief Technology Officer, or Chief Information Officer, there were significant reviews undertaken into our technology organisation. That has seen reductions in both employee numbers and very significant reduction in contractor numbers during the second quarter of the half. That's been probably the biggest impact in the half.

Contractors have not been replacing employees that have been reduced. In fact, the contractor reduction has been more significant than the employee reductions. Those contractors have generally been contractors that have been employed on the investment spend. Again, as I spoke about earlier, one of the real positives we've been seeing lately as we've changed our technology

development operating model is greater efficiency in that space, and that has allowed us to reduce the resources needed to be applied in our investment slate.

Where we've gone first is to reduce the contractors in that space, because they are generally more expensive than our employees, and to be frank, I'd rather retain our employees who've made a commitment to our organisation, if we can.

Christian Mazza: (Jarden, Analyst) Perfect, that makes sense. Secondly, reflecting on your Google partnership, it's clear the recent norm has been to migrate data systems to the cloud. However, if AI reaches its potential, is there a risk we have to U-turn and bring back core elements of data infrastructure back to on-premise just to protect that data?

Richard Fennell: Again, I'm probably edging into an area outside of my limited areas of strength on this one, but everything that we know is, to this point in time, is that the level of security that is available through leading cloud providers such as Google and the way those cloud services are established, managed and protected certainly doesn't - nothing in our forward view sees us needing to bring significant workloads back on premise to on-premise data centres.

So, that's not currently in our plans. Again, I haven't done a lot of broader research in this space, so again, probably not an area of strength for me. Sorry, Christian.

Christian Mazza: (Jarden, Analyst) No worries. Thanks, Richard. Thanks, Sam.

Sam Miller: Thanks, Christian. We have our final question from Richard Wiles from Morgan Stanley.

Richard Wiles: (Morgan Stanley, Analyst) Good morning, Richard. Your answers to the questions from Carlos and Brian on capital raised some extra questions about how the Board's thinking about capital management. APRA has imposed an overlay on every bank that has had an AML issue in the past 10 years, so I don't know why you expected in October that that wouldn't be the case when you announced the RACQ acquisition.

Even if we put that aside, the pro forma is 11.2%, you yourself just said that after taking into account the acquisition and the DRP underwriting, it will be 10.7%, that's a buffer of \$250 million, \$270 million. It does raise the question as to whether that 10% target is appropriate. That seems like a very large buffer. It also raises the question as to whether you have confidence in your capital generation.

On slide 24, we see that you got a 16-basis-point RWA benefit from the runoff in the loan portfolio. You also got benefits from deferred tax assets and then other factors such as the movement in reserves. Without that, you wouldn't have generated any capital, even taking into account the runoff of the loan portfolio.

So, do you have confidence that if you get the loans growing again, if the portfolio grows on the back of an improvement in mortgages, that your capital generation will be positive, and do you have confidence in that 10% capital target that the Board has currently outlined?

Richard Fennell: I'll go to the last bit first. I've got no indication that there is any intention to change that 10% target from the Board. We obviously have Management targets also that provide an additional layer above that. So, although that's the Board target, we then have a Management target that builds in some buffer above that, that we operate towards.

The reality is that we feel that it is more appropriate right now to take a more conservative position with our Management target, as we are moving into a period of time where we expect to grow the balance sheet.

There are other actions we are taking, and I talked about, earlier in the presentation, the second phase of our productivity initiative, to look to drive higher returns. If we can therefore keep a relatively stable margin as we grow, through those partnerships generate greater productivity, so more of the revenue we write falls to the bottom line, then over time, we'll hopefully move to a position where we're generating more capital organically.

That's not going to happen overnight, I get it, but in an environment like this, with a lot of moving parts, I certainly was very comfortable, and as a Board member, supportive of moving to a more conservative capital position.

Richard Wiles: (Morgan Stanley, Analyst) Richard, can you tell us what that Management buffer is? There's a Board target, then there's the Management buffer. In practice, that means that the Management target is your capital constraint. Can you tell us what that buffer is?

Richard Fennell: We don't disclose that.

Richard Wiles: (Morgan Stanley, Analyst) Is it 50 basis points?

Richard Fennell: As I said, we don't disclose that, Richard. That is a dynamic target, so it does change from time to time, but it's not something we'll be disclosing publicly.

Richard Wiles: (Morgan Stanley, Analyst) Okay. Thank you.

Sam Miller: Richard, that was our final question. I might hand back to Richard Fennell to do some closing comments.

Richard Fennell: Thanks, Sam. Looking forward to a couple of minutes of not talking in a moment. But in wrapping up, hopefully over the half, you've seen that we've demonstrated our strong execution capabilities, as we've really delivered some significant progress on our refreshed strategy.

Our customer numbers are growing, supported by the customer advocacy scores across both our key brands, and also improved digital capabilities. We've increased the share of low-cost deposits, we're regaining momentum in our lending businesses, and our productivity program is going to drive sustainable long-term benefits.

I want to thank all of our people who work so hard to deliver great outcomes for our customers and value for our shareholders. Thanks everyone for joining us this morning and look forward to talking to many of you over the next day or so.

[END OF TRANSCRIPT]