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Introduction

Melanie Kirk: Hello and welcome to the Commonwealth Bank of Australia's Results Briefing for the full year ended 30 June 2022. I am Melanie Kirk, and I am Head of Investor Relations. Thank you for joining us for this briefing.

We will be having a presentation from our Chief Executive Officer, Matt Comyn, with an overview of the results and an update on the business performance. Our Chief Financial Officer, Alan Docherty, will provide details of the result, 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.

CEO Presentation

Matt Comyn: Thanks very much Mel, and good morning everyone. Throughout the year we have been focused on supporting our customers through natural disasters and the continuing disruption of COVID. We are very conscious that a number of our personal and business customers are feeling very concerned about rising inflation and rising interest rates. We remain committed to supporting our customers during this period of economic uncertainty.

Turning now to our performance. This year we have delivered a strong financial result. High levels of customer engagement and a consistent disciplined execution has delivered volume growth in all core lines of business. We have also continued to strengthen our balance sheet. Overall we have returned $13 billion to our shareholders over the past 12 months through buy backs and dividends.

Now looking at our results in more detail. Our statutory net profit was $9.7 billion. Cash net profit was $9.6 billion, up 11%, driven by volume growth, lower collective provisions and lower remediation costs. Operating performance was $13.2 billion, up 3%. This operating performance, combined with our strong capital position, has allowed the Board to declare a dividend of $2.10 for the half, bringing the total to $3.85 for the year, fully franked, up $0.35 on the prior year.

Focusing on the result in more detail. Our operating income, as you can see, was up 1% for the year, excluding the $516 million cash gain on the partial sale of our Bank of Hangzhou shareholding. This was supported by strong volume growth, offset by continued margin pressure. Operating expenses reduced 1.5%, excluding one-offs, with lower remediation costs partly offset by higher staff costs. Pre-provision profit was up 3.1%, excluding one-offs. The combination of 3% growth in operating performance and lower loan impairment expenses, resulted in our cash profit up 11% on the same period last year.

We have seen strong growth in deposits, home lending and business lending. This year we opened more than 1.1 million new retail transaction accounts, with new-to-bank migrant transaction accounts returning to 90% of pre-COVID levels. Household deposit growth was up 13% in the year. Home lending was up 7.4% in the past 12 months, growing just below system and reflecting our disciplined approach to volume-margin trade-offs. Consumer lending continues to gain momentum. Approximately 230,000 of our customers now use StepPay, and personal lending increased 25% over the period.

In business banking we have added 33,000 new merchant facilities over the year. We also now have over 1 million business transaction accounts, with more than 200,000 of those accounts opened in FY22. The new accounts opened this year alone brought in an additional $6 billion in deposit balances.

Overall business deposit balance growth has been very strong, up $24 billion at 1.4-times system. This more than funded business lending growth of $15 billion, at 1.3-times system over the year. With margins stable in the half, and up over the past 12 months. In the last three years business banking has shifted from having a funding gap of $38 billion, to being a net funding contributor. With deposit balances now exceeding lending balances by $3 billion.

We remain focused on serving customers well, growing our transactional and deposits franchise, and subsequently lending to those customers. Our Retail Net Promoter Score has increased by 7.4 points over the last two years. Now with more than one in three Australians considering the Commonwealth Bank their main financial institution, which is more than double our nearest peer.

Households have trusted us with an additional $41 billion in deposits over the past year, which represents 27.5% market share. Through these relationships we have been able to deliver strong home lending growth, processing $170 billion in new fundings. With 60% through proprietary channels in our second half. We are now originating more than one in three proprietary loans in Australia.

We are executing this same strategy in our business Bank. In business we have seen NPS, or Net Promoter Score, increase 11 points in the last two years. Almost one in four businesses consider the Commonwealth Bank their main financial institution. This customer engagement has delivered deposit growth of 15% over the year.

Business lending growth was up 13.6%, driven by our priority sectors, like healthcare up 29%, agriculture up 17%, and business services up 17%. With commercial property growing slower than the overall portfolio, up 12%. More than 90% of our business lending customers have a transaction banking account with us.

Given the uncertainty regarding the interest rate environment, and outlook for the housing market, I thought I might spend a few moments sharing some perspectives. The operational performance of our home buying business remains strong. We decision 85% of our home loan applications within a day, and 62% of proprietary applications are auto-decisioned in less than 10 minutes.

We hold a transaction account for 98% of our home lending customers, and use proprietary decisioning tools and behavioural scoring to understand and manage the risk. Compositionally we have seen a marked shift from owner-occupier and first home buyers towards refinances and investors, some of which has been driven by recent increases in the cash rate.

We have also seen intense competition and an escalation in price-based offers. We have taken a disciplined approach to managing volume, margin and risk, and are conscious of the underlying funding market and heightened risk environment. We remain extremely focused on proactively engaging with our customers as they approach fixed rate maturities.

We are doing this by bring together our data capabilities and customer engagement engine across both physical and digital channels. We see particularly high engagement through our mobile banking app, which averages more than 8 million daily log-ins, and through messaging, which now accounts for 35% of all direct customer enquiries.

To navigate the current economic and competitive environment we will continue our focus on strong, disciplined operational execution. Our balance sheet remains strong, particularly when compared with the settings we had going into periods of uncertainty, like COVID. The balance sheet is 74% deposit funded. Weighted average maturity of our long-term funding is 6.3 years, and liquid assets are $191 billion.

Our Common Equity Tier 1 capital ratio is 11.5%. Continued organic capital generation in our retail business, combined with a focus on returns and capital discipline in our institutional bank, allows us to continue to organically fund growth in our business banking franchise. We are well-positioned for APRA's changes to the Prudential Capital framework that are effective from the 1st of January 2023.

The credit environment was benign in FY22, but is clearly an area we are watching very closely. We have seen troublesome and impaired assets decrease to $6.4 billion, from $7.5 billion over the year. Home loan arrears are near record lows at 49 basis points, with 78% of our customers ahead on their repayments by an average of 36 months. We hold total provisions of $5.3 billion, which is $1.8 billion above our central economic scenario.

Switching now to our strategy, which is to build tomorrow's bank today for our customers. I will spend a few moments sharing our progress on each of our four strategic priorities. Throughout the year we have continued to support our customers and communities, not just in the good times, but also through some of the more challenging times.

Our customer engagement engine has again been critical in helping us reach our customers. We have offered natural disaster assistance to more than 2.7 million of our customers. We have contacted 5 million customers about government benefits and rebates and we have helped initiate more than 2.1 million claims in Benefits finder since its inception in 2019, with 26,000 initiated for small business in the last financial year.

We are also committed to helping Australia transition to a more modern, resilient and sustainable economy. Earlier today we released our first Climate Report, outlining how we will play a leadership role in Australia's transition to a net-zero emissions economy by 2050, including setting interim and long-term targets, and publishing glidepaths to 1.5 degrees for our key sectors.

We are also helping our customers navigate the transition, and have provided $31 billion of sustainable funding since June 2020. We have reduced our Scope 1 and Scope 2 emissions by 90% since 2014, and we have increased financed power generation by 16%.

Business banking, as I said, is an important part of our strategy. We see businesses as a critical enabler of economic growth and jobs, and we have a role to play in supporting Australian businesses. We are continuing to differentiate our transaction and merchant banking propositions, and digitising our business banking experience for our customers.

In October last year we launched SMART, our new point of sale terminal and we’ve now deployed more than 15,000 terminals, with 30% of those to new merchant customers. Our app Marketplace on the terminal allows merchants to personalise their payments experience in sectors such as health and hospitality.

Building on the acquisition of Whitecoat, in March we launched CommBank Smart Health which enables real-time healthcare payments and claiming, and has been a differentiator for us in-market. We now have more than 600 providers processing claims on our platform. Leveraging the acquisition of Doshii, we have been creating a new payments offering for hospitality venues.

Through these and other initiatives our market share of business deposits has increased 84 basis points in the past year, and is now 239 basis points above our nearest peer, having increased 246 basis points since September 2019.

In May this year we gave an update on how we are creating a more differentiated proposition for both our retail and business customers through new products and partnerships. We announced that we will progressively bring CommSec functionality into the CommBank app. More than 670,000 of our customers have used this feature in the app, giving them the ability to move seamlessly between their everyday banking and investing.

We launched Kit, a money app and digital information tool for kids that's aimed at helping them learn about money. How to save, how to budget, how to manage their spending. Kit is currently in pilot, and we see it being opened up to the broader public this year.

We also launched Unloan, a fully digital direct-to-customer proposition, with a loyalty discount which increases over time. We are currently at a run rate of $100 million of fundings per month on Unloan, and anticipate this will double over the remainder of the year.

StepPay, our interest free buy-now pay-later card, continues to grow and perform well. We have more than 230,000 customers since launching about 12 months ago. We receive two StepPay applications for every one credit card application. This quarter we expect StepPay will become the second most used pay-in-four service by CBA customers, while our arrears performance is substantially lower than the rest of the market, mainly as a function of our robust serviceability and external credit checks.

Building global best digital experiences and technology remains key to our strategy and we continue to add features, improve the customer experience, and drive engagement in our digital app. We have been extending a number of retail features to business customers, including cash flow view, Benefits finder, and the alerting capability from our customer engagement engine.

Feedback from customers has been positive and we've continued to demonstrate strong customer engagement in digital, with leading digital NPS scores for both consumers and businesses. Our mobile banking app still leads the market, and continues to enable us to move beyond customer service to redefine and extend the relationship we have with our customers.

We continue to make good progress on simpler, better foundations. This year we completed our Remedial Action Plan to improve governance, culture and accountability. While the program of work is complete, we know there is still more work for us to do and we are focused on continuously improving and strengthening these foundations.

Employee engagement has remained very high, with pride in the Commonwealth Bank sitting at 90%. We also remain focused on maintaining capital discipline to optimise growth, reinvestment, and long-term sustainable returns.

In summary, our strategy aims to protect and extend our core competitive advantages. This starts with building strong relationships with our customers. We are very fortunate to have a trusted brand, with a leading share of customers who consider us as their main financial institution.

We have the leading proprietary distribution channels, both physical and digital, which underpin a market-leading deposit gathering franchise. This provides a liability-led funding advantage, which is leveraged to the rising rate environment, and more stable in times of crisis.

Deep relationships help us better understand and serve our customers' needs. Using transactional data representing approximately 40% of payment flows across the country, we have built a number of proprietary assets over time to better manage and assess risk.

We continue to invest in our customer engagement engine to orchestrate the best overall experiences for our customers. It's now making 50 million decisions in real-time each day. These assets allow us to deliver superior customers experiences at scale, which is increasingly important in a digital era.

Our branch network, the largest in Australia, continues to be an incredibly important part of our business. But over the course of a year a few million customers will visit us in one of our branches. That compares to our digital experience, where we see on average nearly 9 million log-ins per day and so the digital distribution advantage as a complement to physical drives that increasing returns to scale.

When combined with a better overall digital proposition this creates even more points of difference that customers can experience every day. And so through our strategy we remain focused on building the best overall customer experience in a digital era, and making sure we deliver a superior and distinctive proposition. One that is more convenient, more integrated, and brings more value for our customers.

And with that I'll hand to Alan to walk through the result in more detail.

CFO Presentation

Alan Docherty: Thank you Matt, and good morning to everyone who has dialled in. As usual I will provide some more detail on the financial results. I'll also spend some time on the topic of capital management, which has rightly been an area of particular focus from analysts and investors this year.

In summary, this is a good set of financial results and we’re well-positioned to support our customers, and the broader economy, as financial conditions continue to evolve.

The drivers of our performance can be viewed across three dimensions. Firstly, the impact of changes in our macroeconomic context. Secondly, the results of the actions that we are taking as a management team. And thirdly, how our franchise is evolving.

Firstly on the macro context, the Australian economy has been recovering strongly and in response to inflationary pressures, rates have been lifted well above pre-COVID levels and are forecast to increase further in the months ahead. Australia is in a relatively good economic position; however we are carefully monitoring how the combination of higher rates and other forms of policy tightening are impacting upon the finances of Australian consumers and businesses.

Turning to the results of management actions, we are seeing improving trends in customer advocacy, strong operational execution and good pricing disciplines. This has delivered another year of growth in pre-provision profits and built strong momentum in our operating leverage to normalising interest rates.

Finally turning to our franchise, it has been further strengthened through another year of double-digit growth in customer deposits, as well as continued strategic growth in our Business Bank. We have invested behind our strategy and built further capital-generating capacity into our business mix, which has underpinned another year of reducing share count and increasing dividends.

Now onto the detail. Statutory profits from continuing operations were $9.7 billion for the year. Non-cash items within continuing operations were relatively small, with continuing cash profits totalling $9.6 billion. And as Matt has mentioned, that cash profit is up 11% on last year.

There were a few one-off items this year that had a broadly neutral effect on the bottom line. The disposal of a 10% stake in Bank of Hangzhou generated a pre-tax gain of $560 million, which was offset by accelerated software amortisation. Excluding those one-off items, operating income grew 1%. Operating expenses reduced 1.5%. Pre-provision profits increased 3% and loan impairments provided a benefit during the period.

Looking firstly at operating income, both net interest income and other banking income increased over the year due to strong volume-driven growth in home loans, business lending and deposit revenues in both Australia and New Zealand. Insurance income fell this period due to the impact of a number of storm and flood-related weather events over the past 12 months. Our revenue growth was moderated by a decline in net interest margins.

Over the most recent six-month period, margins decreased by five basis points. This decline in margin was in line with the expectations that we set out in our February results briefing, with the flowthrough of fixed-rate home loan margin compression and continued competitive pressure on variable rate margins. Offsetting that, we have seen higher deposit margins in the last six months that was mostly a function of higher swap rates.

As we look ahead, our medium-term outlook is unchanged. In a rising rate environment, investors should expect higher margins. Given CBA’s balance sheet mix and longer-term replicating portfolio, we will have more leverage to rising rates and our management team have remained disciplined and rational in our approach to pricing.

Turning now to operating expenses, they were down 1.5% on the prior year. Remediation costs decreased $324 million. Excluding that, underlying costs were up only 1.4% due to volume-related growth in our frontline and operational support teams. Growth in other costs were offset by our ongoing business simplification initiatives, with cumulative annualised savings achieved over the past four years now totalling over $1 billion.

Looking ahead to the next financial year, we are likely to see continued inflationary pressure on wages and other costs and we’ll see the full-year impact of higher staff numbers. Software amortisation expenses are likely to be broadly flat and we will continue to focus on productivity through simplification and digitisation initiatives.

Turning to our balance sheet settings and looking firstly at credit risk, loan impairments represented a benefit to P&L in the current year and it was another benign period for consumer arrears. Over the last six months impaired loan balances reduced significantly and corporate troublesome exposures remain stable.

Looking at the key drivers of our loan loss provisioning, there were two opposing factors that resulted in a moderate overall reduction in provision levels over the last six months. We updated our assessment of the multiple economic scenarios and forward-looking adjustments that could affect our lending portfolios.

In particular, we adopted a new downside scenario that reflects the risk of higher inflation, interest rates and unemployment. This stagflationary scenario models an unemployment peak of just under 10% and it is less severe than our previous deflationary scenario. This resulted in a 9% reduction in loan loss provisions. Our $5.3 billion of provisions represents 90% coverage of the potential $6.1 billion loss modelled under our downside stagflation scenario.

Our balance sheet settings remain very strong, with our deposit funding ratio increasing again, now at 74%. Long-term funding maturities also remained conservative. Given we are forecasting much tighter financial conditions over the next couple of years, we decided to leave short-term wholesale funding at a historically low proportion of total funding of 8%.

This conservatism costs money. We could easily increase our net interest margins by shortening our funding mix, but we feel keeping extra capacity in this part of the liability stack is the prudent course, particularly as the term funding facility begins to mature in the next financial year.

On capital, we’ve delivered a Common Equity Tier 1 ratio of 11.5%. This is 30 basis points lower over the half after absorbing a significant capital headwind from interest rate risk in the banking book. Excluding that item, organic capital generation was strong over the last six months and we also completed the Hangzhou Bank divestment.

Now the capital impact to Australian banks arising from interest rate risk in the banking book has understandably attracted a lot of attention from market participants, particularly offshore equity and debt investors who are unfamiliar with this capital requirement. It’s a complicated topic, but it’s also an important one, so I hope this explanation is helpful.

Starting at the bottom of this chart and working up, the biggest driver of higher IRRBB capital has been the valuation difference that arises between investing your equity over a three-year period and the one-year term that is deemed the capital-free level within the prudential regulations.

The easiest way to think about that is that every month we invest about 3% of our equity in a rolling three-year term deposit. So as interest rates move higher, you have to wait three years for your investments to fully benefit from higher rates. Then in a period of sharply rising rates, that valuation difference drove up IRRBB risk weighted assets by $22 billion. Assuming no change in swap rates, this valuation difference would unwind by approximately $5 billion per year over the next three years. Higher rates slow this unwind and lower rates accelerate it and I've provided the rate sensitivity at the bottom of this slide.

Now moving up the chart, you also have to hold capital buffers on an assumption that rates keep going up. The recent volatility in rates has increased the level of these swap rate risk buffers by $10 billion. An obvious question to ask is, why don't we simply run an investment term of one year and avoid this capital drag.

The reason we don't is that shorter investment terms expose you to higher levels of capital deterioration during stress events. This is because when stress events occur and economic conditions worsen, rates tend to fall sharply and that's the moment when you want to have the protection of a three-year term deposit. A longer investment term provides stability of both earnings and capital during a downturn.

Now moving up the chart to credit spread risk, this relates to the liquid assets that we hold in the form of state and federal government bonds. We revalue our bonds every day for changes in credit spreads. We need to hold this buffer against the risk that our bonds lose value from future increases in credit spreads. As you can see, credit spread buffers have increased slightly.

As we look ahead, even if credit spreads remain stable, it's likely that this buffer will continue to increase by around $3 billion per annum. This is a function of expected growth in the volume of bonds that we own. We could reduce this buffer if we reduced our liquid assets closer to regulatory minimums, however we prefer to hold excess levels of liquidity to ensure stability in times of stress. The other main drivers of IRRBB are expected to remain broadly neutral.

So in summary, we can achieve lower levels of IRRBB capital through taking bigger wrong way risks with our balance sheet settings, either by shortening our investment term or by holding lower levels of liquid assets. While changing these settings would deliver a short-term capital benefit on IRRBB, we strongly believe that a long-term conservative approach to balance sheet risk management is the correct posture.

Turning to the new prudential capital framework, which is effective from 1 January 2023, we remain well placed to accommodate the changes and expect an increase in the presentation of our capital ratios as a result of lower risk-weighted assets under the new standards. The new capital models remain subject to final APRA approval and industry calibration, which we expect to receive before the end of the calendar year. We will continue to hold strong levels of capital above APRA's new minimum requirements in order to remain resilient to potential future stress events. We therefore expect to operate with a post-dividend CET1 ratio of greater than 11%, except in circumstances where we experience unexpected capital volatility.

The final dividend of $2.10 brings our total dividend for the year to $3.85. This represents a 10% increase on the prior year dividend and a normalised full-year payout ratio in the middle of our range. Given our very strong capital position, the Board have also decided to again neutralise the DRP in respect of the final dividend.

I'll now hand back to Matt who will take you through the outlook and a closing summary. Thank you.

CEO Outlook and closing summary

Matt Comyn: Thanks very much, Alan. The Australian economy is experiencing a period of rapid change. There are a number of metrics that are extremely strong. Unemployment is near 50-year lows, underemployment is very low and the terms of trade are strong, as is non-mining investment. However, inflation is high and continues to rise and as a result, we've seen a rapid increase in the cash rate, leading to heightened uncertainty.

We're conscious that a number of our personal and business customers are feeling anxious about the economic outlook and what it means for them. Consumer confidence has fallen below levels seen in the GFC. We're starting to see a reduction in spend across our debit and credit cards on a seasonally adjusted basis, with spend falling more acutely for interest rate sensitive cohorts such as home buyers.

The cash rate has already increased to 185 basis points, but given the lag in transmission, the effects of this have not yet fully been felt. By December, the impact of already announced rate rises on monthly cash flows for mortgage holders will be more than four times higher than what customers experienced in July. This is given because 40% of our mortgages are fixed and the majority will mature in the next two years; the impact of rising rates will continue to grow to a level approximately equivalent to 1.5% of GDP.

In addition, there are further impacts from rising energy and food prices which will flow through over the course of the year. We continue to see a wide range of economic forecasts which are reflective of the volatility and a high degree of uncertainty; the market forecast terminal cash rate has fallen by almost a third since mid-June.

Our economists' view is that the tightening cycle will peak with the cash rate of 260 basis points by the end of the year. However, if aggregate demand across the economy does not fall, inflation will increase further and rates will likely need to rise higher. A cash rate above 300 basis points or 3% is not out of the question, which would take us back to levels that we've not seen since 2013.

Regardless, the effects of this will be unevenly felt and we will be ready to support customers feeling the strain as this cycle flows through. It is a challenging situation for policymakers, but we remain optimistic that a path can be found to navigate through and we remain of the firm view that the medium-term outlook remains positive.

So in summary, we've delivered a strong result with customer engagement translating through to volume growth. This has been underpinned by consistent multi-year disciplined execution. Our balance sheet and capital positions remain strong and looking ahead, we will continue to invest in the Bank's core retail business and institutional banking franchises to differentiate our proposition and extend our digital leadership.

We have a solid pipeline of new products and services delivering tangible benefits and while we're facing a period of economic uncertainty, we're optimistic about the medium to long-term opportunities for Australia that lie ahead. The strength of our balance sheet means we remain well positioned to continue supporting our customers and the broader Australian economy while delivering consistent and sustainable returns to our shareholders.

I'll now hand back to Mel for your questions.

Q&A

Melanie Kirk: Great, thank you Matt. For this briefing, we will be taking questions from analysts and investors. I will state your name and then wait for the operator to open your line. Once your line is open, please restate your name and the organisation that you represent. To allow others the opportunity to ask question, please limit your questions to no more than two questions.

The first question comes from John Storey.

John Storey: (UBS, Analyst) Great, thanks very much. This is John Storey from UBS. Matt and Alan, thank you for the presentation. Just thinking about the drivers of the P&L and market expectations, you've got $1.8 billion of provisions above your central scenario and as you mentioned in the presentation, your probability weightings and economic scenarios have become more conservative, yet you had a $506 million collective provision release and your downside scenario implies about $700 million increase in provisions.

I'm just thinking if you could help us try and understand some of the sensitivities of the credit charge and what would actually ultimately end up driving this. That's the first part. Then just secondly, be pretty interested to understand how your clients have been responding to rate increases post the FY22 results. Thank you.

Matt Comyn: Yes, sure. Thanks John. Maybe why don't I start, it's fair to say that this is an area that Alan and I have probably spent the most time in preparation for the result, is going through all of the different scenarios and then modelling them accordingly. And as you'll see, they're set out in later disclosures around some of the key economic drivers and indicators.

I mean clearly what's a bit different in this cycle versus others is just the full employment, clearly low levels of unemployment as a material reduction and overall projected impairment costs. There is sensitivity to the cash rate and that's one of the key differences across the scenarios and clearly we've modelled differences in terms of the changes of asset prices.

I think we start from a position of very benign credit conditions throughout the full year, you see that in our TIAs reducing, our arrears being at near record lows, as we sit here today, I guess having the benefit of what we've seen in July, there's no change to that position. But clearly one of the things that we're watching really closely is how that contraction flows through into the broader economy and some of the early signs and indicators of that.

I think from our perspective, both at a business, a non-retail exposure, sector by sector and on the consumer side, we've been through and it's a very hard thing for sell-side to try and model, facility by facility, looking at individual customer positions, their equity position, income, what their LVR is but also whether things like lender's mortgage insurance is there. Then secondly, what's the reaction in terms of the month and then let Alan maybe add some more detail, the first part of your question.

We're definitely - as I think I covered in some of the presentation, we're definitely seeing a big increase in concern across the customer base. Obviously, that we're directly interacting with it. We've only seen a slight uptick in terms of customers that are coming through in terms of financial assistance requests but definitely heightened levels of uncertainty and anxiety around the rate outlook.

I think what's critical from our perspective as I mentioned is there's a lag between a cash rate decision that is made, a financial institution making an announcement about what change will occur typically a couple of weeks then that has to flow through into repayment amounts, which can take weeks beyond that.

Then we're allowing for 40% of our home loans are on fixed rates. Obviously, in New Zealand it's closer to 85% but that's higher relative to Australia. So, even for the interest rate decisions that have already been announced, we see a quadrupling of the impact on households between now and December and then clearly there's a cumulative effect going into 2023 and a lot of sensitivity about where that terminal cash rate is through that time.

Alan Docherty: John, just on the provisioning change, we thought it was an appropriate time to revisit, in particular that downside scenario and as you recall, the previous downside scenario related to a deflationary scenario related to COVID-related uncertainties. They were very conservative assumptions that were underpinning that and we had provisions for particular sectors of the economy that were impacted under that scenario.

The aviation industry was one example. Those that were receiving JobKeeper was another. It was an appropriate time to revisit, refresh and update that scenario and obviously as we - the world is very different today, in terms of the macroeconomic outlook. I think it's appropriate that we adopted the more stagflationary scenario of higher rates, higher unemployment and falling house prices.

When you look at the individual customer sectors, the parts of the non-retail portfolio that are impacted in that environment and as Matt says, a customer level on the retail portfolio will look at individual impacts at facility level in order to assess the losses in that regard and in the non-retail portfolio.

Obviously, the impacts fall differently in terms of those sectors that are exposed to belt tightening by the consumer, so a reduction in discretionary spend as well as supply chain constraints and labour input costs increasing across a number of other non-retail sectors.

So, we feel that was the appropriate scenario change and the net effect of those two scenario changes was that more just overall reduction in the collected provision. But as you say, we've got strong coverage relative to industry, relative to the central scenario and relative to this new downside scenario.

John Storey: (UBS, Analyst) That's great, thank you very much.

Melanie Kirk: Thank you, John. The next question comes from Andrew Triggs.

Andrew Triggs: (JP Morgan, Analyst) Thank you, Mel, good morning, Matt and Alan. First question just on the performance of the NIM in the fourth quarter, so if we go back to the third quarter update, it implies that the NIM excluding liquidity was down around four basis points in the quarter and in the materials released today excluding the reverse repo impact, the NIM also looked to be down four basis points in the half.

I take that to be a fairly stable underlying NIM performance in Q4. That does look a little bit softer than peer results so far this reporting season. Could you talk to perhaps some of the offsets you saw to the small rate leverage you had during Q4 and if particularly, was there any callout on short-term funding costs or is it just purely mortgage competition?

Alan Docherty: Yes, thanks, Andrew. Q4 was pretty much in line with our expectation as you say and I think the work that you've done, a stable margin in Q4 relative to Q3. One of the factors that was in the Q4 margin was obviously that big elevation in the swap rates. You've seen again another leg up in terms of the dynamic that we've seen all through the last 12 months, which is that swap rates were rising on average much faster than the repricing of the fixed rate home loan portfolio.

So, you've seen compression, that compression in the fixed rate home loan portfolio in particular was part of the reason that the Q4 margin performance was maybe - was more stable than maybe the positive change that you may otherwise have expected. There wasn’t any changes in terms of our short-term funding mix and as I mentioned in the presentation, we took a very deliberate approach to retaining historically very low levels of short-term funding in the liability stack.

We think that having some capacity there makes a lot of sense as we roll forward over the next 12, 18 months and see the term funding facility mature and so we took a conservative approach on net interest margin as regards to the short-term mix. But we were pleased with the Q4 margins in the context of that, those broader movements and rates.

Andrew Triggs: (JP Morgan, Analyst) Thanks, Alan and a question - a second question on costs and there are a few parts to this one. Could you just talk a little bit more about the headwinds that you've called out for FY23 around wage inflation, building FTEs, et cetera and just a maybe more specific one on FTEs; they're up 1,700 in the second half.

Could you talk about the extent of insourcing that happened in that number and just broadly, I guess the - it's quite strong FTE growth in the midst of a relatively subdued revenue environment ex the tailwind from rate hikes.

As part of that, productivity looked to be another $50 million incremental saving in the second half. Is that strong enough just given the narrative around the technology advantage and the increase in digital nature of banking?

Alan Docherty: Yes, thanks, Andrew. On the cost outlook we've provided a number of the moving parts as we see them. Obviously, there's that broader inflationary impact and we are not immune to whether it's in a wage cost or other costs

As you say, there is an insourcing impact that you see as basically a swing factor between staff costs and technology expenses as we classify those costs. So we've had cumulatively something like 2,000 FTE insourced into the organisation from third party technology provides historically.

So that results in a sort of $80 million, $90 million swing in this year's result, between IT expenses and staff costs or lower IT costs, higher staff costs and is part of that overall increase that you're seeing in the fulltime equivalent employees. And, you know, what we've called out there was obviously a delta between the spot number of FTE and the average number for the year. So that's the reference to the flow through impact of higher staff numbers into next financial year, it's not a forecast around future spot FTE, it's just a flow through impact of where our exit FTE was relative to the average.

Matt Comyn: Perhaps the only thing I'd add Andrew is just you know, as we've thought about and we've talked about previously, there's a number of elements I think Alan has very well captured, particularly the sort of technology and insourcing some of the FTE growth in recent times has been to incorporate a larger investment envelope which to clearly sort of stabilise, we've substantially expanded our capabilities and our operational area. Specifically in financial crime over the course of the financial year.

Obviously we've continued to invest in retail, home lenders, additional business bankers. But I think there's a number of areas there that we'd - you know, we've stabilised. We've been prepared to invest in that, and I think certainly in some aspects of our business, we would anticipate sort of a lower volume environment.

But for a combination of both investment as well as - I think we always wanted to have a tighter handle around our technology ourselves and therefore we've made the choice to deliberately insource some of those capabilities that were previously being provided by external parties.

Andrew Triggs: (JP Morgan, Analyst) Thanks Matt. Are you happy with the productivity trajectory? It's been around $50 million a half the last three halves and it was higher before that. I mean is that enough in the context of what's happening in the digitisation across the industry?

Matt Comyn: Yes, look, I mean happy wouldn’t be the first description that would jump to mind for me and I'm sure Alan. You know, I'd say our expense performance has been adequate. We've been very conscious of wanting to invest in the business and drive a longer term outlook, and I think that sort of served us well over the last few years. It's a finely balanced trade off for us any period. You'll see when set out the distribution and the mix of our investment dollars.

One of the things that was going to assist that number going forward is while we've expanded our investment envelope, we have been able to reduce the spend proportionately that's going into risk and regulation. There's more going into, you know, productivity, growth, and innovation.

And so you know, across a number of different dimensions on a regular basis, we revisit investment prioritisation and for us there's a lot of foundational things. There's also near term customer experience. And then there's just investments, as you said, and digitisation to deliver productivity.

But I think we all see the necessity of making sure that productivity number is at least adequate to be able to enable us to you know, invest through the cycle at a greater rate and set up a stronger overall position.

Andrew Triggs: (JP Morgan, Analyst) Great, thank you.

Melanie Kirk: Thank you, Andrew. The next question comes from Jon Mott.

Jonathan Mott: (Barrenjoey, Analyst) Thank you, Mel. A question on the home loan business. In the second half, we saw new fundings which fell from - fell to $76 billion from $94 billion in the first half. About a 20% fall in the flow of new mortgages being written.

Totally understand there's some seasonality in that around Christmas in particular. But also it indicates that you've pulled back on price to some extent given the environment, to stabilise your NIM and it led to a bit of market share loss going through in that second half.

Now that your NIM is rebuilding with higher rates, are you more comfortable to compete a bit more aggressively on price to retain and then grow that mortgage share? Especially as you've got about 21% of your entire book, which are fixed rate, rolling off over the next 18 months by December 2023.

So you've got a huge amount of your book rolling off. Are you going to be prepared to compete more aggressively on price given the benefit you're getting from higher rates?

Matt Comyn: Yes, no, thanks John, it's a great question. Look, maybe a couple of things in the context of that period. You know, as you said, we saw from our perspective, some deliberate choices we made around fixed rate pricing. We expected to lose some momentum in that period. We did.

We've seen a compositional shift, particularly away from sort of first home buyer owner occupier, which as you know, is more of our strengths versus a greater mix of investor, as well as refinance.

I mean if you think over the course of the two calendar years, in '20 and '21, we originated or net balance growth about $62 billion at margins, I'd say, all above long term averages.

We've sort of been conscious of, as you know, the most recent origination cohorts are also the higher risk given the cycle that we're in. There's aspects - we've seen elevated levels of price intensity. Fair to say, some aspects of that at a level that surprised us during the period.

You know, a significant escalation in both pricing and cashback incentives. You know, recently we've seen one institution offering up to $6,000 per facility. So yes, we've been very conscious of that and been prepared to, as we have in the past, make decisions around trade-offs on volume, pricing and risk.

As we go forward, maybe staying away from sort of our pricing response particularly. But you're absolutely right, we'll be very focused on fixed rate maturities. We set those out on a quarterly basis. I think the peak month is in June.

It's ballpark $11 billion we're tracking closely. The refinance rate on those customers for Angus, it's a very significant operational focus as well. So you know, we're going to balance all of those different factors.

We have been able to, in a favourable basis of competition, grow strongly above system over the last few years. We didn't think that was present in the last six months, but we're clear operationally on what we want to do and we certainly intend to execute with the same level of discipline that we've applied previously.

Jonathan Mott: (Barrenjoey, Analyst) Thank you. Just a follow-up question on the fixed-rate maturities and I think you give it, it's on slide 89. So, huge numbers coming up over the next 18 months, which you highlighted. There's also a lot of customers who have split loans, part fixed, part variable, often 50-50 so they can use the advantage of offset accounts and other benefits that you can get with a variable rate loan. Do you know the balance of variable rate loans which are associated with the fixed loans by a split facility that will also effectively mature over the 18-month timeframe?

Matt Comyn: I don't know it off the top of my head. I'd be happy to pick that up in the one-on-one later. But you're right, we've seen the activity and it's become more frequent for customers to split part of their loans and at times also have different fixed-rate maturities even within that.

Alan Docherty: By customer numbers it would be something like one in three loans would be split.

Jonathan Mott: (Barrenjoey, Analyst) That would be of the fixed rate loans? For example, you've got 40% of your book which is fixed and 33% are split, so the vast majority of the fixed-rates are split. Is that correct?

Alan Docherty: Yes. About half the number of split loans would be fixed-only by proportion.

Jonathan Mott: (Barrenjoey, Analyst) Okay. So there's a large proportion of split loans coming up to maturity as well.

Alan Docherty: Yes.

Jonathan Mott: (Barrenjoey, Analyst) It’d be great to follow up what that number later, Thank you.

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

Richard Wiles: (Morgan Stanley, Analyst) Good morning. Alan, I've got a couple of questions for you. The first is on margins and the second is on mortgages. So, I'll start with margins please. On slide 25 in the first half result presentation, you said that you would get a 4-basis point margin benefit from every 25-basis point rise in the cash rate on your low-rate deposits. You also said you'd get a benefit from the equity hedge because of rising three-year swap rates.

So, when we think about that sensitivity and then consider that the average cash rate is probably going to be 150 to 200 basis points higher in the December half, can you give us any reason why we shouldn't conclude that the interest rate environment alone provides something like a 25 to 30 basis point margin tailwind over the next six months?

Alan Docherty: Well, you'll recall when we provided that guidance at February, Richard, that the sensitivity we've provide on low-rate deposits was sensitivity over time. So, it was a combination of what's the immediate benefit that you receive on unhedged deposits together with the benefit that you receive over the course of the tractor on the replicating portfolio.

That's a mixture of two and that affects the timing of that 4-basis point sensitivity, so we've provided a lot of detail, as you know, around the exit tractor rate, what the swap rates are, and so you can model out based on where you think swap rates are going to head, what happens on the replicating portfolio, and on the equity tractor similarly we've provided those sensitivities.

So yes, given the elevated level of swap rate we would expect there's a tailwind associated with our deposit and equity hedges and obviously the benefit from the unhedged deposits. But yes, the sensitivities in outlook that we set out in February we remain comfortable with that guidance and we reconfirm that outlook and guidance here.

Richard Wiles: (Morgan Stanley, Analyst) Okay, thank you. Then on mortgages, maybe this is a question for Matt. You've got slide 10, a reference to the rapidly changing market context, in particular you've flagged high refinance activity, intense competition, and the upcoming fixed-rate maturities, all of those factors seem like they're going to encourage more aggressive pricing.

Certainly, brokers will be looking for the best deal for their customers, customers that will be very sensitive to higher rates. Should we interpret this slide to mean that you think the mortgage margin headwinds will actually get even worse in the next year than they've been in the 2022 fiscal year?

Matt Comyn: Well, Richard, perhaps I'll let you draw the conclusion. Certainly, what we have seen over the last six months and reflective to the answer I gave to Jon, you anticipate in rising rate environment absolutely people are understandably very price sensitive. I'd say some of the offers that are in market are well below cost of capital so it probably depends a little bit on things that are outside of our control. It doesn't tend to remain the case for a persistent period of time but we'll have to see.

As I said, it was more heightened. Certainly, as we thought about the period we were going into, we expect the market will continue to remain very competitive but it was pushing perhaps beyond that over that last six-month period. I think we'll see what happens and we'll make our decisions accordingly. We certainly, as I said operationally, are very focused in a few key areas but we intend to continue to apply discipline, but certainly relative to where we were in February, we've seen an escalation based on what we would have anticipated given the funding environment and also I think the part in the cycle being late-stage from a risk perspective.

Richard Wiles: (Morgan Stanley, Analyst) Great. Thanks, Matt.

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

Andrew Lyons: (Goldman Sachs, Analyst) Thanks, Mel and good morning, Matt and Alan. Andrew Lyons from Goldman Sachs. Just firstly another question on NIM and the reiteration of your NIM guidance today that you provided at the first half '22 result. That was clearly somewhat premised around assumptions in relation to the extent to which deposits that were very low cost are moving to become rate sensitive as rates increase.

However, looking at pricing data to date, particularly shorter-duration term deposits, it does appear that the price increase in these products has been much slower, or the increase higher has been much slower than the rise in the cash rate. I'm just wondering, has that outperformed your expectations to date but is something that you'd expect to have to give up over time, or is it broadly as expected? I've then got a second question.

Alan Docherty: Yes. I think we're seeing very intense competition for deposits in a higher-rate environment. We've got a number of very attractive term deposit offers and changes to savings account rates that we've announced over recent months and weeks. So no, I wouldn't change the outlook in terms of the amount of switching or the assumed level of switching that we'd see to higher-yielding savings and term deposit products across the portfolio. So, that underpinned the low-rate deposit assumption that we set out in February and would remain of the same view.

Matt Comyn: Yes. I think there's so many moving parts and Alan has touched on both the tractor rate to cost replicating portfolio and our equity balances. There's also just composition or shifts in terms of mix between products, pricing delays. That's why I think we try to emphasise the 4 basis points over time. Clearly, it's uneven and so - but based on all of the assumptions that we made when we were preparing that slide and having revisited it, we still think it looks on track.

Andrew Lyons: (Goldman Sachs, Analyst) Appreciate it, and then just a second question around the strong growth in your business banking where business loans are up 14% in the year. Can you maybe just talk about the extent to which you may have seen this slow down just in recent weeks as rates started to move higher, and how you're thinking about the sustainability of growth in this segment in '23, both from the perspective of the system but more importantly, how you think your franchise can perform in that system environment?

Matt Comyn: Yes. What we've seen, we've certainly seen a more pronounced impact on demand at the institutional end of the market. Clearly there it's probably more dependent on the overall market, and M&A and a number of activity drivers. We've certainly seen a softening of demand there, a slight slowing as we covered in housing, and we'd certainly expect that to moderate over the course of the financial year.

I think not unlike what we've seen in past rate-hiking cycles, you tend to see demand stay quite strong in business banking certainly earlier on in the rate-hiking cycle. We see that at the moment with this dichotomy between rapidly falling consumer confidence but actually business conditions and confidence are remaining quite strong, which I guess on a number of levels does make sense.

Look, one of the big focus areas for us for several years, and I think it's really pronounced in this result and Mike and the team have done a great job of really trying to build out the liability deposit franchise and customer numbers, record levels of customers consider us their main financial institution, record levels of transaction accounts, deposit balance growth, and as I mentioned, net funding or liability position versus $38 billion of assets three years ago.

So, that's been really critical and that means we've got the same sort of advantages that we have in retail, around 90% of customers with our tran account where we're extending credit. That volume growth strong and in the period over the last month not a deterioration that we can see from that. We would expect to see that moderate over time.

Clearly, we've got to be very conscious - Alan touched on in terms of our modelling obviously closely on the consumer book, the sectors are under a lot of pressure, like construction, we expect discretionary retail, some aspects of office, commercials, we've got a bias in some areas to tightening. We're pricing and modelling off forward curves, we're obviously looking at a number of different buffers.

Again, we'd probably start the year thinking we'd like to grow there or thereabouts on system, we're not committed to be growing above that but if we see opportunities as we have where we think there's good - we're confident on risk identification and pricing then we're certainly prepared to continue to grow, but we're probably most pleased about the overall growth in customer relationships and deposit balances, which obviously gives us additional leverage through a rising rate cycle.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks, Matt. Thanks, Alan.

Mel: Thank you, Andrew. The next question comes from Brian.

Brian Johnson: (Jefferies, Analyst) Good morning. I'm going to go with three quick questions because I know Alan will deny the first one. Just lightning quick, page 33 you say the dividend is based on the long-run loan loss assumption but then on slide 83 you actually show the long-run loan loss assumption - your words, not mine - you actually call it out as being 30 basis points. Alan, am I missing something? Have you told us the number?

Alan Docherty: Well, I certainly haven't called out that number but what slide are you looking at, Brian?

Matt Comyn: The loan loss one.

Brian Johnson: (Jefferies, Analyst) I'm looking at the dividend one, and then if you have a look at the loan loss one you've actually...

Matt Comyn: What slide's this?

Brian Johnson: (Jefferies, Analyst)….given us the number of 30 basis points.

Alan Docherty: Which loan loss one?

Brian Johnson: (Jefferies, Analyst) It's right at the very back. I think it's slide 83.

Alan Docherty: No, it's not slide 83. No. Yes, that's not our view of average long-run loan loss rates. I'm happy to show you offline if you can show me that 30 basis points. That's not our view of long-run average loss rates.

Matt Comyn: Well below that, BJ.

Brian Johnson: (Jefferies, Analyst) Okay. Well, that one doesn't count because I knew that would be the answer. Now, the next one is having a quick glance through the riveting read that is the Annual Report, page 156 actually details the scenarios. I just wanted to ask that when we have a look at it, the cash rates are telling us cash rate by the end of December this morning well above 3%. That's not that far away.

Your cash rate under the central scenario is 2.1% and then falling away, and when I have a look at your downside scenario it's probably much more in line, at least in the near term, with where the markets are telling you. Could you just run through us the difference between the two? Like what would happen if the downside actually had a higher probability assigned to it on the house price fall?

Alan Docherty: Yes, I mean we've got very high probability assigned to the - if you take our downside - we've also got another scenario of severe downside scenario which is similarly double digit unemployment and actually a much higher expected credit loss than even the downside scenario. We've got a combined probability for those two scenarios assigned in our weightings at 47.5%.

So you can look at individual assumptions and say well could you stress that cash rate assumption higher? Could you go a little higher than the nearly 10% unemployment that we've stressed? But if you go with more aggressive assumptions you have to go with also lower probabilities and the assignment of the MES weighting. So we feel comfortable with both the assumptions that we've selected in those scenarios and then also I think it's a conservative weighting that's been applied to them.

Matt Comyn: BJ The only thing I'd add is obviously rate expectations have shifted in recent times. The unemployment number which is of course the primary driver, looks substantially above what we're likely to see even under more significant scenarios.

Then I think from our perspective as we go through the base - the multiple economic scenarios, then add a number of different forward-looking adjustments - we sort of come at it from top down, bottom up. I guess I'd make the same point we made a couple of years ago. It's not a precision science. There's a lot of different elements that feed into it. But totally understand the question.

Brian Johnson: (Jefferies, Analyst) Yes Matt, it's just that when you think about it we're going to know relatively quickly as to whether that central is right or wrong, aren't we, and it is radically different to what financial markets are telling us right now.

Matt Comyn: Yes, that's fair. I think that's why I think in one of the earlier questions I'd say the area that Alan and I have spent the most time on in the last couple of weeks was a number of different other ways of back-solving what we're looked at through the MES scenarios to make sure that we're really comfortable based on what we think is going to happen but also what could happen given the overall levels of provisioning. We feel comfortable about that.

Alan Docherty: The way we've solved, Brian, there's been a lot of obviously movement and rate expectations, there's probably larger range and rate forecasts both between economists and also between economists and the market implied rates which have - the market implied rates have obviously been bouncing around a lot in the last few weeks.

They were 50 points or 60 points higher a few weeks ago than they are today. We've solved for that partly by that conservative weighting to the downside. So that informed having a higher than normal probability weighting to some very, very severe scenarios.

Brian Johnson: (Jefferies, Analyst) The next one Matt, when we look at the market at the moment CommBank - and as I say this is an outstanding result from an operational execution point of view - when we have a look at the term deposit market and now the at-call we see some of the smaller players now dramatically increasing TD rates but even overnight I think Suncorp has now come out with a 2.4% at-call deposit account.

Just in the forward numbers, but thus far CommBank seems to be a fantastic franchise growing deposit market share. But can you just talk to us about strategies with regards to that going forward? Is it a risk?

Matt Comyn: Yes, I think there's a number of things that are a risk including that, BJ. I mean look we have a very good strong deposit gathering franchise. That's been really important. I think one of the reasons why you're probably seeing an elevation is it's a - probably a challenging aspect for people from other institutions to compete with the same proposition that we bring to market with digital and a whole range of elements which support that sort of day to day banking proposition.

As you see even in the June month and as we see our overall deposit market share, it's been very stable. So we're watching that very closely. We recognise both - we need to make sure we're always competitive in market. But we will see particularly in markets of either stress or where there's a little bit more uncertainty competitors are going to price aggressively to be able to attract any sort of deposit flows.

We work on a number of things including as I said - touched on - the broader overall value proposition, that digital capability, the customer experiences that we're building out. But fair to say we're watching our share of flows very closely.

Brian Johnson: (Jefferies, Analyst) Thank you.

Melanie Kirk: The next question comes from Victor.

Victor German: (Macquarie, Analyst) Thank you Mel. Victor German from Macquarie. I was hoping to ask two questions as well, one on expenses, one on margins. So on expenses I know that you've talked about normalisation in investment. But I just wanted to get a sense whether that comment refers to the P&L number or the balance sheet number.

Because it appears as though, certainly with some of the changes that you've done to capitalisation policies, your number in the P&L that is relating to investment is only $1.3 billion versus you were spending $1.9 billion for your investment. There's obviously quite a large gap.

Just wondering when you're talking about normalisation which number you refer to and also whether you think given the changes that you've made to capitalisation policies suggest that you should be capitalising less.

Then the second question - do you want me to ask the second question...

Matt Comyn: Whatever you like Victor. We're happy to answer that one or you can give us...

Victor German: (Macquarie, Analyst) Okay, I'll ask the second question after that, thank you.

Matt Comyn: Why don't I start - and Alan can deal with the capitalisation policy - from our perspective strategically it's more about the total investment envelope, making sure that we're efficiently executing across a significant capital expenditure and getting value in terms of return on those investments. As I said, we've pushed the envelope up.

We've stabilised that mainly - we want to make sure that we're focusing on the most efficient execution. Clearly the mix of what we're putting those dollars against does change. I mean for risk and regulatory expenditure it typically flows straight through to expenditure. For investments where we expect a generation of cash flows and we're able to capitalise that, then clearly it depends on the useful life as well.

Alan Docherty: Yes, I mean our overall share of investment envelope to productivity and growth initiatives has increased pleasingly from 31% in the 2021 financial year to 41% in the current financial year. So that's the reason for the capitalisation rate increasing over that period.

The reference to normalisation and the operating expense outlook was a reference to discretionary forms of operating expenditure. So obviously there's more travel that we will see through the operating expenses going forward given the ending of the lockdowns. You've seen a few months of that in this financial year. But you'll get a full 12 months run rate of that next year. So that's the reference to normalisation.

I think on capitalisation rate that's going to track as a function of productivity and growth relative to risk and compliance spend as a proportion of the envelope going forward.

Victor German: (Macquarie, Analyst) Understood. That was very helpful. Thank you. The second question I was hoping to ask on margins - this is just some points of clarification I guess - going back to that Slide 25 in reference to the earlier question - understand that your 4 basis points obviously talks about timing issues with replicating portfolio which makes a lot of sense. But if I look at your replicating portfolio it's about $100 billion. That translates to around 2 and a bit basis point impact.

So it appeared as though when we discussed this at the first half result there's still somewhere in the order of 1.5 basis point to 2 basis point benefit that you should get from cash rate increases alone. I mean would we be getting something wrong if we were to assume that based on your exit margins that particular bucket should contribute 10 basis points to 15 basis points uplift in margins?

Then the second bit of the question is I was a little bit surprised, Alan, with your comment around competition in term deposits because based on what we're seeing in terms of actual pricings today, it appears that term deposits should be a very, very profitable business, particularly the retail term deposits. Is that not the case? Are you hedging them differently to other banks? Should you not be seeing quite substantial tailwinds in term deposits in your fourth quarter?

Alan Docherty: Yes, I mean I think the - that's going to be a function of where swap rates head as you know. But yes there's no special hedging treatment of term deposits. What you have seen is much more attractive term deposit yields from a borrower perspective. That's what I was referring to.

Swap rates have behaved in quite a volatile fashion this year. So you can imagine that creates a lot of volatility in margin around term deposits given some of the swings that we've seen.

On the replicating portfolio and the mix between what translates in the nearer term through cash rate changes and what do you see through replicating, the broad split that you referenced and that we talked about as part of the February results briefing still stands. I think probably the thing that's changed is the swap rate.

So the reinvestment rate at the three year for the equity hedge and the five year for the replicating portfolio hedge, they're both higher than they were in February. So as those old tractors run off and we reinvest at the three year rate and the five year rate they're earning a higher amount of interest earnings than maybe we would have predicted in February. But the broad split of the sensitivity between unhedged deposits and hedged deposits remains the same.

Victor German: (Macquarie, Analyst) Understood. Just to make sure I understand this - am I wrong to assume that your current term deposit profitability is materially better than it was say three, six months ago? Appreciate the movement.

Alan Docherty: It will be a function of where the swap rate is.

Matt Comyn: Yes, also Victor you know we're running a number of specials. It depends on the flow and the mix of those. But I think depending on your weighting and distribution you'll be able to model that and then similarly as Alan said you've got - and the replicating is at $98 billion and I think it's $54 billion on equity balances. If you apply the five year to the former and three year term to the latter you'll model pretty closely to what you should expect.

Victor German: (Macquarie, Analyst) Thank you.

Melanie Kirk: Thank you Victor. Our last question comes from Carlos.

Carlos Cacho: (Jarden, Analyst) Thanks Mel. I just have two questions, one on wages and one on borrowing capacity and lending standards. One the wages front, your EBA nominally expired at the end of June. Have you started that process of renegotiating that, noting that currently the FSU is calling for 6% wage rises with some of the other major banks. I guess separately from that, what sort of wage rises are you currently seeing across the business on average?

Matt Comyn: Yes, look on the first, you're right around the - we brought in a significant change to our enterprise agreement which substantially both modernised and simplified things for both us as the employer and for our people. We are actively considering and engaged in that process to determine.

I think it's one of the - putting aside the Commonwealth Bank - it's one of the things that's really hard to get that balance right. Clearly people are and should be worried about cost of living. I think one of the risks to the economy though as well is wages indexed to inflation would be problematic certainly in the context of what we would infer the Reserve Bank will be watching closely with wages data.

So we're yet to see - yet to determine exactly what we're going to do in that regard. But more broadly, consistent with many employers and businesses that I speak to, with that labour market shortages and tightening certainly across the board, but in key skill areas there's significant demand which is hard to meet in the short term.

So that's just one of the things that we've just got to balance through and make sure obviously we're rewarding performance and pay people fairly and competitively. Then at an aggregate level it's probably unhelpful to be contemplating wage growth that's officially or unofficially indexed to an elevated level of inflation which we certainly expect to moderate over the near to medium term.

Carlos Cacho: (Jarden, Analyst) Thank you. Just secondly on the lending standards and borrowing capacity, you note on slide 83 that that borrowing capacity has started to come down with a few of the recent changes like with the higher serviceability buffers and obviously higher rates more recently. I was just wondering if you've made any material changes to your HEM expense assumptions, given that obviously CPI is pretty elevated and a lot of that is coming through higher essential spending, so I would assume that that would have potentially, you could particularly after the energy prices go up post July, could have a pretty material impact on what you assume with those baseline assumptions.

Matt Comyn: Yes, look I'd say overall it's one of a number of different things that we both track closely to understand and see the proportion of originations that are relying on the household expenditure model.

There's the buffers that are consistent across the industry or at least intended to be consistent across the industry, then there's a range of other conservative things that will build into our overall net servicing calculation, there's different sort of restrictions or limits that we've brought in, either to bring down, as I said, lower proportions of LVR or DTI or just to try to apply some more conservatism, particularly to some sectors that we think might be more vulnerable or impacted by the rising rate environment.

So that's something that's reviewed on a monthly basis to make sure overall we feel like we've got the most appropriate settings. But we agree, both in the context of origination but also as we look forward, it's one of the granular elements that we're modelling when we're determining stress, is how resilient our customers are at an individual facility level and what proportion of their overall household income is likely to be consumed by both rising increases in rates, but also other factors such as food, fuel and electricity.

Carlos Cacho: (Jarden, Analyst) Thanks.

Melanie Kirk: Thank you Carlos. That brings us to the end of the briefing. Thank you for joining us and we look forward to engaging you over the coming days.

End of Transcript