TRANSCRIPT

BENDIGO AND ADELAIDE BANK 2025 HALF YEAR RESULTS

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Sam Miller	Good morning, everyone and welcome to the market briefing for Bendigo and Adelaide Bank's 2025 Half Year results. Let me begin today by acknowledging the Traditional Owners of the lands on which we meet today, the Wurundjeri People of the Kulin Nation. I pay my respects to their Elders past and present and extend my respects to the Aboriginal and Torres Strait Islander people who are present on the call today. Today is the first result for our CEO and Managing Director, Richard Fennell. Joining Richard today is Andrew Morgan, our CFO. At the end of the presentation, we'll take questions. I'll now hand over to Richard.
Richard Fennell	Thanks, Sam and good morning everyone and thank you for joining us today. As I come to you from Melbourne, the traditional lands of the Wurundjeri people of the Kulin nation. It is a privilege to lead Australia's most trusted bank and I look forward to continuing to build upon the proud history of this 160 year plus organisation as we seek to drive sustainable growth and build shareholder value. Today's result demonstrates the significantly increased demand for both lending and deposit products, which has led to the strongest balance sheet growth we've experienced in many years. This growth is tangible evidence of the quality of investment we've made in our lending platform and digital capabilities. While half-year cash earnings are slightly lower than the prior corresponding period, this reflects increased investment spend and higher funding costs impacting income. We recognise scale is more important than ever to deliver sustainable returns in this industry and our investments are focused on both delivering exceptional customer experience and building a larger, stronger Bendigo Bank. While these efforts have led to increased expenses in the short term, they will ultimately enable us to better serve our customers and deliver greater productivity. We've also reached a significant milestone, with more than $100 billion in assets for the first time in our history. Mortgage growth for the half is running around two times system, supported by the completion of the rollout of the

Bendigo Lending Platform to our Broker Channel. This platform is materially reducing our cost to serve, attracting lower risk customers and generating higher marginal returns.

On the deposit side, annualised deposit growth of 10.8% reflects our investment in online capability for our EasySaver product and the broader strength of our deposit franchise. However, a change in customer preferences for longer dated, more expensive term deposits and continued growth in offset accounts has impacted our funding costs and earnings.

Our balance sheet remains resilient. We are unquestionably strong, with capital well above our Board-approved targets. Our household deposit to loan ratio of 73% is well above the average of the major banks. These strengths position us well for continued balance sheet growth.

Our customer numbers are growing at a faster rate than any other major or regional bank. Customer numbers were up 4.9% in the half to 2.7 million, supported by a Net Promoter Score that is 31.1 points above the average of the majors. We are a credible competitor, supported by unique assets that cannot be easily replicated, as we organically grow our business and scale.

This half, the results have been challenged by lower income flowing from higher funding costs and a continued increase in operating expenses. Cash earnings are down 1.1% on the prior corresponding period, and 9.7% on the previous half. Statutory earnings are down 17.5% over the half, impacted by a reduction in Homesafe portfolio valuations, particularly in Victoria.

Operating expenses were up 5%, reflecting the increased investment spend we flagged at the full year results as we continue to invest in our growth engines and complete the core banking consolidation program. Technology inflation continues to have an impact in existing and new contractual relationships. We will also continue to invest in the required risk management capability and resources to support the prevention of and response to fraud and scams.

Finally, we saw a revision in credit expenses for the half as collective provisions reduced, reflecting the continued strong credit performance of our lending book. Andrew will cover this in more detail shortly.

Turning now to our divisional performance. Our Consumer Division delivered the strongest half on half growth in both lending and deposits in three years. Cash earnings were down 3.7% for the half as consumer deposit growth was skewed to relatively higher cost products, while transaction accounts remained flat. Having said that, customer deposit growth remains strong and we continue to attract new customers as we build out our new digital offerings.

We launched our EasySaver online capability in March last year, which has paved the way for 12.4% growth in these accounts. Residential lending for the half was up 5.9%, the strongest growth since 2022. The return profiles of new loans continue to improve, as originations via Bendigo Bank Broker and our digital channels are typically lower LVR, reducing our credit risk weighted asset intensity and improving our marginal ROE.

While our Business and Agri division cash earnings were down 5%, we are making good progress on building our capability and embedding new processes for the benefit of our customers. We continue to see opportunity as we mature our B&A broker offering and our position to grow market share within this channel.

This slide is our current strategy on a page, which has served us well for the past six years. As part of the team that developed and executed the strategy, I'm proud of what we have achieved. Six years ago, we had eight core banking systems, and by the end of this calendar year, we will have one. We've reduced our primary customer-facing brands down to two, divested non-strategic assets, and introduced a greater focus on key customer segments.

Alongside a simpler business, we've invested in technology, people, risk management, and digital capabilities. We have the market-leading digital bank in our Up business, supported by digital capabilities that are now being shared across the group. Finally, we continue to build on our advocacy efforts and better leverage our assets, such as our brands, our market-leading Net Promoter Scores and our unique Community Bank model.

Our strategy has created a pipeline of demand to support future growth. Over the next six months, working collaboratively with our Board and our new executive team, we're developing our strategy for the next phase of our growth. You should not expect radical change, more an evolution of our purpose, focused on productivity and growth through shared digital and technology capabilities, and a sharper alignment on those customer segments where we can compete successfully. We will share a high-level update at our August results announcement.

The Australian economy remains resilient as underlying inflation continues to move towards the RBA target range. However, we recognise cost-of-living pressures continue to impact many of our customers. Fortunately, at this stage in the cycle, signs of credit strain in our key markets are modest.

While Victoria is facing some economic challenges, and housing arrears are slightly higher there. This is not playing out in higher credit costs. Calls to our Mortgage Help Centre have increased in complexity and we continue to work hard to deliver on our commitment of keeping people in their homes wherever we can.

We are expecting interest rates to be reduced to a more neutral level of around 3.5% by the end of this calendar year. Our heritage is deeply rooted in regional Australia, with more than half our branches and staff outside of metro areas, and we are a visible presence in many regional and rural communities. Our commitment to accessibility means we have more branches per customer than any other bank in Australia.

We know fraud prevention is paramount. We've blocked over $9.5 million in fraudulent transactions in the first half of FY25 and continue to innovate to protect our customers. Our introduction of NameCheck has stopped over $100 million in mistaken and fraudulent payments since its introduction, and we continue to invest to protect our customers from this ever-evolving challenge.

Over the last six months we've been focused on three key areas. Prioritising our capital allocation into the channels that provide growth opportunities and meet our hurdle rates; executing on our strategic initiatives and priorities; and building a sustainable business for the long term. Let me outline our progress in each.

Despite the earnings challenge this half, we've seen strong growth momentum while maintaining prudent capital levels. Our Common Equity Tier 1 ratio remains well above our Board targets, and we maintained a consistent approach to shareholder returns. We noted at the full year result our intention to increase investment spend by $30 million to $40 million over this year and next. This investment spend will include the final stages of the heavy lifting required to complete the consolidation of our core banking systems, deliver our Business and Agri rebuild, and roll out the Bendigo Lending Platform to our retail network.

Let me walk you through some early outcomes we're seeing from that investment spend. This half we have experienced record growth in our consumer segment. For mortgages this is the largest growth for more than three years, and similarly with deposits. As we highlighted at last year's Investor Day, we've been selectively investing in those areas that will drive growth in our target customer segments and in parallel reducing complexity.

An organisation of our size cannot be all things to all people. We have clearly defined target markets and we are sharpening our customer value propositions.

We also know that the Bendigo brand doesn't have a demand problem. It's up to us to meet that demand by supplying our key customer segments with products and services efficiently through their channel of choice. The changes and investments required will often have a short-term cost impact, but we are confident they will drive long-term benefits as we build the ability to generate sustainably higher returns and grow our scale.

On the deposit side, we've made the strategic decision to improve our digital customer experience. Firstly, in online term deposits and more recently with our online EasySaver product. For mortgages, the introduction of our Bendigo Bank Broker offering was a welcome change from our previous proposition. Providing access to Australia's most trusted brand, supported by an improved time to approval, has driven strong growth.

Balancing this growth with the need to increase our return on equity over the medium term remains a key discipline. Andrew will speak to the improvements we've experienced in risk-adjusted returns on new-to-bank loans over the past three halves.

I also want to provide an update on the growth engines that were highlighted at our Investor Day in May. Our Business and Agri rebuild, which includes a new operating and technology platform, better targeting of our preferred segments, and a focus on delivering continual improvements to the customer experience is on track. We've launched our new underwriting engine and the customer relationship management system across business banking. Our bankers are more productive and able to focus on what they do best. The platform will be rolled out to our Agri bankers in March.

Additionally, we've focused on streamlining the processes for the benefit of our customers. We've been working to remove hurdles that make it difficult to do business with us, reducing the number of customer pain points by 16% over the half.

Turning to our Bendigo Bank Lending platform. We've now on boarded more than 11,000 brokers to the platform and have settled over $2.8 billion in loans across this half year. We're now 1.4 times more productive than prior to the platform. As I outlined at the Investor Day, this half we've initiated the first stage of the rollout to our Retail network. We currently have the platform in use by our mobile lenders and expect to roll out the offering to our branches during this calendar year.

Turning to our digital bank Up, where we continue to attract and retain customers through innovation. Over the half, we passed the million-customer milestone, doubled the size of the mortgage book to $1.2 billion, and grew deposits by 23% to $2.6 billion. The brand continues to resonate with NPS increasing by four percentage points over the half to plus 58.4. We acquire Up customers for less than $50 each and our cost to serve is low, alongside an average weighted interest rate spread north of 2%.

As we see the upside of demographics mature, customer value will also grow as customers save more and move towards borrowing, with around 80,000 Up customers expected to move into the home lending stage in the next two years. Customer numbers continue to grow with a new monthly record achieved in January with 68,000 new Upsiders joining.

It takes time to establish a business, build a brand, and develop a scalable offering. In just over six years, we've delivered all three and look forward to future positive returns from our investments.

Our digital channels have supported our strong growth across both sides of the balance sheet. Our proprietary and partner digital brands continue to grow with residential lending settlements from digital growing 26% for the half and driving 19% of total residential lending settlements.

Digital deposits are up 27% over the half and 55% over the year, supported by the introduction of digital EasySaver accounts and online term deposits. Over the next six months, we'll look to utilise the shared capability in our now integrated Digital team to deliver an improved customer experience for new to Bank Bendigo customers, onboarding them faster and more efficiently.

Sustainability remains a key focus area for our organisation. The implementation of our ESG and Sustainability Business Plan continues. We've completed the first of our Climate and Nature Action Plans, the Bank has been carbon neutral since 2020, and our operational emissions have reduced by 83% since the inception of the plan.

Our capability in understanding transition and climate risk continues to improve, with stress testing embedded in our credit risk decisions as we look to ensure the resilience of our customers. Our gender targets have progressed well, with the bank moving towards 40:40:20 at all levels. As you know, we've made several changes to the executive team, which has significantly increased female representation.

Our unique Community Bank model continues to deliver strongly for urban, regional, and rural communities, with all Community Bank companies again generating a profit in FY24. We'll continue to work hard on meeting and further developing our sustainability targets as we develop our new strategy. It's my pleasure now to hand over to Andrew to talk through the financial results in more detail.

Andrew Morgan Thanks very much, Richard, and good morning everyone. As Richard said in his introduction, this is a result which reflects our desire to build scale and has seen strong growth on both sides of the balance sheet. We've managed our business-as-usual costs prudently and have also continued to invest for the long-term benefit of our customers and shareholders and managed short-term headwinds.

For the half year ended 31 December 2024, we recorded cash earnings of $265.2 million, which was down 1% on the prior comparative period, and down

9.7% on the prior half, mostly as a result of a 6 basis points reduction in normalised net interest margin. Compared to the prior half, total income was down 2.5% and operating expenses were up 5%.

Excluding the previously flagged increase in investment spend, expenses were up 3.8%. Credit expenses were a net writeback this half following a review of overlays in our collective provision and a continued strong credit performance. Our statutory net profit after tax of $216.8 million was down 17.5% on the prior half.

Two key things to call out here. First, a reduction in home prices in both Melbourne and Sydney saw the carrying value of Homesafe reduce, and this is booked through statutory, not cash profit. Second, the volume of restructure and other costs has reduced through this half, and the work giving rise to this spend will have substantially completed in the second half. So we expect restructure costs to be lower into the second half before falling to much lower levels in 2026.

I want to now provide an overview of our first half performance, the choices we made and the impact that those choices had on our results. Every day we are making decisions for the long-term benefit of our shareholders. Scale is increasingly important for a bank of our size, and writing return on equity-accretive business in areas where we have competitive advantage is key. It will take time for the benefit of the investment decisions we are making today to show up positively in our results.

Over the half, we've grown at an accelerated pace following the full rollout of the new Lending Platform and also continue to see strong growth in our digital channels. This has required a careful approach to margin management as we balance funding needs against lending growth.

In residential lending markets we've grown at two times system with almost half of new settlements coming from self-serve and assisted digital mortgages.

In both channels, the risk-adjusted returns we're generating on new business are meeting our return hurdles, and new business returns are improving. In Business and Agri, volumes are down 3% on the prior half, mostly due to seasonal runoff in Agri. The strong growth in lending volumes has been fully funded by customer deposits, which have grown at a faster rate than lending. Deposit mix though, has tilted towards higher cost deposits in the half, with a little over half of our growth coming from offset accounts and term deposits.

To support both higher liquidity needs and continued growth in lending, we raised additional wholesale funding through the half. We also made a number of pricing changes in both new lending and deposits. These are very deliberate choices we are making to balance growth and returns. The combination of higher cost deposits and higher wholesale funding costs has impacted our NIM, and I will cover that shortly.

We managed cost prudently, with expenses excluding investment contributing 3.8% to cost growth on the prior half, reflecting higher average FTEs, inflation and amortisation costs, partly offset by the benefit of productivity and cost management activities. So mostly as a result of income pressure, our cash earnings fell 9.7% on the prior half and our cost to income ratio deteriorated to 61.5%. A combination of lending growth and higher investment spend saw capital usage increase. As a result of lower cash earnings, our return on equity was lower at 7.6% for the half. Turning now to total income.

Income of $972.4 million was up 1.6% on the prior comparative period and down 2.5% on the prior half. The key driver of this reduction over the half was net interest income, which was down 2.1%. Average interest earning assets rose 0.6%, reflecting strong growth in average residential and Business and Agri lending, weighed down by lower average liquidity levels and growth in offset accounts.

Net interest margin reduced 6 basis points over the half on a normalised basis. Other income excluding Homesafe was down 1.9%, reflecting lower fee income, whilst Homesafe income was down almost 20%, reflecting a substantially lower volume of completed contracts in the half, following the previous half's high volume.

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%, whilst the average life of contracts completed through the half was just under 10 years.

Turning now to net interest margin. Compared to the prior half, our normalised NIM reduced 6 basis points to 188 basis points. Asset pricing negatively impacted 6 basis points, 4 basis points of which was in residential lending. This reflects a continued but slightly improved gap between front and back book pricing, as well as the cost of strong growth in offset accounts.

Deposit and funding pricing negatively impacted 3 basis points, reflecting higher average customer rates in term deposits and savings accounts. Our replicating portfolios provided a benefit of 6 basis points, with 4 basis points coming from deposits. In mix and other, there are a number of offsetting factors. The roll-off of excess liquidity provided a 5 basis points benefit. This was offset by a higher weighted average cost of wholesale funding post the term funding facility and higher basis risk.

Our first quarter NIM fell 6 basis points to 188 basis points, reflecting the impact of higher funding costs, and fell by a further basis point in the second quarter. Our exit NIM for the half was slightly higher than the second quarter average.

On key considerations for 2H25. We do expect lower cash rates at the next RBA meeting. We expect some benefit from the various pricing changes that we made in the first half. We will also see an ongoing but reduced benefit in replicating portfolio yields reflecting the fact that tranches rolling off are at lower rates than newer tranches coming on, particularly in deposits.

We also continue to see customers rolling off fixed rates and mostly favouring variable rate mortgages instead. First half maturities were around $2 billion and we expect around $3 billion of further maturities into the second half. The unknown factor as always is the degree of price competition on both sides of the balance sheet.

Turning now to Residential Lending, 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 assisted digital mortgages through our new lending platform. This half, just under 50% of our new settlements were in our lowest cost channels, with the new lending platform comprising 28% and self-serve digital mortgages comprising 19% of settlement volumes.

In particular, we grew strongly in our broker intermediated channel with customers continuing to take advantage of the improved speed of assessment through our new lending platform. Settlements through this channel were up 30% on the half and up 60% on this time last year.

There are a number of positive trends in our mortgage book right now, some of which Richard touched on earlier. First, just over 40% of new loans are below 60% LVR and 90% of new loans are below 80% LVR. Second, the average credit risk weight on mortgages has continued to trend downwards over the last 18 months. Third, critically, the ratio of NIM to credit risk weighted assets on new business as a proxy for risk-adjusted returns has been increasing over the last few halves.

So momentum is improving with growth in the first half running at 10.5% annualised. We are targeting continued growth above system through the second half and beyond. Our deposit gathering franchise remains an ongoing strength and underpins our growth ambitions.

Across both our proprietary network and Community Bank partners, we delivered growth of 5.5% on the prior half. We also continue to see good momentum in digital deposits. In our Up business, digital deposits increased 23% over the half, whilst Bendigo digital deposits grew 27%.

Deposit mix though has deteriorated and just slightly. Pleasingly, we continue to see strong growth in EasySaver accounts, which are up 12% on the prior half, and transaction account balances, which are up 1%. The offsetting factors are twofold.

First, we've seen a strong increase in offset account balances, which were up 14% on the prior half, some of which is attributable to the volume of new loan growth. Second, whilst term deposits as a proportion of total deposits have fallen, we've seen a customer-led preference towards higher cost, lower margin tenors.

Nonetheless, our ability to fund the bank's lending activities at competitive rates through customer deposits remains strong and is reflected in our household deposit to loan ratio, which at 73% is seven percentage points higher than system. Turning now to operating expenses.

Total costs increased 5% over the half. Excluding investment spend, Business as usual expenses contributed 3.8% growth. Inflation, software licence fees, and volume related costs impacted our BAU costs, contributing 5.5% to overall cost growth, whilst amortisation contributed 1.2%. We also invested in FTE in the half to support volume growth and a larger investment pool, and we continue to invest in our digital teams.

We're also delivering on productivity and cost management and achieved benefits of $6 million or a 1.1% reduction in our cost growth through the half. In respect of future considerations on costs, we are targeting to keep BAU costs growth contained to no higher than inflation through the cycle, as we've done over the last five years. In any given half sometimes we will be above but most of the time we are aiming to be below inflation. We do expect BAU expense growth to moderate in the second half.

As flagged at the full year result, we expect to increase cash investment spend for both financial year '25 and financial year '26 by approximately $30 million to $40 million on FY24 levels, with around two-thirds of the increase taken to OpEx. On this basis you can expect second half expensed investment spend to be slightly higher than the first half. At the same time our work on productivity and cost management will continue.

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 $10.8 million, reflecting a review of some prior period overlays.

Gross impaired loans have reduced, now representing 15 basis points of gross loans. Arrears across the book remain low but are increasing. Ninety plus days arrears in residential lending have increased in the high single digit basis points in the last six months to 63 basis points. In Business and Agri, arrears have reduced in the last six months due to a reduced amount of expired loans. While 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. Whilst liquidity levels were reduced immediately post the repayment of the term funding facility, we have increased liquidity in absolute terms through the half to support a higher volume of deposits. Our average liquidity coverage ratio for the second quarter is strong at 135%.

Over 80% of our total funding needs for the half were met from customer deposits and the balance from wholesale funding. The proportion of customer deposits to total funding improved to just under 77% and our coverage of household deposits to loans at 73% is well above the industry average.

Our Community Bank partnerships importantly provide us with a net $14 billion of funding which provides further diversification and a relatively cheaper funding source than wholesale funding.

Turning now to capital and dividends. Our CET1 ratio reduced to 11.17% over the half. Through the half, we have been putting our capital to work in a combination of higher investment spend and higher lending. This level of capital remains well above our Board target. Directors have determined to pay an interim dividend of $0.30 per share, which will be fully franked and which represents a 64% payout ratio for the half and is flat on the prior comparative period. Given our strong capital position, we intend to again neutralise the DRP as we've done over the last four halves. So in summary, we're in a strong capital position going into the second half.

Finally, I want to talk again about our path towards achieving a return on equity above our cost of capital.

First of all, a continued focus on cost management. As we've previously shared, in the last five years we've contained our business as usual cost growth to just 2.1% per annum.

Second, continuing to invest in our deposit gathering franchise and expanding our digital deposit gathering capability. This half saw digital deposits growing 27% on the prior half.

Third, diversifying our balance sheet with the rebuilding of a Business and Agribusiness division.

Fourth, continuing our disciplined approach to deploying capital into those home lending channels where returns are most attractive and where growth opportunities exist.

So in summary, we have a clear plan to achieve our targets of return on equity above the cost of capital over the medium term. I'll now hand back to Sam for Q&A.

Sam Miller Thanks, Andrew. Our first question today comes from Annabel Ross of Barrenjoey.

Annabel Ross (Barrenjoey, Analyst) Good morning, and thank you for the opportunity to ask the question. My first question is around the NIM. So you've grown very quickly, but as you grow quickly, you have to be able to fund it, and your margin has come under significant pressure. So do you need a slow credit growth down to offset margin pressure, and are the marginal loans being written below the cost of capital given higher funding costs?

Richard Fennell Thanks, Annabel. I'll kick things off and then Andrew can add some more flavour. Look, the reality is with the growth we achieved this last half year, particularly in residential lending of a couple of times system, we're pleasantly surprised with that demand. On the back of that, we did need to take some wholesale funding in excess of probably what we had expected if we had grown less.

Having said that, with the capability we are looking to build for - in our digital channels for deposit gathering, I am hopeful that we can start to bring in more lower cost deposits over time to support that growth. Now, I'm not sitting here suggesting we want to be growing our resi lending at two times system every half year, but certainly we do want to continue to grow above system and take some market share.

In relation to the return on the loans we're writing, the actual marginal returns have improved. As Andrew pointed out in his presentation, the risk weighting of these lower LVR loans that we're writing has reduced significantly. So if you look at the NIM over that risk weighting, that has improved significantly over the last two halves. So we're certainly comfortable with the returns we're generating there.

The reality though is as more of those loans are in that lower LVR bucket, they are at a lower price point, but the returns are actually higher because of the amount of capital we're holding against them. Andrew, over to you.

Andrew Morgan: Annabel, thanks very much for the question and great to hear you up first of all in the Q&A. Just a couple of other things to point out, just building on what Richard said. We previously talked about our strongest channels in respect of returns where the combination of margin and also cost of manufacture come together. We previously said that our Proprietary channel is our strongest, followed by Digital, followed by Broker, and then Community Bank.

	Where we're seeing about 60% of our settlement volumes is in the new Lending Platform, where the cost of manufacture has reduced substantially with the rollout of the new Lending Platform. 20% of flow in Digital, and then really pleasingly about 10% of our flow in Proprietary. So the quality of business that we're writing, as we showed you in that NIM to credit risk weight asset chart, is something that we're very focused on. Certainly with the advent of the new Lending Platform, our ability to risk-based price has really gone up a notch. So we're pretty comfortable with the returns we're generating in those growth areas.
Annabel Ross (Barrenjoey, Analyst)	Thank you. I just have a follow-up question around costs. Do you expect to see further improvements in operating efficiency once you get through investment spend phase, given ongoing pressure on staff costs and technology vendor costs? Do you expect the cost to income ratio to improve, even with a lower NIM?
Richard Fennell	Short answer is yes. The - as we continue to roll out the new platforms, both for consumer banking with the Lending Platform being rolled out to our Retail business and further enhancements on that platform, we do expect improvements in the - greater efficiencies to be delivered through that. Likewise in Business and Agri, we really are in the early stages only of rolling out that new platform for some of our offerings in business banking. Agri will move across to that in the next month or so. Again, we are expecting significant productivity improvements. They won't all happen immediately because like most of these platforms, when you go live, there's still more functionality and features to roll out, but that is central to what we're doing. We're not just rolling these platforms out to drive growth for growth's sake, we're also rolling these platforms out to drive greater productivity so we can return - sorry, we can improve the marginal costs of writing that business and our cost to income ratio.
Sam Miller	Our next question...
Annabel Ross (Barrenjoey, Analyst)	Great, thank you very much.
Sam Miller	Thanks Annabel. Our next question is from Sally Hong from Morgan Stanley.
Sally Hong (Morgan Stanley, Analyst)	Good morning, Richard and Andrew. I just have two questions. My first question is, is it fair to say that the quarterly trend on slide 21 and your FY25 considerations mean that margin headwinds will moderate in second half '25?
Richard Fennell	Do you want to speak to that one, Andrew?

Andrew Morgan Yes. Sally, so as we always do, and NIM is a very hard thing to pinpoint because competition is one of those key factors, what we try to lay out is the things that we know about, then the things that we are a little bit less clear. The things that we know about, it's likely there's going to be a cash rate drop tomorrow and we can talk about that a little bit more about what sort of impacts there might be. One of the key considerations there is how competition reacts, where, as Richard said earlier, we're not a price maker, we're a price taker, and we'll carefully watch what happens there.

What we do know, though, is that our replicating portfolio yields are continuing to improve, and even as swap has fallen, the new tractors coming on are higher than the tractors coming off, and so that benefit whilst it will reduce is still coming through. We do know that as our fixed rate book continues to mature, that customers are overwhelmingly choosing variable rate mortgages. The front book margins in our variable rate mortgages are above the back book margins on those fixed rate maturities. So that is a little bit of a tailwind.

We did make - as we alluded to just now - a number of pricing changes through the half. In particular we raised our new business pricing across both digital and also the new Lending Platform. We also made changes and reduced pricing in our savings book, so EasySaver. Also we made some changes - multiple changes in our term deposit book.

Now, most of those pricing changes came through second quarter or late second quarter, and so we expect there'll be some benefit into the next half. So, Sally, long-winded answer. Hard to say exactly which way margin will go at the moment because there are just so many considerations, the biggest one of which is how market evolves its pricing response post any cash rate move.

Sally Hong (Morgan Stanley, Analyst) Thanks Andrew, that makes sense. Just a follow-up question on the wholesale funding piece. Given you did a covered bond issue and an unsecured debt issue in the first half, do you think that wholesale funding headwind will get worse going forward?

Andrew Morgan Yes. We did some wholesale funding in the second half, and we did some late in the first half. What we've got to remember here is that our wholesale funding levels are actually slightly lower than where they were this time last year, but the average cost of that funding has increased as the term funding facility was repaid in May and June, and then as we've put new wholesale funding on.

Really, it's now a function - as Richard alluded to before - of how well we run our deposit book. So this half we've seen strong growth in deposits, albeit the mix was a little bit against us. We're certainly putting our investment dollars into building up our digital capabilities, partly evidenced by what we've seen through EasySaver.

	So our balance now, as always, is to look to gather as much in low-cost deposits as we can, which then helps us to fund as cost-effectively as possible the lending growth that we're aiming for. As Richard alluded to, sometimes that number might be around where we grew this half, sometimes it might not be.
Sally Hong (Morgan Stanley, Analyst)	Thank you.
Sam Miller	Thanks, Sally. Our next question is from Matt Wilson from Jarden.
Matthew Wilson (Jarden, Analyst)	Yes, good morning, team. Matt Wilson from Jarden. Two questions, if I may. Firstly, with respect to your business banking strategy to rebuild and refine that offering, you talk about restoring back to your natural market share. Where do you see your natural market share? What is your pitch to prospective business relationship managers? Has there been any change in the underwriting model? Are you prepared to take on greater risk in that space?
Richard Fennell	Yes, good day Matt. Look, from my perspective I'd like to see us maybe not quite get to where we are in in residential lending, but I'd like to see us improve certainly above - I think we're sitting at roughly 1.4% market share in Business and Agri, and I'd like to see that getting up towards that 2% or a bit above over time.
	Right now, it's fair to say the focus is very much on getting Business and Agri onto one platform and enhancing that new platform. The focus is less on going out there and trying to bring in new relationship managers in great volume. Obviously, there's always turnover in that book and we do - there are some new people joining us, and we're looking to attract more people over time as we look to build out that book, but that's not really the focus today. That's probably more for the future once we get the new platform in place.
	As far as underwriting is concerned, look, we historically have been pretty conservative in our credit risk positioning. I don't expect us to suddenly swing wildly to the other end of the continuum, but we do think there are opportunities potentially to take on more well-managed risk and be probably a little less reliant on property secured risk to such a high percentage as is today in our business book.
Matthew Wilson (Jarden, Analyst)	Okay, thank you. Then just secondly on cyber, obviously it's a common topic at the moment. The view is that if you're bigger and have scale, then you're a winner. Surely as a smaller bank, could you outline the advantages of being small, simple and nimble? Having worked at smaller organisations, you can push through change much quicker than the behemoths in the major banks.

Richard Fennell	Yes, look, it's a double-edged sword, that whole cyberspace, because at our size, I think it's fair to say we're big enough to be a target, but we don't have the scale advantages of the big banks who probably have deeper pockets to invest more. So what we do, as you highlight, is partner with organisations to leverage the capabilities that they bring to the table. Probably the best example of that is NameCheck, where we've actually partnered with one of the major banks to use that capability. That's been a real positive from our customers' perspective in having much greater certainty when they're using the Pay Anyone functionality that they know that that money is going to the right person or the right business. Andrew, I don't know if you want to add on that?
Andrew Morgan	Yes, Matt, I just want to pick up on your nimble point and I think it's a good observation. So whilst, yes, we are smaller, we have a smaller balance sheet, we can move with pace. Something the Executive Committee does is meet very regularly to talk about our investment slate and when we need to make changes to our priorities, we make them and we make them pretty quickly. So we think that does give us something of an advantage when we can move at that sort of pace to respond when we see changes in market that we need to respond to.
Matthew Wilson (Jarden, Analyst)	Thank you.
Sam Miller	Thanks, Matt. Our next question is from Ed Henning at CLSA.
Ed Henning (CLSA, Analyst)	Thanks for taking my questions. Just a couple of follow-up from me. Just on slide 20 and slide 21, if you look back now at the volume margin dynamic, do you think you got it wrong in the first time? Obviously, you've made some repricing decisions coming through. Then when thinking about, you're going to try and ramp up growth in Business and Agri next year. How can you - when you think about it - not make the same mistakes, which will see your margin fall, or just there's a little bit more margin to play with on the Business side and the Agri side, even if you do have to wholesale fund it. Is that how you're thinking about it as a first question, please?
Richard Fennell	Yes, thanks, Ed. Look, it's an interesting perspective you raise there. As part of what we need to do to get down to one core banking system and simplify our model, we have focused on retiring old platforms. One of the important ones of those was the Adelaide Bank platform, which our third party banking business sat on. In doing that, we weren't just going to replicate what we had there, as you know we built a new lending platform that has proved to be wonderfully

attractive for our Broker partners and their customers. I think it's probably fair to say the growth we've seen on that - through that platform in more recent times has even exceeded our expectations.

Now, you need to react to that when you get that demand coming through and you need to fund it. That's played out in the way it has, but we really felt we had to do that work first to simplify. What we are really starting to turn our focus to now is building out the deposit capability and make sure our digital platforms that support deposit growth are equally as strong. So hopefully we can get that balance right going forward.

When you say, did we get that volume margin equation right in the last half, one of the things that is hard to control is customer behaviour, whether that be on the lending side with the demand we saw coming through there, or on the deposit side with which products they choose to put their funds in.

I think with what we were expecting coming into this half with the cost of living pressures, again we were surprised to see the strength of growth in offset accounts. Again, these things occur and then you react. Andrew pointed out some of the pricing changes we've made recently, which is a reaction to some of those outcomes. Andrew, anything you want to add to that?

Andrew Morgan Yes. Ed, just to build on what Richard said as well, I think it's fair to say that, as Richard said, growth did exceed our expectations. When we were sitting here six months ago, we had said we expected growth to be roughly equivalent in a relative sense - so relative to system - to what happened through second half '24, which was closer to 1.2 times, 1.3 times system.

So clearly growth was stronger than that, and that necessitated some wholesale funding response. Also, as Richard said, we were keen to test out the platform, and we did make some decisions late through the half and particularly in the second quarter and late in the second quarter to moderate some of that growth. We moved pricing on both sides of balance sheets. So we are seeking to get the balance right between volume and margin, and I think we've demonstrated that through some of those changes that we've made.

Ed Henning (CLSA, Analyst) Just on that, Andrew, if you think about where the volume came from, obviously a large part of Broker because of the new platform. Are you now really thinking about that, well, if you're going through that channel, it is lower margin product. Therefore if I do have to wholesale fund because it's extraordinary growth you do need to up the price, and that's what led to your pricing decisions?

Andrew Morgan Well, we certainly increased pricing and we're not sharpest in market, Ed. So we started out with very sharp pricing. We eased back somewhat. I think the other part of the equation to think about, and your central point is, I think, fair, which is, is that business lower margin? Yes. Is it better return for the risk that we hold? Yes, but the cost of manufacturing those loans is also substantially lower, as Richard talked about.

One of the numbers that maybe was missed through the presentation was that the team that's now processing those loans is about 1.4 times more productive, and that means that for roughly 50% greater volume, we needed to have about 10% more people. So we're seeing genuine productivity uplift, which is then leading to lower cost of manufacture, and therefore leading to better returns. So whilst through that channel I accept that margins are a little bit lower, the returns that we're generating now are getting up to some of the best returns across all of our channels.

Ed Henning (CLSA, Analyst) Okay. Then just a second question, before you were touching on - you said you could elaborate on the potential cash rate impacts on your margins. So if you exclude any pricing movements by peers, how should we think about a 25 basis point reduction in the cash rate impacting your margin both in the near-term and then over the long-term as hedges roll off?

Andrew Morgan Yes. That's spot-on, that's exactly where I was going to go to first, which is, as you know, we have a replicating portfolio, 20% of the deposit portfolio is overnight, and so there's clearly a margin impact as cash rates fall. It's - for every 25 basis points, it's less than half a basis point, and so it's not a big number for one cash rate rise, but that - sorry, one cash rate fall, but that obviously expands with multiple cash rate changes.

The replicating portfolio yields for those that are hedged have continued to increase, and as I've mentioned earlier, the front book tractors, particularly in deposits, are still above the back tractors and that's still got to play out for some months yet. I think the other thing to think about, and not to overplay this too much, but the rate leverage that we got on the way up, if you look at trough cash rate and trough NIM to peak cash rate, peak NIM, that was roughly 2 basis points of leverage for every 25 basis points of cash rate rise. Now that - there's certainly been some changes in the balance sheet since then, but that's something else to think about.

Ed Henning (CLSA, Analyst) Okay, that's great. Thank you.

Sam Miller Thanks, Ed. Our next question. The next question is from John Storey from UBS.

John Storey (UBS, Analyst) Morning, guys. Thanks for the chance to ask a question. I just wanted to ask on slide 37, one of the things I thought was pretty interesting was just the percentage of fixed rate business that you actually write or wrote during the first half of the year. Obviously, you've outlined your interest rate views. Just wanted to get a sense on the economic impact if rates don't fall to the extent that they potentially do go down to 3.5% in terms of what you're thinking is. Then also just get a sense of how your fixed rate pricing has changed over the last six months.

Richard Fennell Yes, thanks, John. The fixed rate lending we do, the pricing on that really does look pretty closely at what the swap rates are that match those terms and we look to make sure that we're priced in a way that gives us an appropriate return on that book. Now, clearly over the last six months there's been a fair bit of movement in those swap rates and it's fair to say that over the last few months we have seen significant reductions in some of those swap rates and so we've adjusted some of those.

Now as you say, if things don't play out as expected, there's some interest rate risk there, but we do take a hedge against the majority of that fixed rate lending we put at the time that we take at the time we write those loans. So, that shouldn't have a material impact on our margin. Andrew?

Andrew Morgan Yes, spot on. John, as you would imagine, we are very similar to all other banks where we look at repricing risk across our whole portfolio, including fixed rate loans, and we seek to minimise as much as we can volatility. So that certainly plays out with fixed rate loans as part of the overall hedge portfolio. What I'd say is that we did move our fixed rates. We were a little bit out of market, so we did move fixed rates down. Where swap was printing at the time, returns are still attractive in that part of the book.

So as we've seen some older fixed rate loans roll off and they were at much lower margins, the business that we're putting on and it has been rising a little bit through second quarter have still been meeting our hurdle rates.

John Storey (UBS, Analyst) Okay, thanks. That makes sense. Just then on my second question, you just - you called out obviously increased investment spend and obviously our trend is going to go into the second half of the year. What's interesting for me is obviously staff costs being up 14% and just under $400 million now.

I wanted to just get a little bit of a sense of the impact of volume growth and the impact and interplay on volume growth into staff costs. With obviously the caveat, I know that there's staff costs related to the investment spend, but just really getting a sense, I guess, of what the capacity within the business looks like, the operational gearing, and how much of the 14% increase in staff cost is related to the volume growth that you're doing?

Andrew Morgan John, there's four components that I'll break out for you in the 5.5% business as usual cost growth, which is on slide 24. The first of those is wage and price inflation, and that accounted for about 2.3% of the 5.5%. We did increase FTE through the half as I flagged, and there's a threefold increase in there.

One is that we're building up our digital capability, and we've talked today about a few times about digital deposit gathering as a key area that we need to continue to build up. So we put people into our digital deposit gathering, as we have also into our tech team to support a higher volume of investment spend.

To pick up your specific point on volume growth, it's about 0.6% of that in that 5.5%, so that's very specifically to cover increased volume growth. So it's a much lower rate, as you can see from that number, it's at a much lower rate than the volumes that we actually put on. Which goes back to this point before that we've made around the quality of the new Lending Platform, and the scale that it's giving us. Hopefully that makes sense.

John Storey (UBS, Analyst) Thank you. Yes, does. Thanks a lot, Andrew.

Sam Miller Thanks, John. Our next question is from Andrew Triggs from JP Morgan.

Andrew Triggs (JP Morgan, Analyst) Thanks, Sam. Good morning, Richard and Andrew. Just a question on NIM visibility. So if I go back to the FY24 conference call, I think you said at the time, Andrew, that the exit NIM was a margin lower than the average of the half, and you'd expect the go forward NIM trends to be more stable than they've been in recent periods.

To what extent did that deteriorate quickly? We saw that it was the September quarter that the margin pressures started to come through. Why didn't you see this coming sooner? You did provide a trading update last year in May. Why no trading update at the AGM update to indicate the emerging NIM pressures?

Andrew Morgan Do you want to cover the second one first?

Richard Fennell Yes. Look, at the AGM, we don't traditionally provide a market update. I don't think - I'm trying to think of the last time that occurred. The market update we gave in May was effectively to align with the fact we were doing a strategy update more broadly. So as you know, we don't give quarterly updates. We were looking at the performance of the business there and we didn't feel it was necessary from a continuous disclosure update.

We were certainly very comfortable that it wasn't required from that perspective. So we effectively - Andrew just continued with our normal historic behaviour which was to update the market twice a year, at full year and half year. As I said last year with the May update, that was given because we were doing that as part of the broader strategy update, which was a one-off investor update.

Andrew Morgan Just back to your first question, Andrew. I think it's fair to say that term deposits was probably the thing that deteriorated early, but we expected it to recover and it didn't. So we made our first price change in August where we reduced the 12-month rate in particular, which is where the bulk of our volume is. That didn't seem to play out the way that we expected.

Volume growth, as we talked about earlier, was stronger than what we had anticipated, certainly in our funding plans. So that necessitated us picking up wholesale funding in both September and November. In short, we saw some deterioration early. We expected it to recover, it didn't for a range of reasons.

Andrew Triggs (JP Morgan, Analyst) Andrew, just a general point. Do you think you've got enough visibility in your financial performance? Are your management systems up to scratch on what - systems improvement you've done across the bank? Are you getting enough line of sight? The volume trends, you should have pipeline stats pretty early on, I would have thought. I'm just a bit surprised that - and we do have this trend of quite significant variability for Bendigo, which is not always apparent at peers. Can you do more to lift the responsiveness of your business to emerging market trends?

Andrew Morgan Yes, we'll certainly take that feedback on board, Andrew, and that's fair feedback. I think what I'd say is that some of the customer-led behaviour that we saw was hard to pick. So some things absolutely we can see, and we can see certain trends playing out in the book. When there are choices that customers are making despite price changes we make, that doesn't quite necessarily work its way into our models as effectively as what it could.

Andrew Triggs (JP Morgan, Analyst) Okay, thank you. Just a really quick one on fixed rate. You do have a different fixed rate product which does have an offset account attached to it. Do you think any of the outside growth in offset balances related to the fixed rate side of things or was it all variable rate mortgage offsets?

Richard Fennell The vast majority tends to be in variable. I think as you see, the majority of the fixed rate business we write is in investor. Most investors the reason they take - sorry, a lot of it is in investor and I think they're comfortable not to actually put a lot into their offset accounts. Again, at 14% of the volume this last quarter - sorry this last half - I don't think it's a big factor, but it's something we do consider from time to time, whether the value of that product versus the cost of the product.

Andrew Triggs (JP Morgan, Analyst) Okay, thank you.

Sam Miller Thanks, Andrew. Our Next question - please. Next question is from Brendan Sproules from Citi.

Brendan Sproules (Citi, Analyst) Good morning, it's Brendan Sproules from Citi. My question's just on your cost considerations on slide 24. For the last couple of periods, you've been associating business as usual expenses growing no higher than inflation through the cycle. What we've seen in this result is there's a lot of, I guess, real cost growth that's separate from inflation that's infecting your business.

Obviously, very strong volumes, you've talked about technology costs, you've got software amortisation coming through as a result of previous investment decisions. What do you actually mean by that statement when we're thinking about the second half? Inflation is expected to fall. Can we expect a dramatic fall in your costs because they're linked to it? Or should we be thinking more about some of these other real costs that we're seeing in the business when we're thinking about second half?

Andrew Morgan Thanks, Brendan. As I said through my comments, we are expecting the pace of growth to moderate in the second half. What that comment means is that sometimes we will be above inflation. Most of the time we want to be below inflation.

Clearly, we've had some things that have worked their way through the cost base this half. We continue to have plans around productivity and extracting efficiencies, particularly as the new technology comes on board. What you should expect in the second half is a lower level of cost, closer to inflation into the second half.

Brendan Sproules (Citi, Analyst) Okay, thank you. My second question is just on the performance of Business and Agri. We saw a 36 basis point fall in NIM in that division. Obviously, this is a business that's in transition as you don't have a lot of lending growth, don't have a lot of deposit growth, but you're bringing brokers on board there, there's obviously competition in the market. To what extent are we going to see a rebasing of that revenue base as we make our way through this transition before you then move into a period of growth?

Richard Fennell Yes, it's a really interesting question, Brendan. It is going to be interesting to see how Business and Agri plays out. Probably the area where I suspect we feel that most heavily is on the Business side. There is - as you say, there's a lot of competition there in that SME space. Agri, probably a little bit less, which is more relationship-centric and tends to be based on longer-term relationships.

That tends to be key there, but certainly in that SME business space, there's a lot of focus from a number of competitors, which is having an impact on pricing. I certainly hope we're not going to continue to see these sorts of deterioration in margin going forward, but again when you've got 1.4% market share it's pretty hard to drive the pricing in the market. Fortunately, the returns are still strong at the margins they're being written at at the moment, particularly given the credit risk we're taking there.

Brendan Sproules (Citi, Analyst)	Maybe if I could just do a quick follow up on that. To what extent are the pricing changes that you flagged that you put in towards the end of the last calendar year actually going to impact Business and Agri or are all those...
Richard Fennell	No, it was all on the consumer side.
Brendan Sproules (Citi, Analyst)	[Unclear].
Richard Fennell	With Business and Agri, it's your pricing on a deal by deal basis generally, but the prices that Andrew flagged were in our residential lending markets, particularly in Digital and Broker channels, and also some changes on the deposit side through our EasySaver product.
Brendan Sproules (Citi, Analyst)	Okay, thank you.
Sam Miller	Thanks, Brendan. Our next call, please, is from Matt Dunger from Bank of America.
Matt Dunger (Bank of America, Analyst)	Yes, thank you very much, Matt Dunger from BofA here. Just if I could ask, you've mentioned a couple of times on the higher risk adjusted returns on the new loans, but you're seeing more coming through Broker than we can see the lower net interest margins. Just - if you could help us understand the economics of why those risk-adjusted returns are better on the front book.
Andrew Morgan	Yes. The risk-adjusted returns are a function of a couple of things, Matt. First is that key ratio that we talked about through the call, and that is that the margin that we generate for the credit risk weight that we hold is better in lower margin business. That's where a lot of the flow in Broker has been coming from. So that's one component of return. The other component, or one of the other key components, is then the cost of manufacturing those loans. In particular, with some of the efficiencies that we talked about earlier, what we've seen with the new lending platform is the cost of manufacturing new loans has fallen substantially. So that's giving us benefit in that return calculation. So it's a twofold component of both the price that we get for the risk that we carry, and then the cost of actually manufacturing the loan itself.
Matt Dunger (Bank of America, Analyst)	Thanks, Andrew. Just following up on that. On the bad debt side, given what you've just talked to, you're implying that the loss rates are going to step down materially in the future. What through the cycle loss rate are you budgeting for and should we expect?
Andrew Morgan	We previously talked about 10% to 12% as our long run loss rate, Matt. We're clearly nowhere near that today. As we have done this half and as we do every half, we look at our provisioning levels, we look at the experience.

As we talked about, we've certainly started to see arrears tick up a little, but that's not really playing out in any specific charges at the moment. We've seen a reduction in our gross impaired loans, which is very positive as well. That's part of the thinking behind how we then set the collective provision every half. So whilst that long run loss rate hasn't changed in our view, at this stage at least, we're a long way from that right now.

Matt Dunger (Bank of America, Analyst) Sorry, just to be clear, I thought the long run loss rate had changed in your view on the new book, because you're saying there's higher risk-adjusted returns on the new business. Does that mean it's 5 basis points as opposed to the 10 basis points to 12 basis points which you've previously talked to?

Andrew Morgan We haven't given a public number, but let me take that one on notice, Matt, and I'll pick it up with you afterwards.

Matt Dunger (Bank of America, Analyst) Okay, thank you.

Sam Miller Thanks, Matt. Our next question is from Brian Johnson from MST.

Brian Johnson (MST, Analyst) Okay, thank you very much. Look, first up, I want to congratulate you on some of the stuff you guys have done, Richard. I think the tech is pretty good, but what I'd like to do is just to go back to Triggs' question on the net interest margin and visibility.

Now, under the continuous disclosure requirements, we should never see a share price down 17.8% in a day. When did you first become aware of this collapse in the margin, and what I'd like is a specific answer of why we didn't hear about it earlier and what does this mean for expected volatility in the number going forward.

Is this in retrospect something that you should have announced beforehand or are you quite comfortable with the continuous disclosure that you've met it all the way through? Because in the absence of specific guidance, the consensus number is assumed to be guidance from a continuous disclosure requirement as far as I recall. Could you find out the answer on that please?

Richard Fennell I'll just say on that point, Brian, we do take our continuous disclosure requirements very seriously. We assess them on an ongoing basis. We assess them against our performance on a period to date basis and on a forecast for the whole period.

A 5 basis point reduction is not a small reduction, I get it, but it's certainly with - when you look at the overall performance of the business, it fell within the bounds that did not require an update from a continuous disclosure

	perspective and is something we consider and take very seriously. As to the share...
Brian Johnson (MST, Analyst)	What is your understanding, Richard - so in the future, how should we numerically interpret what is material from Bendigo's perspective?
Richard Fennell	Look, I'm not going to go into the details of the continuous disclosure rule because they're very clearly understood, I think, by us and no doubt you as market participants. As I said, we're talking about a 5 basis point reduction in our margin. That's something that is disappointing that we saw that movement, but clearly from our perspective, that didn't require an update from a continuous disclosure perspective.
Brian Johnson (MST, Analyst)	Richard, the second one, if I may, and it's a great slide, slide 28, the pathway to the ROE above the cost of capital. From memory, I think it's 7.75% this half year. That's struck on a net writeback gain. Could we find out what you think your cost of capital actually is? Can we just get confirmation that it is based on that long run loan loss assumption of [10 to 12]? What is the cost of capital, and what is the assumed long run loss so we can actually back solve to work out what you're saying in this slide. You might even want to give us a little bit more information about how you get there because it still seems like a very wide gap...
Richard Fennell	Yes, look, the...
Brian Johnson (MST, Analyst)	...with no timeline anymore.
Richard Fennell	Yes, the cost of capital we assess, and we look at a range of inputs to this, is 10%. We look at a range of market participants, what they assess our cost of capital, we do our own assessment and at the moment we've got that hurdle at 10%. The return on tangible equity, despite the deterioration this half, still remains above that cost of capital. So the business we're writing is meeting that cost of capital. We know we've got intangibles though on the balance sheet that we need to service, so we're not walking away from that. I expect that when you look at the quality of the business we're writing today, that it would be unlikely that through the cycle we will probably end up as high as 10 basis points or 12 basis points when so much of our lending, particularly on the resi side, is down in the 60[%] to 80[%] or sub 60[%] range. Although we haven't had a really tough credit cycle for a while now, so I don't want to make those famous last words. We've got a range of initiatives that we do highlight on slide 28. We think scale is going to be really important for us to achieve better returns over time. The reason for that, as I'm sure you know

	better than most, Brian, that there are significant fixed costs when it comes to banking. Those fixed costs in areas like technology, risk management, responding to the challenges of fraud and scams and the like, continue to be a significant investment that is required to make by all banks. So we want to be able to leverage that fixed cost base over a larger revenue base. That's why we are - you heard us speak today so much about building our scale. That's going to be important, but we can't do that on its own and expect to get there. We do need to drive productivity alongside that scale growth. So they're critical levers for us going forward. I would hope that a lower long run loss rate would also be a contributor to that, but we're not putting an absolute number on it.
Brian Johnson (MST, Analyst)	So the 10% ROE is premised on a long run loan loss assumption that is actually lower than the [10 to 12]. Just to confirm that?
Richard Fennell	No, that is based on a through the cycle loan loss rate that is pretty consistent at an industry level at that 10%.
Brian Johnson (MST, Analyst)	Richard, if I may, just a final one. Slide 24. We can see that the investment spend uplifted $6.7 million half on half. In the commentary down below, you say year on year it's going to be $30 million to $40 million higher. Then you say two thirds is booked through the OpEx line. Isn't that in itself telling us that there's quite a substantial negative delta in the investment spend that is expensed in the second half versus the first half?
Richard Fennell	Yes, there is potential uplift in that expensed investment spend in the second half. Now, we probably expected it to be slightly higher in the first half as well, it didn't quite play out that way. It actually - it is a little bit variable around the investments we end up making and their treatment of capitalised versus expensed. You're right, there is potential for some slight headwind there in the second half.
Brian Johnson (MST, Analyst)	Thank you.
Sam Miller	Thanks, Brian. Our final question today is from Carlos Cacho from Macquarie.
Carlos Cacho (Macquarie, Analyst)	Thanks for the opportunity to ask a question. First, I just wanted to ask you about the Proprietary channel. You talk about having more branches per customer than any bank and that your strongest channel is Proprietary, yet its share of lending was only 30% and obviously that includes the third party impacts, your [white labelled loans], et cetera. Do you have a strategy to improve that? Will the rollout of the new lending platform to branches help, or is it partly just a result of where your branches are and not where the majority of loans are being written, more towards metro areas?

Richard Fennell Yes. Carlos, we are looking forward to rolling out that new lending platform to our branch network. One of the challenges with our current systems and processes supporting residential lending through our branch network is we are slow to respond. So that faster response time we expect we will see an uplift in our application to settlement percentage, which is below where we would like it to be.

So not enough of the applications we received are actually ending up settling. I think that delay in that process - in those processes due to the legacy platform we're using there is part of that. You're spot on.

One of the other aspects that does have an impact is we have a higher proportion of our branches in rural and regional Australia. In some cases that means there's less demand for residential lending, but the other factor is the value per loan tends to be smaller than in the metro areas, particularly around the capital cities on Mainland Australia and South East Queensland.

So, there is a natural tendency for lending to be lower per branch than probably those branch networks that are more heavily skewed to metro, but certainly we are looking forward to an uplift in volume through our Proprietary channels once we roll that lending platform out to them. Not just on the speed of response, but also the productivity uplift for our lenders through that network who hopefully will be spending less time processing a loan, because a lot of that work is done manually in the branches today, and they'll be able to spend more time out there, hopefully generating more business for us.

Carlos Cacho (Macquarie, Analyst) Thank you. Then secondly, just on wholesale funding, you called out that headwind in the half, you did issue some debt there. It seems - if I look through the detail, it doesn't look like any major changes in your wholesale funding rate. So is it really - is that really just reflecting the TFF roll-off, and I'm guessing that probably wasn't hedged as some of your peers have done?

It looks like your notes payable rate was down six bps, your other wholesale borrowing rate was up two bps. There's obviously mixed shifts, but is it partly that the TFF wasn't hedged?

Andrew Morgan I'll pick that up with you later, Carlos, but simply what we do with all of our balance sheet is we profile repricing risk and then we apply hedges to neutralise as much as possible any economic value sensitivity. The function of wholesale funding costs this time around was that we have replaced what was quite cheap funding with more expensive funding. So that's really the key driver behind that 3 basis points we called out in annual waterfall.

Carlos Cacho (Macquarie, Analyst) Thank you.

Sam Miller Thanks, Carlos. That concludes our questions. I'll hand back to Richard.

Richard Fennell Thanks, Sam, and thanks everyone for your questions and interest today. What we've outlined is our strategic approach to capital allocation by investing in our growth engines to deliver sustainable returns. The investments we're making will support momentum we've built. We've built that with the growth in mortgages expected to be above system going forward and Business and Agri to return to growth in FY26 and our Up business to maintain its current growth outcomes.

We do remain committed to delivering returns above our cost of capital over the medium term and improving returns to shareholders. I am excited about what lies ahead because I'm confident that our continued focus on innovation, productivity, and our unwavering commitment to our customers will increase returns and deliver value to all stakeholders. Thanks again, everyone.

[End of Transcript]