

1H FY25 Analysis

Business Banking Momentum Offsets Consumer Headwinds

KEY HIGHLIGHTS

- Cash NPAT up 2% to \$5,132m driven by 5% growth in net interest income with NIM improvement of 9bps to 2.08%
- Business Banking delivered strong performance with NPAT up 6% and business lending growth of 12%, well above system
- Digital leadership continues with 8.5 million customers banking digitally and enhanced money management tools
- Operating expenses increased 6% to \$6,372m, outpacing income growth and pushing cost-to-income ratio up 120bps to 45.2%
- Credit quality showing early warning signs with home loan arrears up 12bps YoY to 0.66% and non-performing exposures up 14bps to 0.72%
- Strong capital position maintained with CET1 ratio of 12.2%, well above APRA’s minimum requirement of 10.25%

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GLOSSARY OF KEY TERMS

NIM	Net Interest Margin: Difference between interest earned on assets and interest paid on liabilities, expressed as a percentage of average interest-earning assets.
CET1 Ratio	Common Equity Tier 1 Capital Ratio: Measure of bank’s core capital relative to its risk-weighted assets, key indicator of financial strength.
Cost-to-Income	Operating expenses as a percentage of total operating income, key efficiency measure for financial institutions.
System Growth	Growth in overall market lending, used as benchmark to assess bank’s performance relative to market.
ROE	Return on Equity: Net income as a percentage of shareholders’ equity, measuring profitability relative to invested capital.
Loan Impairment	Reduction in recoverable value of loans, typically expressed in basis points of gross loans and acceptances.

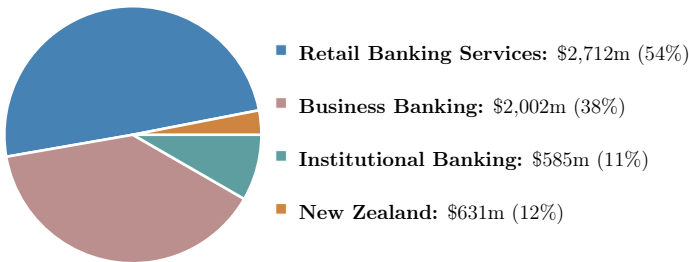
1 Executive Summary

Commonwealth Bank of Australia (CBA) delivered a solid performance for the half year ended December 2024, with cash NPAT increasing 2% to \$5,132 million despite challenging economic conditions. This growth was primarily driven by a 5% increase in net interest income, reflecting a 9 basis point improvement in net interest margin to 2.08%, alongside volume growth in home loans (5%) and business lending (12%). However, operating expenses increased by 6% to \$6,372 million, outpacing income growth and pushing the cost-to-income ratio up by 120bps to 45.2%.

Business Banking emerged as the standout performer with NPAT growth of 6% to \$2,002 million, driven by above-system business lending growth and improved deposit margins. Meanwhile, Retail Banking Services delivered more modest profit growth of 2% to \$2,712 million, as margin pressure in home lending partially offset volume benefits. The bank maintained its market-leading positions across key segments, with home loan market share at 25.4%, household deposits at 26.5%, and business lending at 17.2%.

The bank’s balance sheet remains robust with a CET1 ratio of 12.2%, well above regulatory requirements, positioning it to continue supporting customers through economic uncertainty. However, early signs of credit quality deterioration are emerging, with home loan arrears increasing 12bps year-on-year to 0.66% and gross non-performing exposures up 14bps to 0.72%, reflecting rising cost-of-living pressures on some borrowers. CBA’s digital leadership continues with 8.5 million customers banking digitally and significant ongoing investment in technology and fraud prevention capabilities.

1.1 Cash Earnings by Segment Distribution (1H25, \$m)



Note: Corporate Centre and Other segment loss of \$798m (15% of group total) excluded from chart. Segment contributions exceed 100% due to this exclusion.

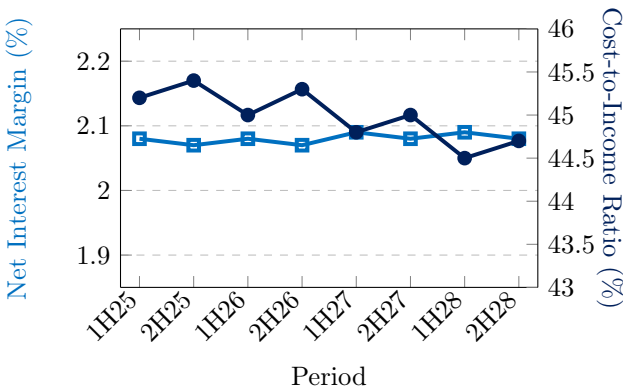
2 Outlook

CBA faces a mixed outlook over the next 1-3 years, balancing economic headwinds against operational strengths. Revenue growth is projected at 3.0-3.5% annually, primarily through volume expansion rather than margin improvement. Home lending should grow at 4-5% (in line with system), while business lending is expected to continue above-system growth at 6-7%, reflecting the bank’s strategic focus.

Net interest margin should remain stable at 2.05-2.10% after initial compression from competition and deposit repricing. Cost-to-income ratio should improve gradually from 45.2% to 43.5% by FY30 as technology investments yield benefits, though fraud prevention and compliance investments will create on-going cost pressure.

Loan impairment expense is forecast to normalize at 10-12 basis points of gross loans, above current levels (7bps) but below historical averages. CBA’s strong capital position (CET1 ratio 12.2%) provides substantial buffer while supporting a consistent 75% dividend payout ratio. Business Banking will likely remain the growth engine, offsetting pressure in Retail Banking from cost-of-living constraints.

2.1 Net Interest Margin & Cost-to-Income Ratio Projection



CBA’s net interest margin is projected to remain relatively stable over the forecast period, fluctuating between 2.07% and 2.09% as competitive pressure in home lending is balanced by improved deposit margins and business lending growth. Seasonal patterns are expected to continue with slight declines in second-half periods due to more days and lower margins on institutional liquidity facilities. Meanwhile, the cost-to-income ratio should gradually improve from the current 45.2%, reflecting increasing benefits from technology investments and operational efficiencies. However, progress will be uneven due to on-going investment requirements and seasonal expense patterns, with second-half periods typically showing higher ratios due to timing of project costs and compliance spending.

3 Valuations

The valuation of Commonwealth Bank presents contrasting perspectives between traditional banking methods and market pricing. Our base case DCF indicates moderate divergence from current levels, while the bank's premium market position contributes to its trading near the upper end of our implied range. P/E and P/B approaches align better with current pricing, particularly when applying premium multiples that reflect CBA's leadership position, superior profitability, and strong balance sheet. The gap between our conservative DDM valuation and market prices suggests investors may apply lower required returns than our 10.3% cost of equity or expect higher long-term growth. Given CBA's consistent capital management, we assign greater weight to DCF and P/E methodologies in establishing our \$155.00-\$175.00 valuation range.

Methodology	Implied Price Per Share
DCF - Base Case	\$159.18
DCF - Bull Case	\$182.61
DCF - Bear Case	\$123.65
52-Week Trading Range	\$136.15 - \$168.68
Consensus Price Target Range	\$155.00 - \$175.00
P/E Multiple - NTM	\$140.96 - \$166.20
P/B Multiple	\$130.02 - \$175.03
Dividend Discount Model	\$113.05
Implied Valuation Range	\$155.00 - \$175.00
Current Share Price	\$165.00

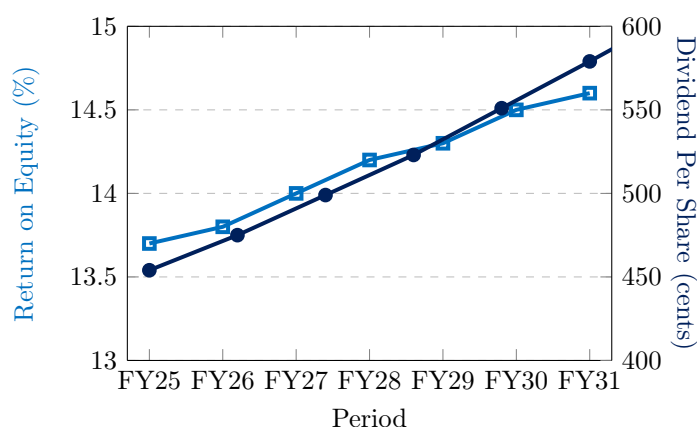
Our valuation shows significant sensitivity to key variables reflecting both macroeconomic conditions and company execution. Net interest margin has the most substantial impact, with each 5 basis point sustained change affecting base valuation by approximately \$6 per share, highlighting the importance of deposit pricing dynamics and home lending competition. The terminal growth rate assumption similarly creates substantial sensitivity, with a 0.5% change impacting valuation by approximately \$10 per share, reflecting the significant value derived from long-term assumptions.

3.1 Sensitivity Analysis

Factor	Change	Impact
Net Interest Margin	± 5bps	± \$6.20 per share
Terminal Growth Rate	± 0.5%	± \$9.85 per share
Cost-to-Income Ratio	± 1.0%	± \$4.70 per share
Loan Impairment Rate	± 5bps	± \$7.35 per share
WACC	± 0.25%	± \$8.50 per share

Credit quality represents another critical sensitivity factor, with each 5 basis point change in loan impairment expense relative to gross loans impacting our valuation by approximately \$7.35 per share. This underscores the potential downside risk if cost-of-living pressures intensify, particularly given early warning signs in consumer arrears data. The cost-to-income ratio sensitivity reflects the balance between necessary technological investment and efficiency benefits, with each 1% change affecting our valuation by \$4.70 per share. Finally, the discount rate (WACC) sensitivity demonstrates the impact of changing investor risk perceptions or interest rate environments, with each 0.25% change impacting our valuation by approximately \$8.50 per share. These sensitivities highlight the range of potential outcomes embedded in our valuation, with the bull and bear cases (\$123.65-\$182.61) reflecting combinations of these factors moving in concert under different economic scenarios.

3.2 ROE & Dividend Projection



CBA's return on equity is projected to improve gradually from 13.7% in FY25 to 14.5% by FY30, driven by operational efficiencies and moderating capital levels as the bank optimizes its capital position while maintaining regulatory compliance. This ROE trajectory represents a premium to the broader Australian banking sector, reflecting CBA's superior market positions and operational execution. The bank's strong capital generation supports a consistent dividend payout ratio of 75%, translating to dividend

growth from 454 cents per share in FY25 to 579 cents per share by FY30 (CAGR of approximately 5%).

This dividend growth exceeds projected earnings growth due to gradual optimization of the CET1 ratio from 12.2% toward 11.5% over the forecast period, while remaining well above regulatory requirements.

4 About the Company

4.1 Company Overview

Commonwealth Bank of Australia (CBA) is Australia's largest bank and financial services provider, serving approximately one in three Australians and one in four Australian businesses. The bank provides a comprehensive range of financial services including retail, business and institutional banking, funds management, and transaction services. Founded in 1911 by the Australian government and fully privatized by 1996, CBA has grown to become a dominant player in the Australian financial landscape.

The bank maintains the largest branch network in Australia while also investing heavily in digital transformation, with 8.5 million customers banking digitally through its market-leading app and online platforms. CBA is led by Chief Executive Officer and Managing Director Matt Comyn, who assumed the role in April 2018 after previously heading the Retail Banking Services division. The Board is chaired by Paul O'Malley. The executive leadership team demonstrates stability and experience in managing through economic cycles, with a consistent strategic focus on operational excellence, balance sheet strength, and technological innovation. Under Comyn's leadership, the bank has emphasized disciplined execution, customer-centricity, and maintaining strong capital and liquidity positions to support customers through economic uncertainty while delivering sustainable returns to shareholders.

4.2 Profitability Model

CBA's primary revenue stream is net interest income—the difference between interest earned on loans

Capital allocation priorities will continue to focus on organic growth opportunities, particularly in business banking, while returning excess capital to shareholders through dividends and potential share buybacks. The \$1 billion on-market share buyback announced in August 2024 (\$0.3 billion completed to date) illustrates this approach to capital management.

(home loans, business loans, consumer finance) and interest paid on deposits and wholesale funding. This core business is supplemented by fee and commission-based income from banking services, wealth management, transaction processing, and markets trading activities. The bank maintains a conservative funding approach with 77% of its funding derived from customer deposits, providing a stable and relatively low-cost funding base.

The bank's operations are structured into four main business segments: Retail Banking Services (54% of profit), Business Banking (38% of profit), Institutional Banking and Markets (11% of profit), and New Zealand operations through its ASB subsidiary (12% of profit). CBA holds leading market positions in key sectors including home loans (24.6% market share), household deposits (26.5%), and business lending (17.2%). The bank's strong deposit franchise and substantial scale provide funding cost advantages relative to competitors, while its leading digital capabilities drive customer engagement and operational efficiency.

Profitability is influenced by several factors including net interest margin (currently 2.08%), operating efficiency (cost-to-income ratio of 45.2%), and credit quality (loan impairment expense of 7bps of gross loans). The bank's pricing power varies by segment, with greater competitive intensity in home lending constraining margins, while business banking offers more favorable pricing dynamics. CBA's profitability model benefits from its diversification across customer segments and product lines, as well as its balance sheet strength which provides resilience through economic cycles.

4.3 Tailwinds

Digital Leadership and Technology Investment: CBA has established a competitive advantage through its digital capabilities, with 8.5 million customers banking digitally. This digital advantage delivers operational efficiencies while generating customer data for personalized service. CBA's ongoing technology investment (up 11% on 1H24) positions it to maintain leadership, with innovations like NameCheck preventing \$410 million in mistaken payments. Compared to peers, CBA consistently leads industry digital adoption metrics and customer satisfaction ratings, creating a sustainable edge that should continue yielding benefits.

Business Banking Growth Momentum: CBA's Business Banking segment has emerged as a key growth driver, with NPAT up 6% to \$2,002 million and lending growth of 12%, well above system. This performance reflects the bank's strategic focus on business relationships, with 25.5% of businesses naming CBA their main financial institution. The segment's net interest margin of 3.36%, while down 5bps, remains substantially higher than the group average, delivering superior profitability. Business Banking benefits from less intense competition than home lending and greater pricing power, particularly in transaction banking. This momentum should continue as CBA leverages its balance sheet strength to support business lending.

Balance Sheet Strength and Capital Position: CBA maintains a strong capital position with a CET1 ratio of 12.2%, well above APRA's minimum requirement of 10.25%. This capital strength provides buffer against uncertainties while supporting growth opportunities and shareholder returns. The bank's funding profile is robust, with 77% from customer deposits, reducing reliance on wholesale markets. Provision coverage remains strong at 1.62% of credit risk weighted assets with \$2.4 billion buffer above expected losses. This balance sheet strength represents a competitive advantage, providing flexibility to support customers through hardship while pursuing strategic growth initiatives.

Scale Advantages in Australian Banking: As Australia's largest financial institution, CBA benefits from significant scale advantages. The bank's substantial customer base (one in three Australians) pro-

vides distribution reach and cross-selling opportunities. Its market leadership in key products (25.4% home loan share, 26.5% deposits) delivers pricing power and operational leverage. Scale enables heavier investment in technology, cyber security, and fraud prevention while spreading costs across a larger revenue base. Regulatory compliance costs benefit from similar efficiency. These scale advantages manifest in CBA's superior returns on equity (13.7%) relative to domestic peers.

4.4 Headwinds

Credit Quality Deterioration Signals: CBA shows early warning signs with home loan arrears up 12bps to 0.66% and consumer finance arrears up 12bps to 0.92%. Gross non-performing exposures increased 14bps to 0.72%, totaling \$10.3 billion (up 27% year-on-year). These trends reflect interest rate and cost-of-living pressures despite low unemployment. Current loan impairment expense remains low at 7bps, but indicators suggest normalization toward 10-12bps. Most customers remain ahead on repayments, providing some buffer.

Net Interest Margin Pressure: Competition and deposit repricing challenges pressure CBA's margins. While NIM improved 9bps year-on-year to 2.08%, it was flat half-on-half, suggesting limited upside. Competitive pressure in home lending and deposit markets as customers become more rate-sensitive offsets higher earnings on capital. The bank's strong deposit franchise provides mitigation, but margin pressure will likely persist.

Rising Cost Base: CBA's operating expenses increased 6% to \$6,372 million, outpacing income growth (3%) and worsening cost-to-income ratio by 120bps to 45.2%. Wage inflation, technology expenses, and compliance costs are key factors. Investment spend increased 11% for digital capabilities and regulatory requirements, constraining near-term efficiency.

Economic Headwinds: Persistent cost-of-living pressures affect household finances despite low unemployment. Higher mortgage costs and essential expenses inflation impact CBA's retail customers, potentially constraining credit demand and elevating risk. The bank's significant housing exposure (64% of lending) creates sensitivity to property market dynamics if economic conditions deteriorate further.

4.5 Competitive Landscape

Competitor	Competitive Positioning
CBA	Australia's largest bank with dominant market shares across key segments (home loans: 25.4%, deposits: 26.5%, business lending: 17.2%). Differentiated by digital leadership with 8.5 million customers banking digitally through market-leading app and platforms. Strong balance sheet (CET1 ratio 12.2%) and funding position (77% deposit funding) provide resilience and growth capacity. Superior scale delivers operational leverage and investment capacity, while diversified business mix balances retail and commercial exposures. Leading ROE (13.7%) among major banks reflects premium franchise value, though currently facing margin pressure in home lending and rising cost base.
NAB	Second-largest Australian bank with strong business banking franchise (approximately 20% market share) and established SME relationships. Simpler operating model following divestment of wealth management and international operations allows greater focus on core banking. Recent investments in digital capabilities are narrowing the gap with CBA but still trailing in customer engagement metrics. Smaller retail presence (approximately 15% home loan market share) creates relative disadvantage in deposit gathering, though commercial focus provides different growth avenues. Strategic emphasis on business lending aligns with higher-margin segments where competition is less intense than home lending.
ANZ	Fourth-largest Australian bank by market capitalization with diversified business mix including significant international operations, particularly in New Zealand and institutional banking across Asia. Recently completed acquisition of Suncorp Bank expected to boost domestic retail presence and Queensland market share. Strong institutional banking franchise provides differentiated revenue streams but typically higher volatility. Digital transformation has lagged peers, though significant investments underway to address this gap. Integration risks from Suncorp acquisition create near-term execution challenges but potential medium-term scale benefits. Currently holds approximately 14% home loan market share and 15% business lending market share in Australia.
Westpac	Third-largest Australian bank with traditional strength in wealth management and East coast presence. Has faced significant compliance and risk management challenges in recent years, resulting in substantial remediation costs and regulatory penalties. Current strategic focus on simplification and cost reduction, with multi-year program targeting substantial expense savings. Digital capabilities have improved but remain behind CBA, with customer satisfaction metrics reflecting this gap. Holds approximately 20% market share in both home loans and deposits, having stabilized after previous periods of market share losses. Management transition and cultural reset aim to address historical issues while refocusing on core banking strengths.
Macquarie	Distinctive competitor combining strong wholesale banking expertise with rapidly growing retail banking presence. Differentiated by nimble culture, innovative product design, and premium customer targeting. Home loan market share has grown significantly to approximately 4%, with consistent above-system growth driven by fast turnaround times and competitive pricing. Digital-first approach with limited branch network creates structural cost advantage but potential service limitations for certain customer segments. Higher funding costs relative to major banks due to smaller deposit base partially offset by targeting of higher-value customers. Reputation for operational excellence and risk management provides halo effect for retail banking expansion.

The Australian banking landscape is characterized by the dominance of four major banks, with CBA maintaining leadership across key metrics including market share, profitability, and digital capabilities. The competitive environment varies significantly by segment, with home lending experiencing intense competition from both traditional and non-traditional players, while business banking offers more favorable competitive dynamics with greater emphasis on relationships and capabilities beyond price. Regional banks (including Bendigo and Adelaide Bank, Bank of Queensland, and Suncorp prior to its acquisition by ANZ) occupy a second tier with more limited geographical focus and scale challenges, while international banks primarily target institutional and high-net-worth segments rather than competing broadly across retail and commercial banking.

The competitive dynamics have evolved significantly in recent years, with digital capabilities becoming increasingly critical differentiators as customer interaction patterns shift from branches to mobile and online channels. CBA's sustained investment in its digital platforms has established a clear leadership position in this dimension, driving superior customer engagement metrics and operational efficiency. Non-bank lenders have gained market share in specific product niches, particularly in home lending where specialized mortgage providers leverage broker distribution and competitive pricing to target prime borrowers, though their market impact remains modest at approximately 5-7% of total housing credit. Meanwhile, fintech disruptors have primarily focused on payment services and unsecured lending rather than directly challenging banks in their core secured lending businesses.

Regulatory interventions have influenced competitive dynamics, with increased capital requirements creating relative advantages for larger banks with diversified funding sources and established compliance capabilities. The regulatory focus on responsible lending, customer outcomes, and financial crime prevention has increased the cost of doing business, particularly challenging sub-scale players with limited ability to absorb these investments. Looking forward, the competitive landscape continues to evolve with major banks recalibrating their business mix (generally increasing focus on business segments relative to consumer) and investing heavily in technology to defend market positions. CBA's market leadership provides advantages in terms of customer reach, data assets, and investment capacity, though the relative performance gap with closest competitors has narrowed in some dimensions as peers address historical underinvestment in digital capabilities and streamline their operations following post-Royal Commission remediation programs.

5 Latest Results & Updates

Commonwealth Bank of Australia delivered a solid performance for the half year ended 31 December 2024, with statutory NPAT up 6% to \$5,142 million and cash NPAT up 2% to \$5,132 million compared to the prior corresponding period. This growth was primarily driven by a 5% increase in net interest income to \$11,934 million, reflecting a 9 basis point improvement in net interest margin to 2.08%, despite intense competition in the lending market. Total operating income increased 3% to \$14,098 million, while operating expenses rose 6% to \$6,372 million, resulting in a 120bps deterioration in the cost-to-income ratio to 45.2%.

The bank maintained its market-leading positions across key segments, with both home loans and business loans growing at 5%, demonstrating continued business momentum despite challenging economic conditions. Asset quality metrics showed mixed trends: loan impairment expense decreased 23% to \$320 million and the loan loss rate improved to 7bps (from 9bps), but both home loan arrears and gross non-performing exposures increased by 14bps year-on-year, reflecting the impact of higher interest rates and cost of living pressures on some borrowers.

Key Metrics	1H25	1H24	Chg%
Statutory NPAT (\$m)	5,142	4,837	+6%
Cash NPAT (\$m)	5,132	5,019	+2%
Net interest income (\$m)	11,934	11,404	+5%
Other operating income (\$m)	2,164	2,245	-4%
Total operating income (\$m)	14,098	13,649	+3%
Operating expenses (\$m)	6,372	6,011	+6%
Loan impairment expense (\$m)	320	415	-23%
Net interest margin (%)	2.08	1.99	+9bps
Cost-to-income ratio (%)	45.2	44.0	+120bps
Return on equity (cash basis) (%)	13.7	13.8	-10bps
Earnings per share (statutory) (cents)	307.5	288.9	+6.4%
Dividend per share (cents)	225	215	+4.7%

The bank's balance sheet remains robust with total assets growing 3% to \$1.31 trillion, while maintaining strong capital adequacy with a CET1 ratio of 12.2%, well above regulatory requirements. Funding metrics remain sound with a deposit funding ratio of 77% (unchanged from prior year) and a liquidity coverage ratio of 127%, though down 9 percentage points from 1H24. Across business units, Business Banking was the standout performer with NPAT up 6% to \$2,002 million, while Retail Banking Services grew more modestly at 2% to \$2,712 million. The interim dividend was increased by 4.7% to 225 cents per share, representing a payout ratio of 73.2% of cash earnings.

5.1 Performance by Segment

CBA's performance showed significant variation across business segments, reflecting different competi-

itive dynamics and economic impacts. Retail Banking Services, the largest contributor to group profit at 54%, delivered modest growth of 2% in cash NPAT to \$2,712 million. The segment faced margin pressure (NIM down 6bps to 2.49%) due to intense competition in home lending and deposit switching to higher-yielding products. This was offset by strong volume growth in home loans (+6% vs system growth of 5%) and deposits (+8%). Operating expenses increased 6%, outpacing income growth of 2%, resulting in a 160bps deterioration in the cost-to-income ratio to 39.5%. Loan impairment expense decreased 63% to \$79 million, benefiting from rising house prices, though consumer arrears increased 12bps to 0.64%, reflecting cost-of-living pressures.

Retail Banking Services	1H25	1H24	Chg%
Cash NPAT (\$m)	2,712	2,649	+2%
Net interest income (\$m)	5,699	5,652	+1%
Other operating income (\$m)	856	839	+2%
Total operating income (\$m)	6,555	6,491	+2%
Operating expenses (\$m)	2,589	2,443	+6%
Loan impairment expense (\$m)	79	214	-63%
Net interest margin (%)	2.49	2.55	-6bps
Cost-to-income ratio (%)	39.5	37.9	+160bps
Home loans (\$m)	515,328	485,215	+6%
Consumer finance (\$m)	12,165	12,413	-2%
Total deposits (\$m)	406,759	376,629	+8%

Business Banking delivered the strongest performance among segments with 6% NPAT growth to \$2,002 million, driven by robust business lending growth of 12% (well above system) and an 8% increase in other operating income. While NIM contracted 5bps to 3.36%, this was less severe than other segments, reflecting the unit's pricing power and benefit of higher deposit margins. Operating expenses increased 8% due to investment in customer-facing staff and product offerings, slightly outpacing income growth of 6%. The segment focused on transaction banking, with 25.5% of businesses naming CBA their main financial institution.

Institutional Banking and Markets experienced a 3% decline in NPAT to \$585 million despite total income growth of 4%, primarily due to higher loan impairment expenses. Net interest income grew 8% driven by higher earnings on deposits and equity, but was partly offset by a 2% decline in other operating income due to lower trading results. Lending volumes declined 3%, though this was impacted by reporting changes for pooled facilities. The New Zealand business delivered a modest 1% increase in cash NPAT to A\$631 million despite a favorable 9bps improvement in net interest margin to 2.30%. Operating expenses increased 6% due to higher technology costs and investments in fraud prevention, while loan impairment expense increased 78% to A\$16 million.

5.2 Balance Sheet & Financial Position

Balance Sheet (\$m)	31 Dec 2024	Chg%
Total assets	1,308,566	+3%
Loans and other receivables	969,404	+5%
Home loans	685,269	+5%
Business and corporate loans	272,677	+5%
Total liabilities	1,233,302	+3%
Deposits and other public borrowings	902,502	+3%
Total shareholders' equity	75,264	+3%
CET1 capital ratio (APRA)	12.2%	-10bps
Provision coverage ratio	1.62%	-2bps
Loan loss rate (bps)	7	-2bps
Deposit funding ratio	77%	Unchanged
Liquidity coverage ratio	127%	-9pp
Net stable funding ratio	116%	-5pp

CBA's balance sheet demonstrates continued growth and robust financial strength. Total assets increased 3% year-on-year to \$1.31 trillion, primarily driven by 5% growth in loans and receivables to \$969 billion. Home loans expanded 5% to \$685 billion, maintaining pace with system growth, while business and corporate loans also grew 5% to \$273 billion. Funding metrics remain strong with deposits growing 3% to \$903 billion, maintaining a stable deposit funding ratio of 77%. This funding profile provides relative stability and cost advantages compared to more wholesale-funded competitors.

The bank maintains a strong capital position with a CET1 ratio of 12.2%, slightly lower than the prior year but well above APRA's minimum regulatory requirement of 10.25%. This capital strength supports ongoing business growth while providing substantial buffer against economic uncertainties. Provision coverage remains robust at 1.62% of credit risk weighted assets, with management noting a "\$2.4 billion buffer relative to the losses expected under our central economic scenario." However, asset quality metrics bear monitoring, with home loan arrears increasing 12bps year-on-year to 0.66% and gross non-performing exposures up 14bps to 0.72% of total committed exposures.

Liquidity metrics remain sound but have moderated, with the liquidity coverage ratio at 127% (down 9 percentage points) and net stable funding ratio at 116% (down 5 percentage points). These remain comfortably above regulatory requirements and reflect the bank's prudent balance sheet management. Cash flow from operating activities improved significantly, with net cash used decreasing to \$12.9 billion from \$25.0 billion in the prior corresponding period. Overall, CBA's balance sheet position combines growth with prudent settings, supporting both business expansion and resilience through economic cycles.

5.3 Strategic Priorities & Progress

Priority	Status and Significance
Customer Focus & Relationships	Strong progress: Leading Main Financial Institution share with 35.5% for Retail and 25.5% for Business. Ranked 1 in Net Promoter Score among major banks. Money management tools engaging 3 million customers monthly. Critical for sustainable growth and customer advocacy.
Balance Sheet Strength	Strong progress: CET1 ratio of 12.2% versus 10.25% requirement; provision coverage ratio at 1.62%; deposit funding ratio stable at 77%. Provides resilience through economic cycles and capacity for growth initiatives. Supports consistent shareholder returns through challenging conditions.
Digital Leadership	Strong progress: 8.5 million customers banking digitally; enhanced fraud prevention capabilities (NameCheck technology preventing \$410 million in mistaken payments); ongoing investment in AI and infrastructure. Key competitive differentiator driving engagement and efficiency.
Operational Excellence	Mixed progress: Cost-to-income ratio increased 120bps to 45.2% despite productivity initiatives; investment spend up 11% to \$1,096 million. Near-term cost pressure from technology, compliance, and wage inflation. Critical for long-term competitiveness but facing execution challenges.
Responsible Growth	Moderate progress: Business lending grew 12% (above system); home lending grew 5% (in line with system); balancing growth ambitions with credit quality considerations. Targeting productive sectors while maintaining risk discipline. Supporting customers through hardship programs when needed.
Risk Management & Compliance	Strong progress: Over \$800 million invested in fraud prevention; enhanced financial crime capabilities; conservative provisioning approach. Essential for maintaining regulatory standing and customer trust. Industry leadership in fraud prevention technology adoption.

CBA continues to execute on its strategic priorities with varied progress across initiatives. The bank's strongest performance has been in digital leadership, where its market-leading app and platforms continue to drive customer engagement and operational efficiencies. Management has prioritized significant investment in this area (up 11% on prior year), recognizing the critical importance of digital capabilities as customer interaction patterns evolve. The focus on fraud prevention and cyber security (over \$800 million invested) reflects both growing external threats and regulatory expectations for proactive management of these risks.

Balance sheet strength remains a cornerstone of the bank's strategy, with capital, liquidity, and funding metrics all maintained at conservative levels despite economic uncertainties. This provides both resilience against potential stress scenarios and capacity to support growth initiatives in targeted segments. The strategic emphasis on business banking is yielding results, with 12% growth in business lending (well above system) and improving customer penetration metrics. This aligns with management's stated commitment to "stimulating economic growth by lending to productive parts of the economy."

The most significant challenge to strategic execution has been in operational excellence, where cost growth has outpaced income expansion despite productivity initiatives. The resulting 120bps increase in the cost-to-income ratio to 45.2% reflects both necessary investments for future competitiveness and inflationary pressures in technology and personnel costs. Management faces the challenge of balancing essential strategic investments with near-term efficiency targets. Looking forward, the bank's strategic focus areas remain appropriate for the operating environment, with continued emphasis on customer relationships, digital capabilities, and selective growth opportunities while maintaining balance sheet strength. The next phase of execution will require demonstrating returns on technology investments through improved efficiency metrics while navigating economic uncertainties and evolving competitive dynamics.

6 Financial Forecasts

CBA FIVE-YEAR FINANCIAL FORECAST						
Key Metrics (\$m)	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F
Income Statement						
Net Interest Income	23,990	24,968	25,993	27,061	28,170	29,321
Other Operating Income	4,350	4,482	4,661	4,848	5,043	5,246
Total Operating Income	28,340	29,450	30,654	31,909	33,213	34,567
Growth (%)	3.3%	3.9%	4.1%	4.1%	4.1%	4.1%
Operating Expenses	(12,840)	(13,293)	(13,759)	(14,230)	(14,697)	(15,167)
Cost-to-Income Ratio (%)	45.3%	45.1%	44.9%	44.6%	44.3%	43.9%
Loan Impairment Expense	(761)	(1,000)	(1,103)	(1,195)	(1,259)	(1,307)
Loan Impairment Rate (bps)	8.0	9.8	10.3	10.8	10.8	10.5
Cash NPAT	10,238	10,535	10,975	11,456	11,994	12,574
Growth (%)	1.7%	2.9%	4.2%	4.4%	4.7%	4.8%
Statutory NPAT	10,258	10,545	10,985	11,466	12,004	12,584
Effective Tax Rate (%)	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%
Cash EPS (cents)	613	631	658	688	720	754
Statutory EPS (cents)	614	632	659	688	721	755
Dividend Per Share (cents)	454	475	499	523	551	579
Dividend Payout Ratio (%)	74%	75%	75%	75%	75%	75%
Segment Cash Earnings						
Retail Banking Services	5,456	5,620	5,845	6,078	6,321	6,574
Growth (%)	2.0%	3.0%	4.0%	4.0%	4.0%	4.0%
Business Banking	4,058	4,282	4,518	4,767	5,028	5,305
Growth (%)	5.0%	5.5%	5.5%	5.5%	5.5%	5.5%
Institutional Banking	1,173	1,208	1,244	1,281	1,320	1,359
Growth (%)	-2.0%	3.0%	3.0%	3.0%	3.0%	3.0%
New Zealand	1,254	1,292	1,330	1,370	1,411	1,454
Growth (%)	1.5%	3.0%	3.0%	3.0%	3.0%	3.0%
Corporate Centre & Other	(1,703)	(1,867)	(1,962)	(2,040)	(2,086)	(2,118)
Growth (%)	3.0%	9.6%	5.1%	4.0%	2.3%	1.5%
Total Cash NPAT	10,238	10,535	10,975	11,456	11,994	12,574
Balance Sheet & Metrics						
Average Interest Earning Assets (\$bn)	1,145	1,188	1,235	1,284	1,337	1,392
Risk-Weighted Assets (\$bn)	487	507	529	553	578	605
Customer Loans (\$bn)	975	1,006	1,041	1,077	1,116	1,156
Customer Deposits (\$bn)	910	943	981	1,021	1,062	1,104
Deposit Funding Ratio (%)	77%	77%	77%	77%	77%	77%
Provision Balance (\$bn)	7.8	8.2	8.5	8.9	9.3	9.6
CET1 Ratio (%)	12.1%	12.0%	11.9%	11.8%	11.7%	11.6%
Net Interest Margin (%)	2.07%	2.07%	2.08%	2.09%	2.09%	2.09%
Shareholder Returns						
Return on Equity (%)	13.7%	13.8%	14.0%	14.2%	14.3%	14.5%
Dividend Yield (%)*	2.8%	2.9%	3.0%	3.2%	3.3%	3.5%
Payout Ratio (%)	74%	75%	75%	75%	75%	75%
Book Value Per Share (\$)	46.92	49.17	51.80	54.59	57.55	60.70
Cash EPS Growth (%)	1.7%	2.9%	4.2%	4.4%	4.7%	4.8%

*Based on share price of \$165.00 as of reporting date

6.1 Forecast Assumptions & Inflection Points

Our financial forecasts for Commonwealth Bank of Australia are based on detailed analysis of historical performance patterns, management guidance, and assessment of the operating environment. We project moderate revenue growth averaging 3.5% annually over our forecast period, driven primarily by volume growth rather than margin expansion. Cost efficiency should gradually improve as technology investments mature, while credit quality is expected to normalize from current low levels. The following key assumptions underpin our financial projections and identify potential inflection points in CBA's performance trajectory.

1. Net Interest Margin Stabilization (FY26-27)

After initial compression from competitive pressures and deposit repricing, we expect NIM to stabilize around 2.07-2.09% from FY26 onwards. This reflects an equilibrium where competitive intensity in home lending is balanced by improved deposit margins and favorable business lending dynamics. The stabilization assumes interest rates remain relatively steady after initial normalization, with RBA cash rate settling at neutral levels. Any significant deviation in the interest rate trajectory would create corresponding impacts on margin evolution. Competitive pressures in home lending are expected to remain intense but not intensify further, while deposit competition should gradually moderate as rate sensitivity diminishes.

2. Business Banking Growth Differential (FY25-30)

We project Business Banking to outperform other segments with NPAT growth of 5.0-5.5% annually, compared to 3.0-4.0% for Retail Banking Services. This reflects CBA's strategic focus on business relationships, superior pricing power in commercial segments, and above-system growth in business lending (6-7% vs. system 4-5%). The segment benefits from less intense competition than home lending, higher net interest margins, and growing transaction banking revenues. Management's commitment to "lending to productive parts of the economy" supports this emphasis, with potential for further market share gains in targeted industries. Business Banking's higher growth profile gradually increases its contribution to group earnings from 38% in 1H25 to approximately 42% by FY30, creating a more balanced earnings mix.

3. Credit Quality Normalization (FY25-27)

Loan impairment expense is forecast to normalize from the current low of 7bps to 10-11bps of gross loans and acceptances by FY27, reflecting early signs of credit stress particularly in consumer segments. This normalization remains below pre-pandemic levels but acknowledges the impact of persistent cost of living pressures on some borrowers. Our forecast assumes continuing economic resilience with low unemployment, moderating inflation, and stabilizing housing market, avoiding a severe credit quality deterioration scenario. The bank's strong provisioning (1.62% of credit RWA) and well-secured lending portfolio provide significant buffers against moderate credit cycle deterioration. The pace and extent of this normalization represents a key inflection point with substantial earnings sensitivity.

4. Cost-to-Income Ratio Improvement (FY26-30)

After stabilizing around 45% in the near term, we project gradual improvement in the cost-to-income ratio to 43.9% by FY30 as investments in technology and digital capabilities yield operational benefits. This improvement assumes continued expense discipline and realization of efficiency gains from automation, process simplification, and digital customer engagement. Operating expense growth is projected to moderate from current 6% to 3-4% annually, while income growth gradually accelerates to 4.0-4.1%. The timing of efficiency benefits represents an important inflection point, with potential for faster improvement if technology investments deliver returns sooner than anticipated, or delayed benefits if integration challenges or new investment requirements emerge.

5. Capital Optimization (FY25-30)

We project a gradual reduction in CET1 ratio from 12.2% to 11.6% by FY30, remaining well above the regulatory minimum of 10.25% while optimizing capital efficiency. This assumes continued strong capital generation combined with disciplined capital management through sustainable dividends (75% payout ratio) and potential share buybacks. The bank's conservative capital position provides flexibility to absorb regulatory changes or pursue opportunistic growth initiatives while maintaining robust shareholder returns. Capital deployment decisions represent a key strategic lever, with potential for additional returns to shareholders if growth opportunities remain constrained or increased investment if compelling expansion avenues emerge.

6. Digital Returns Realization (FY26-28)

CBA's sustained investment in digital capabilities (spending up 11% in 1H25) should begin delivering more material efficiency and revenue benefits during FY26-28, creating an important inflection point in return on investment. These benefits include lower service costs through digital engagement, enhanced cross-selling and personalization capabilities, improved fraud detection, and superior customer retention. The bank's leading position with 8.5 million digital customers provides substantial data advantages for leveraging artificial intelligence and advanced analytics. However, realizing these benefits requires successful integration of technologies, effective change management, and continued customer adoption of digital features.

7. New Zealand Performance Improvement (FY26-27)

After modest growth of 1.5% in FY25, we project New Zealand operations to deliver more consistent 3.0% annual growth from FY26 onwards as the economy stabilizes following interest rate normalization. The recent commencement of interest rate reductions by the RBNZ should gradually benefit fixed-rate mortgage customers as loans roll over to lower rates, supporting both volume growth and potential margin improvement. The segment's current net interest margin of 2.30% provides a relatively favorable starting position, though competitive pressures remain significant. Performance of the New Zealand business represents an important geographic diversification element, with potential to provide more meaningful growth contribution if economic recovery accelerates beyond base case assumptions.

Key Macroeconomic Assumptions:

- Australian GDP growth averaging 2.0-2.5% annually over the forecast period, with continued economic resilience despite global uncertainties
- Unemployment rate remaining low at 4.0-4.5%, supporting household income stability despite cost of living pressures
- Inflation gradually moderating toward 2.5-3.0% range, allowing interest rates to stabilize after initial normalization
- Housing prices showing moderate appreciation of 3-5% annually, supporting portfolio security values without triggering affordability constraints
- Business investment increasing at 4-5% annually, creating lending opportunities particularly in infrastructure, healthcare, and technology sectors

End of Report