BOQ GROUP

Start of Transcript

Jessica Smith: Good morning and welcome to BOQ's financial results presentation for the half year ended 28th of February 2026. My name is Jessica Smith. I am the general manager investor relations and corporate affairs at BOQ.

On behalf of the management team, I would like to acknowledge that the traditional custodians of the land we are meeting on today, the Gadigal people of the Eora Nation. We pay our respects to Elders past and present.

I'm joined in the room today by BOQ's Managing Director and Chief Executive Officer, Rod Finch, and our Chief Financial Officer, Rachel Kellaway, who will present the results. We are also joined by BOQ's executive team. Following the briefing, there will be an opportunity for questions. I will now hand over to Rod.

Rod Finch: Thank you, Jess. Good morning, everyone, and thank you for joining us today.

Our first half 2026 results reflect discipline execution against our strategy and ongoing delivery of the group's transformation. Over the half, with strength and resilience across the bank and work to position BOQ to deliver more sustainable earnings through the cycle. We continue to deliver against the milestones and initiatives we have previously outlined, making further progress, simplifying the group, strengthening our operational foundations, advancing our digitisation agenda, and reshaping the balance sheet to optimise returns.

At the same time, our focus on customers and communities remain central. In an environment that continues to test households and businesses, we provide a targeted customer support, invested further in fraud prevention and financial crime capability, and maintained a strong and visible presence in our core markets, particularly Queensland.

The operating environment remains complex with geopolitical uncertainty weighing on consumer and business sentiment. That said, our approach has not changed. We continue to prioritise resilience and sustainability of earnings while progressing our transformation to improve returns and ensure the bank is well positioned for future growth.

From a financial resilience perspective, BOQ remains in a strong position. Capital and liquidity levels are robust. Asset quality remains sound, and our balance sheet provides the flexibility to support customers,

navigate uncertainty, and continue investing through the cycle. I'll now turn to performance for the half beginning with our financial results.

For the first half, cash earnings were $176 million, down 4% on the prior comparative period. Underlying profit increased by 2%, reflecting revenue and expense growth associated with the completion of the branch network conversion in March 2025. Loan impairment expense was $20 million compared to $3 million in the prior comparative period, which contributed to the 4% decline in cash earnings. We have maintained a strong capital position, which remains well above our management target range. This provides the group with flexibility to support future growth and capacity to absorb potential economic shocks.

Reflecting this position, the Board has declared a fully franked interim dividend of 20 cents per share, representing a 75% payout ratio for the half. Racheal will provide more detail on the financial performance shortly.

Turning now to the key drivers of our strategy and the strong execution during the half. The digital platform remains a core enabler of our retail strategy, supporting customer growth, improving customer experience, and progressively enhancing the economics of the retail bank. Following the launch of term deposits during the half, the core build is now complete, and our focus is shifting to ongoing enhancements that further extend our proposition.

To date, we have migrated more than 300,000 customers with over 70% of active retail customers on the platform. Growth and engagement are particularly strong across younger demographics, which was a key strategic objective of the digital bank. From a funding perspective, the digital bank is supporting lower cost deposit growth. The majority of new personal deposits are now originated digitally, supporting higher transactional balances and stronger customer engagement than our legacy platforms.

This is also translating into improved lending outcomes. The platform is scaling mortgages in line with plan, with 75% of group home lending originations processed through the platform in March, supporting lower origination costs. As scale increases and enhancements are delivered through the second half of 26 and into FY27, we remain confident in achieving an improved time to decision and a 50% reduction in origination costs.

Overall, this progress reinforces our confidence that the digital bank is delivering on its role, materially improving customer experience, enabling scalable growth, and improving retail banking economics.

Our productivity program remains a critical enabler of our strategy, reducing complexity, strengthening operational resilience, and reducing our costs to serve. Since FY23, we have delivered tangible productivity benefits through a simpler operating model, exits from non-core activities, technology rationalisation, a reduced property footprint, and continued simplification of our distribution and processing environment following the branch conversion.

Our strategic partnership with Capgemini is delivering efficiency through the business processing arrangement. More broadly, we continue to evolve the use of AI across the business with the establishment of a central AI hub to drive adoption and deployment of use cases, including near-term opportunities in the contact centre, commercial lending and technology development.

When we set out to deliver the $250 million program, we recognised it was ambitious and that the pathway to the delivery was unlikely to be linear. As priorities and initiatives have evolved, we expect the full run rate benefits to be achieved on exit of FY26 with the decommissioning of ME heritage systems and our Capgemini partnership key drivers of that outcome.

Importantly, productivity improvements have been sustainably embedded into the way BOQ operates. We have reduced complexity, improved efficiency, and created capacity to absorb cost pressures while continuing to invest in our transformation. We expect that on exit of FY26, we will have generated simplification benefits equivalent to more than 20% of our cost base, compared to when the program commenced in FY23.

This is an important outcome in what has been a complex operating environment and reinforces our focus on embedding sustainable efficiency into the way the bank operates. Looking beyond FY26, we acknowledge there is more work to do. Continued simplification alongside the increasing use of data, automation, and AI provides a pathway to drive further productivity and to support operational leverage over time.

The capital partnership with Challenger announced earlier this month represents an important evolution in our approach to balance sheet optimisation and capital efficiency. Our strategic intent is to deliver sustainable returns through shifting asset and funding mix to optimise risk-adjusted returns and grow capital light income. The capital partnership supports this, providing balance sheet optionality and the opportunity for scalable non-interest income growth without the need for capital or funding. The partnership includes the sale of approximately $3.7 billion of our equipment finance back-book alongside the establishment of a forward flow arrangement.

This structure supports scalable growth in equipment finance without increasing balance sheet concentration or funding requirements while maintaining customer relationships.

Under the whole of loan sale, the assets are fully derecognised from BOQ's balance sheet. Risk, funding, and ownership transfers to Challenger, enabling BOQ to reduce approximately $3.4 billion of higher cost funding, strengthening shareholder returns, and further reinforce capital resilience.

The forward flow agreement enables us to continue originating new lending, using our existing capabilities while scaling the customer offering without increasing balance sheet intensity or concentration risk. Over time, this model generates capital light income through origination and servicing fees, while Challenger provides funding and absorbs credit risk.

For BOQ, this supports returns and the ability to do more with our customers. As announced, our intention is to return capital released from this transaction to shareholders with the objective of optimising Return on Equity and EPS over time.

We are planning to do so through a combination of a fully franked special dividend and an on-market share buy-back, subject to regulatory and Board approvals and market conditions. We expect the transaction to be completed by the end of May.

Turning now to progress on our remedial action plans. Delivery of our remedial action plans and meeting our regulatory obligations remains a key focus for our management team. We continue to make strong progress across both programs.

At the end of the half, 61% of total activities were complete with both Program rQ and AML First transitioning from implementation into the embed phase. This reflects not only delivery against milestones, but also a clear shift towards embedding changes into day-to-day business as usual processes. The program remains well-governed and appropriately resourced, and we continue to progress in line with regulatory expectations, further strengthening BOQ's risk, governance, and control frameworks.

Turning now to our retail bank. Our priority in retail banking remains clear – to reset the economics of home lending and improve returns by scaling a lower cost to serve, digitally enabled model. We've made considerable progress in reshaping the retail bank, including reducing origination costs through the digital platform, delivering term deposits on the platform, which completes the product suite, with all deposit products now available on the digital bank and optimised distribution following the branch conversion.

We've also been deliberate in allowing portfolio runoff where returns were uneconomic, while improving funding efficiency at the same time.

We are now at a key phase as the digital bank scales. More than $23 billion of home lending sits on the platform, with approximately 75% of flows originated digitally. The branch conversion has stabilised on a smaller, more efficient footprint, and distribution is now better aligned to evolving customer preferences. Foundationally, operating on a modern cloud-enabled digital platform is also creating a strong underlying capability for the deployment of AI and automation.

This has allowed us to explore introducing AI-driven automation across customer operations, particularly in the contact centre, with further opportunities to improve customer experience and reduce cost to serve.

As noted at our full year results last October, the rate of home lending decline has moderated. While we continue to prioritise returns over short-term volume, we expect home lending to return to growth in FY27, supported by low origination costs and improved customer experience.

Moving to our business bank, we are seeing the benefits of focused execution in targeted higher returning specialist segments. Over the half, commercial lending grew above system, by 7%, driven primarily by healthcare, agribusiness, and well-secured commercial property. This reflects deliberate portfolio positioning in sectors where we have deep expertise. Housing contraction within the business division reflects targeted runoff, where returns were less attractive.

The branch conversion continues to support this strategy, enabling banker deployment into key growth corridors and regional SME markets, while maintaining strong customer relationships and attracting experienced bankers aligned to our specialist focus. Banker capacity is being further augmented by AI within commercial lending to free up bankers to spend more time with their customers and grow their portfolios.

Overall, the business bank remains well positioned to deliver sustainable growth underpinned by strong relationships, quality bankers, and deep industry expertise in our key segments. I'll finish by reinforcing the importance of our purpose and values.

As a bank with more than 150 years of Queensland heritage, supporting our customers, communities, and people remain central to how we operate and make decisions. Across the half, we continued to invest in regional and SME communities and strengthen partnerships supporting vulnerable Australians. At the same time, we remain focused on our people, strengthening leadership capability, investing in learning

and development, including the launch of an AI academy, and sustaining a strong risk culture that supports discipline execution and long-term performance.

Together, this underpins the transformation we are delivering, building a stronger and simpler BOQ for our customers, communities, and people. I'll now hand over to Racheal to talk more about the financial results in more detail.

Racheal Kellaway: Thank you, Rod, and good morning, everyone.

The first half 2026 result reflects a steady and continued delivery of our strategy, including bold choices and the disciplined allocation of capital.

We delivered cash earnings of $176 million in the half, down 4% against the prior comparative period, and 12% against the second half 2025. When compared with the second half of 2025, total income reduced 4%, driven by margin compression, fewer days, and lower asset balances.

There was an uplift of 4% in non-interest income, and we delivered another period of strong cost management holding expenses flat. Loan impairment expense increased 11% to $20 million. This was primarily driven by one specific provision within the asset finance portfolio, and at five basis points to GLA remains below historical levels.

Against the prior comparative period, total income increased 5%, primarily driven by revenue uplift from the branch conversion. Expense growth of 6% included bringing on the cost of operating the branch network and is down 2% excluding these costs.

Pleasingly, underlying profit increased 2%. Higher loan impairment expense compares to $3 million in the prior comparative period, which included a write-back in commercial lending.

The progress we have made on executing against our strategy, including positive lead indicators of success in the digital bank, growth in our business bank and our capital partnership, and multi-year proof points on cost discipline leave us well-positioned as we enter the second half.

As outlined to the market earlier this month, there was a $31 million post-tax impact driven by the equipment finance portfolio being recognised as held for sale. Further changes to this number will primarily be driven by market movements in swap rates, the impacts of which will be known at completion.

There was a further period of amortisation relating to the branch strategy with $8 million incurred this half. This program has been delivered on time and on budget as announced in 2024. Adding in a small impact from hedging and fair value changes resulted in statutory net profit after tax for the first half of $136 million.

I will now spend some time looking closer at the net interest margin, given the number of moving parts. On mortgages, we saw ongoing competition and we experienced slightly higher than expected retention discounting, particularly to support branch customers early in the half.

Commercial lending competition was in line with expectations, and came with strong growth in our business bank. We have seen acquisition spreads stabilise through the half. We saw a one basis point benefit from continuing mix shift towards higher margin business.

Outside of these underlying lending drivers, cash rate movements contributed a four basis point headwind, driven materially by the non-repeat of benefits in the second half result, as rates reduced. Funding contributed a three basis point uplift with equal contribution across term deposit optimisation, wholesale pricing, and funding mixed benefits.

Liquidity and other was a negative one basis point. This included higher HQLA balances impacting margin by two basis points. The replicating portfolio benefiting margin by one basis point, however, this was offset by unhedged exposures where the average cash rate in the half was lower than the prior period. And less exposure to basis risk and improved basis cost provided a small benefit.

Finally, we had two basis points of a non-recurring benefit. This is made up of an adjustment to brokerage GST and as our fast growing novated leasing portfolio matured, we have an updated view on the average life of that portfolio.

Net interest margin for the period was 1.67%.

We exited the half with a stronger second quarter margin than the first. Looking to the second half, we will see the benefit from the February and March cash rate movements.

Retention activity is expected to continue to feature as households and businesses look to manage their budgets in a rising rate environment, and as inflation persists, continuing the trend on underlying price competition.

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We expect to see ongoing benefit from reshaping the balance sheet toward business lending. We anticipate increasing funding cost benefits from current favourable term deposit spreads, retail deposit optimisation, and funding mixed benefits.

Replicating portfolio will continue to be a positive, with higher tractor rates. We will optimise liquidity following the sale of the equipment finance portfolio, while impacts from the sale across lending and funding will be broadly neutral to margin.

The two basis point benefit one-off I described in our first half will not reoccur.

Despite there being some uncertainty and volatility in our outlook, there are more tailwinds than headwinds for margin as we enter the second half.

This half, we delivered another period of strong expense management with costs flat on the prior half, against a backdrop of high inflation. We are in the final period of our 2023 simplification program, which, since its commencement, has almost entirely offset annual inflation and new costs to operate the branch network from conversion.

This period, inflation and investment across technology, risk, and business banking were offset by productivity benefits, seasonality in employee leave, and a modest reduction in group investment spend.

Whilst we have seen early success in our business processing partnership, we are experiencing some delays in the transition of our technology outsourcing, which is contributing to the multi-year $250 million productivity target and our 2026 cost guidance. The full $30 million of annualised benefits remains on track for 2027.

I do want to take this opportunity to reiterate our commitment to sub-inflation cost growth for the full year 2026, against the prior year. This requires a planned reduction in our cost space into the second half. Our guidance on costs remains unchanged.

We have continued to invest in the business at a sustainable level with $77 million invested in the first half. As outlined at the full year result, we are moving to a more sustainable level of investment for our business, following a number of years of high investment, including the integration of ME Bank, investment in the business bank, the build and scale of the digital bank, and risk and regulatory uplifts.

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85% of our software intangible assets are now in use and amortising, following the successful delivery of the digital bank, and as we acquire and migrate customers and see more features released.

Moving now to portfolio quality, and we remain strongly provisioned at 39 basis points to GLA. Impaired assets reduced on last half to $84 million. This includes a reduction in commercial lending and housing impaired balances and an increase in asset finance. Loan impairment expense increased to $20 million or five basis points to GLA remaining at a low level.

Looking at each portfolio in more detail over the half. Home lending remains supported by strong underlying asset prices and a decrease in 90-day arrears. There was a $7 million credit to loan impairment expense, driven by the improvement in arrears and house price increases over the period. Commercial lending 90-day arrears saw a slight increase with two single name exposures contributing to a five basis point increase off a low base. Specific provision activity remained low. Total loan impairment expense on the commercial lending portfolio was $3 million.

A modest increase in asset finance arrears was largely driven by seasonality with loan impairment expense of $24 million impacted by a single name exposure, contributing almost half of the expense.

BOQ remains well provisioned for a change in the cycle. We hold $298 million in provisions, which is $68 million above the base scenario. We had a reduction in the total collective provision due to the sale of a non-core credit card portfolio, which occurred in the period.

Our weightings remained unchanged in the period, however, we have adjusted downwards the economic assumptions underpinning the base and downside scenarios. We continue to hold collective provision overlays for unique portfolio factors, including specific industries.

If we were to enter a 100% downside scenario, a provision increase of $24 million would be required. Our downside scenario assumes residential house prices declining, negative GDP growth, and an unemployment rate of 5.6% this calendar year. Whilst we consider our provisions to be appropriate, with current volatility in the broader economic environment, we are remaining vigilant.

In a period of sustained lower home lending growth, as we recycled the balance sheet, there was a reduction in total funding. We continued to focus on deposits as a primary source of funding, with runoff in less stable deposits and held deposits as a percentage of total funding at 72%, with a broadly stable deposit to loan ratio of 85%.

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There was targeted runoff in term deposit portfolios of 6%. This was both a strategy around optimisation for cost of funds, but also as we migrated customers onto our new digital platform. Customer deposits remained broadly flat outside of this.

Our average LCR remained strong at 141%. As we near completion of the whole of loan sale, we are prudently managing down our liquidity position. We will then see a temporarily elevated LCR before managing this to normalised levels through the second half.

Our optimisation plan will take the opportunity on our long-term wholesale maturity through our short-term wholesale portfolio and on retail deposits more broadly.

Capital ended the half above our target management range at 11.18%. A 24 basis point increase was driven by earnings net of dividends. Business lending growth increased underlying risk weighted assets, however, this was more than offset by a reduction in deferred acquisition costs, adding two basis points.

Investment consumed two basis points, and lastly, other movements increased CT1 by 13 basis points, including marked market gains in the available for sale reserve of nine basis points, deferred tax assets in excess of deferred tax liabilities benefiting six basis points, and equipment finance portfolio sale impacts of three basis points.

Our strong capital position supports our planned capital return following the sale of the equipment finance portfolio and as we enter a period of higher uncertainty.

As announced earlier in April, we have entered into a partnership with Challenger on the sale of our equipment finance portfolio and the establishment of a forward flow arrangement. Today, we have provided some further detail on the expected impact on our 26 outlook. These impacts do remain subject to change through to completion date, which is on track to occur ahead of initial expectations by early May.

In addition, the ranges provided include assumptions on the key moving parts, including the expected benefit from what loan impairment expense would have been without a sale and movements in swap rates.

Lastly, while we won't comment further on the detail of the capital management plan, which is subject to Board and regulatory approvals and market conditions, we intend to complete this in an efficient way to support current shareholders and to provide enduring benefit to both ROE and EPS.

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In closing, this period saw our focus on costs and capital management deliver positive results for the group. 2026 is a key year of delivery against our four strategic pillars, in particular, our digitisation initiatives, which, in addition to simplifying our business, enables us to grow customer deposits, supporting our commitment to return to asset growth in 2027.

We have shown that we will be bold and disciplined in how we deploy capital with heightened volatility and uncertainty in our environment and how this may, in particular, impact funding, margins and losses, commitment to our transformation is even more critical.

We continue to remain sharply focused on improving returns over the long term. I'll now hand over to Rod for closing comments and outlook.

Rod Finch: Thanks, Racheal. The external environment remains highly unpredictable with geopolitical uncertainty continuing to increase risks to the economic and financial outlook.

We will continue to support customers through these conditions while maintaining disciplined risk settings and strong balance sheet resilience.

We will maintain focus on optimising our balance sheet settings and growing in specialist segments. Growing at system in business lending remains our target heading into the second half, while home lending contraction is expected to continue easing with a return to growth anticipated in FY27.

On the funding side, potential market volatility and further increases in the cash rate will influence competition for deposits. As Racheal outlined, we anticipate tailwinds to margin in the second half through expected funding benefits.

We are targeting sub-inflation cost growth, including the full year impact of branch conversion and higher amortisation while continuing to progress productivity and simplification initiatives.

Loan impairment expense is expected to remain below long-run average loss rates in the near term, though downside risks are clearly present given the global environment.

We expect the capital partnership to complete as planned and remain open to further partnerships. We have not changed our management target for CET1 or dividend payout ratios.

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Overall, we remain focused on disciplined execution, resilience, and sustainability as we continue to progress the transformation of BOQ.

I want to close by stepping back to where we are in the group's transformation. Our strategy to become a simpler specialist bank has been clear and consistent, strengthening foundations, simplifying the organisation, digitising the retail bank, and improving returns.

Since resetting the strategy in 2023, we have made tangible progress against each pillar and embedded new capability across the group. We're now entering an important next phase with several near-term milestones approaching.

Completing the ME retail customer migration and materially decommissioning the legacy ME bank environment over the next half is the culmination of several years of foundational work. These milestones represent a further step in unlocking lower costs, better a customer experience, and improved returns over time. They reinforce our confidence in the strategic direction and our continued focus on sustainable performance.

On a personal note, when I stepped into the CEO role eight weeks ago, I reflected on the responsibility that comes with leading a bank with more than 150 years of history. It is a privilege to be a custodian of a brand that generations of Australians have trusted.

I'm leading a committed team with a strong focus on the next phase of our transformation with the continued priority of improving returns and supporting customers. In particular, improving our cost of funding as we scale deposits on our digital bank, extend relationships in the business bank and leverage our capital partnership to support a sustainable return to growth.

We face into this coming period of uncertainty from a financially resilient position with strong capital, liquidity, and asset quality. As I look ahead, our focus is on the continued discipline execution of our strategy to deliver a better experience for our customers and increased returns for our shareholders.
I will now hand to Jess for Q&A. Thank you.

Jessica Smith: Thank you, Rod. We will now move to questions. To ensure all participants have an opportunity for questions, we kindly ask that you limit please to two questions each. Operator, may we have the first question, please?

Operator: Thank you. Our first question today comes from Ed Henning from CLSA. Ed, please go ahead after the beep.

Ed Henning (CLSA): Hi, thanks for taking my questions. The first one's just on asset growth and mortgages, and thank you for your comments today and talking about returning to growth. And I understand continuing to focus on profitability, but can you just talk about, as you move forward, both in the near and the medium term, are you willing to continue to lose market share on housing? At what point do you have to step back into the market or do you just don't think you need to? If you continue to see margins contracting like you are, are you willing to grow below system in mortgages?

Rod Finch: Yeah, thanks, Ed. So in terms of the mortgage portfolio, the focus is really on returning to growth in 27. If we think about the economics of the mortgage portfolio, the key areas we've been focused on is first is really scaling the digital bank. That's a really critical capability in terms of reducing cost to serve and providing a better experience for both customers, brokers, and our bankers. We've talked today to some of those metrics. That platform is scaling to plan. We had around 75% of the originations flow through that in March, so we are well progressed. There's more work to do.

I think that also combined with the branch network is really shifting the economics for us in that channel and in that mortgage portfolio. So for us, we're not going to chase short-term returns. We're really focused on the pathway back to returns above our cost of capital, starting with writing business that's accretive to current ROE, and then making sure we're contributing to the fixed cost base and being really disciplined as we continue to step our way back to return to growth in 27.

Ed Henning (CLSA): And just on that, I understand the return to growth, but growth doesn't mean growing at system, I would imagine, or is your plan to be at system in 27?

Rod Finch: We're not putting a target on growth relative to system. I think our positioning is return to growth from a book perspective. I think the priority there, Ed, is making sure that the growth that we are achieving is within the return profile that we're comfortable with.

Ed Henning (CLSA): Okay. No worries. Thank you. And then just a second, quick question. And again, thank you for your comments on the cost outlook and growing below inflation. As you move forward, you've made some significant changes in your cost base. You talk about the reducing investment spend. Over the next few years in the medium term, do you still think you can grow below system or around system in costs? Is that your goal that we should be thinking about?

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Rod Finch: We won't give long-term guidance on costs. I think for us, we've worked really hard on the productivity program. As I said, it was an ambitious target when we set it. We're making progress against that. I certainly think leveraging the investments we've made in technology and seeing further opportunities there around automation, digitisation. There's continued work that we can do there. We have the benefits of the partnership with Capgemini also flowing through. So for us, we really think that's a key aspect of how we want to organise the business and run it. We think being disciplined on cost management and driving operational leverage in the business, given the investments we made, will be a key focus for us into the future.

Ed Henning (CLSA): Right. Thank you.

Operator: Our next question comes from Andrew Triggs from JP Morgan. Andrew, please go ahead after the beep.

Andrew Triggs (JP Morgan): Thank you. Good morning. Racheal, question for you please. Just on your exit NIM commentary, which you said was higher than the average for the half, does any of that apply to, or is any of that driven by lower liquid assets? I'm wondering if the same comment would apply on an ex-liquid asset basis.

Racheal Kellaway: There is a benefit, Andrew, for the liquids portfolio. And so there's two elements of that. One is lower HQLAs and the second is higher yield on that portfolio, but it would still hold excluding the, the comments around it being higher would still hold excluding the specific liquidity impacts.

Andrew Triggs (JP Morgan): Thank you. And presumably that two basis points of non-recurring brokerage and amortisation adjustment actually turns into ... Does that reverse in the next half or just will be a non-event in the walk for next half?

Racheal Kellaway: You'll see it as a negative two basis points because that's a non-repeat, so there won't be a P&L… It will come out of the P&L. Yeah.

Andrew Triggs (JP Morgan): Thank you. So, what moving part has moved in the right direction, therefore, to drive to sort of that headwind, please?

Racheal Kellaway: Yeah. So, I mean, there's a couple of things in the first half result that will not repeat that are negatives. And so the first of that really is if you think about the timing of our end of half, it was the 28th of February. So our half actually saw the negative impacts of cash rates reducing. So there was three

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basis points of negative in this half from the non-repeat of benefits we saw in the second half last year that we called out.

If I step back from that, the tailwinds into the second half are cash rate related. So we have seen February and March cash rate increases. That gives us a benefit, both a timing benefit, but also on the unhedged portfolio. So that is a benefit into the second half.

And we have expectations that it is most likely that we'll see more cash rate increases through the period as well. The other big driver is really on funding costs more broadly. And so currently term deposit spreads, for example, are positive. We are expecting that to continue through the half. We're seeing favorability in terms of savings, repricing, and then also some funding mixed benefits, both on an underlying basis, but then also as we optimise from the proceeds of the equipment finance sale.

Andrew Triggs (JP Morgan): Thanks Racheal.

Operator: Our next question comes from Andrew Lyons from Jefferies. Andrew, please go ahead after the beep.

Andrew Lyons (Jeffries): Thanks and good morning. Just a first question just on your provisioning. Geopolitically, a significant amount has changed since your result in October, your second half result in October, which appears broadly negative for the Aussie economy. And your outlook comments appear to confirm this. However, your provision assumptions imply lower dollar value provisioning for each of your scenarios, and you've also made no changes to any of your weightings. This does seem a bit at odds with the evolving macro conditions the economy's faced with and also what your peers are doing. Can you just explain why that is the case?

Racheal Kellaway: Yeah, look, I mean, as you can imagine, we have thought a lot about our provisioning levels and continue to do so.

A couple of comments. The weighting of our collective provision is 45% weighted to downside and severe downside economic scenarios. We have got a worsening outlook within those scenarios. So whilst the weightings haven't changed, the economic assumptions within those scenarios have. If I then step back just more broadly as to your comment around the collective provision in dollar terms reducing, there are two idiosyncratic kind of things happening for BOQ in that number. The first is we did sell a credit card portfolio that was all settled in the half. It's very small from a balance sheet perspective, but it did mean a reduction in the ECL of $8 million, so that was a step down.

The second factor underlying here is our overall reduction in assets. And so as our GLA balances have declined, that is also a driver. If you then take those and take those out of the impact, we have increased our CP balance by about 3%.

That is actually in line with what we've seen really recently some of our peers also do. So it's about a 3% increase in the CP.

We're very focused there on specific overlays for industries to call out accommodation and food services, construction, transport particularly. And so from an overall provisioning perspective, excluding those movements that I called out as one-offs, then we feel that at 39 basis points, we're well provisioned for what could come, but obviously this is not an area we are really, really comfortable with, and we will remain super vigilant on this.

Andrew Lyons (Jeffries): Right. That's really helpful. Thank you. And then just a second question on cost. On PCP, your software assets are up about 86% and yet your amortisation charge is up just 23%. Now, I realise your FY26 expense guidance does take account of higher amortisation in the second half, but can you perhaps talk to the extent to which the P&L faces a headwind into FY27 from amortisation or maybe as an alternative, where do you expect the amortisation charge to ultimately peak at what level and exactly when, versus the 43 million [one age] 26?

Racheal Kellaway: Yeah. So we have, as you just called out, we have been really clear that we expect amortisation to increase, and that is one of the key drivers into the second half that is requiring an offset from our productivity initiatives. So we'll see an increase into the second half. We'll then see quite a similar increase actually into the first half of 27 and again in the second half.

So if you look into 2027, we will have higher amortisation again, so effectively another half. It will then largely stabilise. So through the end of FY27 into financial year 28, you can expect our amortisation profile to normalise and flatten out at that point.

Andrew Lyons (Jeffries): And can I hazard the question as to what that peak level will be in 27 / 28?

Racheal Kellaway: Look, I mean, we'll end this year close to a hundred million dollars. You can sort of expect that to increase by 20 to 25% through until that peak period.

Andrew Lyons (Jeffries): That's great. Appreciate it. Thank you.

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Operator: Our next question comes from Matt Wilson from Jarden. Matt, please go ahead after the beep.

Matt Wilson (Jarden): Yeah, good morning, Matt Wilson, Jarden. Thank you for the opportunity.

Just look broadly, the balance sheet shrinking and you're only getting a small amount of capital being released. You hope to return the loan sale capital to shareholders, but at the same time next year you want to return to system growth, your returns are very low. Do you need that capital to fund that future growth?

And given the uncertainty in your macro environment, would it be better to hold onto that capital? It'd be a shame if you had to raise capital next year because we went through a credit cycle.

And I've got a second question. As per slide 27, you highlight the impact of the loan sale. If we take the impact on your net interest income, it implies the lost spread of selling those loans impacts your margin by about seven basis points. Could you confirm that? And then how do you offset ... That's a lot of work to do by reducing liquids.

Rod Finch: Yeah, thanks, Matt. I'll respond to the first question that I'll just pass to Racheal on the question on the capital partnership.

Look, in terms of our capital level, as to Racheal's comment, the way we've approached provisioning for the half, she's given an outline of how we're viewing that. We note that within the result we've returned to CET1 well above our management target range of 11.18.

In considering how we approach dividends and shareholder return the capital management plan, we obviously factor into how we're looking to grow and how we want to continue to deploy capital in a really disciplined way.

And so when we look into that future scenario into 27, from our perspective, it accommodates how we want to grow within the business bank, where we think we have an opportunity to do that in a sustainable way with returns that we're comfortable with, and also in the mortgage portfolio as well, as we talked to earlier, which is a pathway to returning growth within the mortgage portfolio.

So, from where we sit today, recognising there is some uncertainty in the outlook, we sit here with a strong capital position. We have some flexibility of how we approach it. We have clear plans of where we want to grow, but we are going to be continuing to watch really closely as the market evolves and respond accordingly. But Racheal I’ll pass to you.

Racheal Kellaway: Yeah, so look, on the capital partnership, I will answer your specific question, but I do want to just take the opportunity to step back and talk about the overall P&L impacts because I think that is really important and also there's capital impacts of that as well.

The impact on our 2026 NIM, so the end of this year is broadly neutral, and so that is a reduction in the net interest income as you described and by one or two basis points, and then that will be offset by funding, largely offset by funding benefits, and by about the same amount, so broadly neutral to NIM specifically.

I think what's really important in this structure is that whilst we recognise there is lost net interest income, we are generating non-interest income, which is capital light revenue. And so that is the really key thing to look to here.

It is also a cyclical business, so you can remove the loan impairment expense that we would've otherwise had. And so this is not a partnership or an arrangement or a structure that really is driving cash earnings impacts in a material way. It is about capital partnership. It is about capital release, and then the ability to grow the business, scale the business, and to generate more non-interest income capital light fees without taking that onto our balance sheet.

Matt Wilson (Jarden): But to follow that up, if you do the math, you are generating 150, 160 basis points of spread on those assets that you've sold. That spread you've given up, sure, that captures the less funding, et cetera. And then when you look at the origination side of the business, 90% of it comes through the broker channel, yet you call out an origination capability. The economics don't make sense either because you're obviously paying brokers.

Racheal Kellaway: Yeah. Look, Matt, in terms of the way we think about this business, obviously it is driven the portfolio. It is a broker-driven industry as well, but there is also significant opportunities within our proprietary franchise as well. We see it as a really core need for many of our customers. If you think about our sector specialisation in healthcare, it's a core need set of those customers as well as wider portfolio.

So we see growth not just through the broker channel. We also see work within our proprietary channels as well. As we talked about when we announced this, we see an opportunity to scale growth in this portfolio, and this capital partnership gives us the foundation to do that, driving capital light income.

Matt Wilson (Jarden): And on the spread?

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Racheal Kellaway: Look, I don't think you've quite got the spread. We can go through the detail this afternoon, Matt, if you like. I mean, I think I just need to really take you back again though. We will absolutely be reducing our NIM as a result of this, but we are looking at this much more broadly than just looking at the NIM. We will be generating non-interest income, as I said, and we will not see a cyclical portfolio and the impacts that that tends to have on our earnings profile. And so there is a much more benefit to this structure than just the impact on margin.

Matt Wilson (Jarden): Thanks guys.

Operator: Thank you. Our next question comes from Jon Mott from Barrenjoey. Jon, please go ahead after the beep.

Jon Mott (Barrenjoey): Thank you. I’ve got a question on the commercial portfolio. Obviously, this is a part of the book which is growing very rapidly. So can I turn you over to slide 42 of the presentation, which goes through this in a bit of detail. When we look at it, we can see the commercial book by industry.

Property is now at 41% of the book. And if I look at that same slide from last half, it was about 37% of the book. So, you work the maths out and expand by the growth of the book. The commercial property book is growing at close to 20%, half on half.

This is the commercial property side is growing at 20% half on half and 40% versus the previous corresponding period. And then you sort of work the rest of the portfolio. Healthcare's pretty flat, agriculture is up a touch, and there's really no growth at all.

And then if we look by state, nearly all of this is coming in New South Wales. So a couple of questions about what's driving this. Are you participating in any syndicated facilities that could come through? Can you continue? Are you comfortable? There's rapid growth in New South Wales commercial property, and why is the rest of the book not growing?

Rod Finch: Thanks, Jon. So just a couple of comments. What you're seeing in terms of growth in the business portfolio is really the deliberate and targeted approach we've taken in a growth corridor.

So we have invested in bankers in New South Wales. We thought there was an opportunities to grow there. We were under penetrated, and so that is really coming through. And more broadly than that, when we look at the types of loans that we're doing, we're really comfortable with the security that we're taking

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over it. These are quality assets that we're lending. We're well secured on that lending as well. We're operating in industry and sectors that we know well, and that's the experience of our bankers and the credit policy we're applying. So look, that is the composition of the portfolio. We are continuing to focus on growth in the key sectors from a specialist perspective that we're looking at. But as we stand today, we're comfortable with the quality of the growth that's coming through as well.

Jon Mott (Barrenjoey): And why so heavily in the commercial property and no growth in healthcare and all the other sectors? A little bit in agri, but everything else looks flat.

Rod Finch: Yeah, look, I think it's a reflection of where we've targeted growth. And so obviously as we bring on bankers, they will build their portfolios, and that is reflected. I think we take a really balanced approach to where we want to grow. I think obviously, we are well-diversified across industries and geographies overall, and we're going to continue to plan that out in terms of how we construct the portfolio.

So I would view this as the lending we have done. It's really reflective of where we've looked to invest from a sector and geography perspective, but we're going to continue to take a really balanced approach as we think about growth in business banking.

Jon Mott (Barrenjoey): Okay. And finally, is any of this syndicated or is this all purely originated by those bank accounts?

Rod Finch: Look, there's some elements of syndication in there as well. From a syndication approach, our philosophy there is really following our customers and supporting our existing customers through that. So there is elements of it, but our really key core focus is working directly with customers on lending facilities.

Operator: Thank you. Our next question comes from Sally Hong from Morgan Stanley. Sally, please go ahead after the beep.

Sally Hong (Morgan Stanley): Good morning, team. I just have two questions. The first being on the margins. So the outlook commentary on the deposit pricing and mix sounds quite favourable, and you've talked about benefits from higher cash rates. It does sound like margins are going up the next half. Is that a reasonable assumption?

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Racheal Kellaway: Yes, Sally, that's absolutely reasonable. We don't usually go into as much detail in particular, the quarterlies, but we thought it was important for the market to understand that we have a stronger second quarter than the first quarter and that we are seeing tailwinds into the second half.

Sally Hong (Morgan Stanley): Great. Thank you. And on cost, you guys have reiterated that FY26 cost growth should remain below inflation. And you've also talked to further benefits from Capgemini, decommissioning the ME Bank platform, and as well as broader productivity actions. As we think about the medium term, how should we frame the cost outlook for FY27? Should we assume that we'll come down again?

Rod Finch: Look, we're not giving guidance on FY27, Sally. The way I think about it is, as I said earlier, we think we have more opportunity and more to do, in terms of how we simplify the organisation and creating the operational leverage, building on the investments we've made, particularly in technology.

So coming into next year, we obviously have the decommissioning benefit and Capgemini coming through as we called out. I think over the medium term, as we complete the ME migration, we're turning our attention to the BOQ legacy environment.

That will, again, be something that we work on over the kind of medium to longer term, given the time it takes to safely migrate customers over time. So we've built really strong execution capability in that regard.

We are redirecting the team to that as we close out ME migration. So that combined with scaling the platform and leveraging the kind of leverage it allows you with the digitisation and AI opportunities starting to emerge, we think this is going to be a key priority for us going forward as well.

Sally Hong (Morgan Stanley): Thank you.

Operator: Our next question comes from Brian Johnson from MST. Brian, please go ahead after the beep.

Brian Johnson (MST): Thank you very much. I have two questions, if I may. The first one is just on the agreement with Challenger. Two aspects of this, you speak about ROE and EPS growth. You've actually got about 600 million dollars in surplus ranking credits. You've got a share registered skew very much towards retail shareholders who get a disproportionate benefit from the franking. I get the fact from a management perspective, ROE and EPS growth make a lot of sense.

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But Rod, I'd just be interested, how should we be thinking about the fact that your share register is skewed to a group that get a disproportionate benefit from the massive balance in the surplus ranking accounts that have not been able to be distributed thus far?

Rod Finch: Thanks, Brian. In terms of the capital management plan, as we've indicated, we're looking at a combination of a special dividend, fully franked and an on share market buyback, still subject to regulatory and board approvals, and obviously the conditions in the market in a buyback scenario.

For us, the priority is really thinking through, as you've said, the composition of our book, but also the efficiency in returning capital to shareholders. And it's really that principle that's driven how we're thinking about returning the capital post the transaction completing.

Racheal Kellaway: I might just add, I think-

Brian Johnson: But Rod, just going back to that point, why isn't it all 100% a special dividend?

Rod Finch: Yeah, look, I think it's a combination of recognising the shareholder, as you say, we do have a lot of retail shareholders today and they will benefit from the dividend. We want to reward the shareholders who've stuck with us over the last few years, and certainly that's a component, but we also recognise there's benefit for them going forward in a reduced share count in a buyback as well. So it's the combination of the two that we're looking at.

Brian Johnson: Okay. The second one is if we have a look at home loan profitability ... and I appreciate the amazing efforts that you guys have made to digitise everything, but the operating costs and originating a home loan somewhere between six and seven hundred dollars versus the net interest income is about 6,000 bucks, if we have a look at it, Patrick Allaway had been telling us that front book mortgage pricing was below the cost of capital, I'd nearly go so far as suggesting that Macquarie is still pricing the way they are, both deposits and home loans.

Even with the digitisation benefits that we get, can we just get a feeling about what your view is on front book mortgage pricing relative to the cost of capital, regardless of whether it's done through or through the three channels, digital, branch, and broker?

Rod Finch: Yeah. So I think just in terms of the way we've designed and built the digital platform, it is multichannel. So it will support, supporting brokers at the moment through our brand. We will roll it out over the next 12 months to our proprietary channels, both banker and direct as well. And so those benefits

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will flow through across all channels. When we think about mortgage profitability, there's obviously the cost and the cost of serving cost to originate. Funding costs is another element as well. And I think the branch conversion also helps the economics in terms of that margin returning to us overall. Brian, for us, I think our priority is really the walk back up to returns above the cost of capital.

Our focus is on returns above our current ROE and making sure we're contributing to the cost base of the wider group or the fixed cost base of the wider group. We're getting to a position where that is the case. And so for us, it's really continuing to work through that. We feel as though that is a clear pathway for us. Obviously, it's subject to competition in the market, but I think the investments we've made and those priorities we'll call out are the right combination of activities to get us to where we want to be.

Brian Johnson (MST): So Rod, is it still below the cost of capital though, even through the three channels when you put all this through?

Rod Finch: Look, in terms of what's recent acquisition, I think we're above our current returns and it's contributing to our fixed cost base with the pathway to get back up to the cost of capital.

Operator: Thank you. Our next question comes from Carlos Cacho from Macquarie. Carlos, please go ahead after the beep.

Carlos Cacho (Macquarie): Thanks for the opportunity to ask a question. I just wanted to get a bit more detail around those cash rate impacts you mentioned on the margins, call that three bps right to the non-repeat benefits in the second half. I'm guessing that's the timing benefit of taking a little bit longer to pass on the lower rate to some products. Is that going to work in reverse? Are you going to get a timing headwind with the rate cuts we've just seen, the two in Feb and March, and potentially if we look at market pricing and another one or two to come still in this half?

Racheal Kellaway: Yeah, Carlos, that's a great question. So the three basis points is exactly for the reason you outlined, so you're absolutely right. As you can see on the walk, we've called out negative four, which is cash rate timing. Negative three relates to the non-repeat of the benefit in the second half 25, and negative one actually does relate to the February cash rate increase. So yes, there is a opposite effect that happens as cash rates increase. I think though, if you step back, there are other benefits, obviously, in a cash rate environment, cash rate increasing environment for margin, and particularly on the unhedged component of our low cost deposits.

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Carlos Cacho (Macquarie): Great. Thank you. And then the second one, I just wanted to ask about provisions. I understand the economic forecast might be the product of your economist, but if I compare your economic forecast for a downside scenario versus major bank peers, they look to be quite a bit more optimistic and unemployment rate that's in the downside scenario, one to two percentage points less, a fall in house prices and commercial property prices that's 20% smaller, only 10% versus 30%. If it looks to me like the downside scenario, the very modest downside and not quite as severe, how comfortable are you with those forecasts?

I take it that your provisioning top up to get to your downside scenario is not significant, but it seems like the downside scenario itself is quite a bit more optimistic than what appears in forecasting in their downside scenarios, which is more like 10% employment and 30% falls in property prices.

Racheal Kellaway: Yeah. Look, what we haven't shown you here, and we do at the full year result, is actually what the severe downside scenario looks like as well, because we have a 45% weighting from a downside and severe downside. And some of the measures that you just called out, the economic assumptions that you called out actually are much more aligned to our severe downside scenario, which has a weighting on the overall collective provision.

I think if you were to take a view that we would get to 100% downside in this calendar year, so a fairly quick worsening of the economy, you would be taking an extra 68 million dollars above the base scenario. And so that is one of the ways we look at this. I think as you can expect, we would obviously also look at, and peers as a sort of outside in view on our provisioning levels.

And as I called out earlier, if you take out the two one-off benefits that we're getting from a CP perspective, we are increasing our collective provision largely in line with the rest of the industry. And so we are tracking to industry metrics more broadly, and one of the ways we've done that this period is in the form of some specific industry overlays.

I think just to summarise, our view is that we are, as we sit here today, well-provisioned, but we have definitely got a cautious bias when looking ahead. We are remaining very vigilant. Things are moving quickly. And so I think whilst we are well provisioned as of today, this is an area that we will closely monitor.

Operator: Thank you. Thank you. Our next question comes from Brendan Sproules from Goldman Sachs. Brendan, please go ahead after the beep.

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Brendan Sproules (Goldman Sachs): Good morning and thanks for taking my question. Congratulations on the appointment to CEO role, Rod. Look, I just wanted to get a bit of a medium term view of the retail banking division. Obviously, as you've stated, that you're resetting the economics here and the return you're scaling through lower costs and digital deserve.

Slide 35 shows us that in the last 12 months, the pre-provision profit here has dropped around 20%, and this is despite the branch conversion. So a couple of questions for me on this, firstly, on the deposit side, when do you think we'll start to see growth in lower cost transaction deposit accounts? And I guess what is the medium term outlook in terms of how much will that type of product fund the loan book?

I mean, you have one of the lowest funding in terms of mortgages from those particular products. And then, I have a second question.

Rod Finch: Great. Thanks, Brendan. So look, retail banking, I talked to this earlier just in the presentation. The economics of this have really been driven by a couple of factors. One is moving to a modern digital core. We're making great progress on that.

We're really comfortable with the metrics that we're seeing, both from the customer response. So it's a much stronger proposition than our legacy environment and customers responding well to it. And also the economics of the platform in terms of cost of serving, cost to originate. We do see a real opportunity to grow more transactional deposits on that platform. That is a long, slow burn in this industry.

I think our view is we've got the right product portfolio on that. We want to compete in that space. One of the key things that we've been looking for to really help that growth is bringing mortgages onto the platform.

What we actually see is mortgage customers are a good source of transactional deposits. Over and above what sits in their offset account, just in their transaction account on balance, they tend to carry a higher average balance than non-mortgage customers, mortgage customers. So from our perspective, that is the real focus. With the build now completed and migration of me, that gives us the capacity to really drive that growth. I would also say over the last 12 to 18 months as we've made the portfolio choices, the funding profile has really been reflected in the growth that we've required of what we've needed from a funding perspective.

So that is a big priority for us. I would also say outside of the retail bank, we think about those lower cost deposits. We think there's a big opportunity in our business bank. We know that the proposition there has

some gaps in it, and that's a priority for us in the near term to address that. And we think we can do more with our business banking customers and help meet their needs on the deposit side of the portfolio as well. So for us, we think we've got the right proposition. We want to get out there and compete and win more of those balances into the future. And we think that's really key to supporting growth for us in the longer term.

Brendan Sproules (Goldman Sachs): Thank you. That's a very detailed answer. And just my second questions on the cost to income ratio, which has now moved into the mid 80s. And a few years ago, particularly prior to the ME Bank acquisition, it was more like 50s or 60s. To what extent will this move to the lower cost to serve materially move that ratio, or is there other initiatives that you have to put in place to really get that back to what has been the longer term cost to income within that business over a very long period of time?

Rod Finch: Yeah, thanks, Brendan. It's certainly not where we want it to be today. For us, the pathway back is a combination of factors. One is it's moving on to a simpler, digitally enabled, modern core as I talked to, and we're seeing the metrics that we want in that space. I think more broadly, we still have complexity in the business that we obviously, these numbers today still contain the ME legacy environment and the BOQ legacy environment, as well as the digital bank. Our intent is to move all of our retail bank onto that modern core.

I think the other element is really what that provides is operational leverage. And so we see this as about returning to growth as well. As we talked to earlier in response to other questions, we've been really thoughtful about planning for return to growth and mortgages, what we want to see from a returns profile and how we work our way back to it. So I think it's two, it's once a combination of the operational leverage we're looking for from the platform, but also returning to growth through obviously our BOQ brand and our other brands that we have in the retail bank as well.

Brendan Sproules (Goldman Sachs): Thank you.

Operator: Thank you. Our next question comes from Nathan Lead from Morgans. Nathan, please go ahead after the beep.

Nathan Lead (Morgans): Good day, Rod and Racheal. Just three questions, if you don't mind. First one is about that digital bank. Your chairman at the 2025 AGM seemed to suggest that the heritage bank customers would be migrated across onto the digital bank platform starting in 2027. And then your previous CEO also said there was a very large prize from that migration. So just wanted to know whether

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you can give us a bit more of a definitive target on that migration, and if you can firm up what the quantum of that benefit could be.

Rod Finch: Thanks, Nathan. So look, the way I would think about the migration of legacy, there's actually two legacy environments we talk about. There's the ME legacy environment, which we're kind of 80, 85% done with final migration events planned for later this half, and then we move into decommissioning. And then our attention, as I mentioned earlier, will turn to the BOQ legacy environment. I would be thinking towards what we've done on the ME migration as a good guide to how we'd approach it for the BOQ side.

They are long exercises. There's obviously risk to migration. We've developed a great amount of experience on how to do that. We need to support customers through the friction that's caused with migration. And we also need to do this in the context of running the wider business. So look, we've got good capability in this space. We think ... Our intent is to start migrations for BOQ in '27 and then work our way through it there. Obviously, as we've done with ME, we will take a really thoughtful approach to making sure we just manage the risk of that. But the types of benefits we see from decommissioning that environment, I think the ME is a good guideline to think about how where we view the benefits you'll get from that as well.

Nathan Lead (Morgans): Okay, great. Second question is just the comment about returning to home lending growth in FY27. Is that an intention that you expect the end of year balances to be higher than the start of year, or is it just some point within FY27 you're going to start to see growth again?

Rod Finch: Yeah, look, our focus there is we really want to do it in a way that we're not chasing short-term volume. We really want to prioritise returns. And so, I think what we've established over the last couple of years is a really disciplined approach where we won't deploy capital if the returns aren't meeting the levels that we're looking for. And so, I won't put a date or a timing on it. It's really about us making sure we've got the capability in place, which as I said, there's a little bit more work we need to do, but then really stepping back into the types of lending that we want to do, getting the balance across the composition of growth and making sure it meets the return profile, and then over the course of the year, our return to balance growth.

Nathan Lead (Morgans): Okay, great. And then final one for me, just slide 22 with the investment spend. Could you give us an indication now about what you're thinking in terms of where steady state is in terms of that investment spend and the expensing rate attached to it?

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Racheal Kellaway: Yeah, Nathan, we have clearly peaked in terms of investment. And so, the way that we think about the overall envelope is we are looking to right-size that investment to our earnings profile. However, we will always look for opportunity to go after investments if there is an appropriate benefit profile. And so we don't give specific guidance. It is about disciplined management of that portfolio to ensure that we are getting appropriate returns for what we are investing in. And pleasingly, as we've described today, we are starting to see some of the benefits emerge from the investments that we've been making over the past few years.

Nathan Lead (Morgans): Yep. Great. Thank you very much.

Operator: Our next question comes from Matt Dunger from BofA Securities. Matt, please go ahead after the beep.

Matt Dunger (BAML): Yeah, thank you, Rod and Racheal. I just wanted to follow up on the deposit growth. You've called transaction deposit growth a slow burn, and we're seeing about two and a half billion dollars runoff in the term deposits year-on-year. Rod, are you able to give us a sense of how you'll fund the return to growth?

Rod Finch: Yeah, look, I think there's ... Matt, I come back to, we have built a great proposition on the retail bank. We want to see growth there. Look, transactional banking growth is important, but I would say at core as well and pricing discipline in that space, that all helps build that stable retail funding base. I would call out, I think we can do more in business banking. That's a real opportunity to get our fair share of our customer's deposit business. And so that's something we're going to be focusing on over the next period as well. I'd also say if we think about the funding stack and optimising that overall, we also have the capital partnership is an important element of that.

Not needing to fund growth in asset finance with the capital partnership allows us to think differently around how we optimise that stack. And so, it's really a combination of both growth in retail deposits, and I would call that both across our consumers and our business bank, but also having the opportunity to optimise the funding stack with capital partnerships is another tool that we have available now going forward.

Matt Dunger (BAML): Thank you. And just to follow up on that, if I could, on the branch conversion, are you able to share with us what impact they've had on deposit funding? Is there a future headwind from those OMB conversions?

Rod Finch: Look, we've worked through that over the last 12 months. We've reset onto a optimised network. We've got a strong team in place now, and we're working to really grow the productivity through the branch network and supporting customers. So we're comfortable with where we're at. We think with the digital bank available in deposit sense through the BOQ brand, there's a great opportunity there to continue to grow through the branches as well, and it's part of our thinking going forward.

Operator: Thank you. Our next question comes from John Storey from UBS. John, please go ahead after the beep.

John Storey (UBS): Hey, Good morning Rod. Good morning, Racheal. Appreciate it’s been a long call. I just wanted to ask you, Rod, I'll see you again and look at your presentation last year, and BOQ obviously called out the fact and had done a lot of work, I guess, ultimately to bring across the owner-managed branches. And you're pretty excited about proprietary channels. If you're going to have a look at your flow rates during the course of this year in mortgages, flows from brokers have gone from 60% to 70%. Just wanted to get your insight into why the proprietary channel is not yielding the expected benefits that you guys laid out last year.

Rod Finch: Yeah, thanks, John. Look, I think we've worked through ... It was a big transition for the branch network in terms of ... part of what we had to do as part of that is go out and hire the existing teams from the franchisees to work into our branch network. So look, the change journey that we've been through, that change program has taken some time to work through. We've obviously optimised the print as part of that as well. We do have some stats in the back of the pack. We are starting to see the productivity we would expect from that network. That is, again, more work to do there, but we think we've got the right ... as I said, the right team in place and the right focus on productivity. And going forward, it's a key part of our thinking of the proposition that we've got.

And I think one of the other aspects of the OMB conversion is it's really allowed us to think about where we want to invest from a geography perspective, not just for home lending managers or from a retail perspective, but able to put our business bankers in key growth corridors where we see an opportunity to grow as well. So we've got more work to do in the branches, but we think we've got the right set of activities to lift productivity over the near term.

John Storey (UBS): And then just on the broader half trading, and obviously results to the end of February, but maybe if you could just give a little bit of colour on some of the trends and trading conditions that are starting to evolve through March and I guess into April. And I'd be interested to get your insights into things like mortgage applications, business activity, if you've seen any kind of increased flows into

arrears, just general kind of trends that you can comment on, particularly over the last two months, March and April.

Rod Finch: Yeah, sure. Thanks, John. So look, at this stage, we're not seeing anything material, and we are looking hard. We're looking very closely to see the impacts. In terms of the mortgage portfolio, you'll note that arrears are down. I think that we've reported for the half, we're seeing hardship levels remain consistent with what we expect. We are starting to see some impacts come through probably that transport sector with fuel prices. Again, that's probably more a compounding factor than a factor in its own right, that's driving some of the deterioration there. I think in Agri, we are conscious of the agri sector where they're getting both the fuel price impacts as well as fertiliser.

But again, we're staying very close to our customers and working through it with them. So at this stage, we're not seeing anything significant emerge, but we are staying really close to our customers as you'd expect and being vigilant.

Racheal Kellaway: I might, John, just take a perspective on markets more broadly as well, which is we have seen absolutely a higher volatility experience due to those energy-led inflation risks, but functioning is still remaining intact actually, and conditions are how we would describe as orderly. We are starting to see some spreads repricing quite selectively. We think that is largely driven by underlying valuation as opposed to any sort of significant market disruption or funding disruptions, but it is certainly a little bit more volatile out there. We have seen a slowing in overall market activity.

John Storey (UBS): Okay, great. Thanks so much, Racheal.

Operator: Our next question comes from Tom Strong from Citi. Tom, please go ahead after the beep.

Tom Strong (Citi): Good morning, and thanks for taking my question. Just to follow up on capital partnership numbers on slide 27, in terms of the FY26 non-interest income guide of eight to 10 million, to what extent is there seasonality from an origination perspective in that, in terms of being able to extrapolate that runway into 27? And then more broadly, how are you thinking about the origination opportunity in '27 versus FY26, just given the potential slow?

Racheal Kellaway: Yeah, I think I caught the question, you just cut out there at the end, but look, non-interesting coming that portfolio, there's two elements of the numbers that you're seeing on the page. The first is the servicing fee that we will receive on the sale of the back book. So that is broadly stable. We will see some runoff in that portfolio. As an asset finance portfolio, it is a bit shorter, but that is one driver of the

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fee income coming through there. And then the second is the new originations, as you've called out. And so that is the establishment of the forward flow partnership. This is a really exciting development for us.

From our perspective, we have the opportunity to do more in this market. We are a strong player in asset finance across the industry, but we certainly think there's opportunity to do more. That's obviously subject to conversations with Challenger, but there is the intent certainly for this partnership to be not only long-term, but to do more business over time as well. And so this is something that we think, even despite a slight downturn in the market, we would be able to pick up more volume.

Tom Strong (Citi): So you think that the arrangement with Challenger would allow you to do more business that you wouldn't have otherwise done on balance sheet? Is that the implication?

Racheal Kellaway: Well, look, I think the way to think about that is we have concentration limits as a balance sheet, and so that was certainly going to be something that we were going to find a constraint at some point. And so, we are absolutely looking to do more business. We have a very strong SME business in our business bank. This is a core product for those customers. And so the ability to do more of that, to generate income and do more with those customers that we have, and then also to get more customers as well, I think is really exciting. The parameters are really clear with Challenger, but there is a certainly opportunity for us to do more business in this space.

Tom Strong (Citi): Okay, that's great. Thanks, Racheal.

Operator: Thank you very much. I will now hand it back to Jessica.

Jessica Smith: Thank you for joining today's call. That's the last of the questions. If you have any further questions, please reach out to the investor relations team. We look forward to connecting with many of you over the coming days.