



Shaping the Australian banking system for a changing economy

MARCH 2026

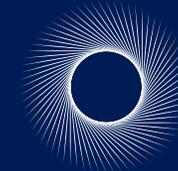
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Note: All dollar figures are Australian dollars unless indicated otherwise.

Executive summary

Banking has radically changed in recent decades.

Whether through advances in technology or increased global financial integration, global forces have driven more new entrants, more competition and more consumer choice at every level of banking: from deposits and lending to payments.

While banking has changed, the narrative around banking remains decades out of date. It is unsurprising, given the above global forces, that economic metrics show banking in Australia is more competitive than ever. Competition has increased over time.

Three interrelated principles should guide the policies that shape the future of Australian banking.

First, the systemic impact of policies should be assessed to ensure it furthers the pillars of national interest (resilience, fairness, and efficiency) in the context of a different and more turbulent global economy.

Second, policies should support competitive markets and strong institutions by avoiding distortions and ensuring institutions that conduct the same activity with the same risk bear the same responsibility.

Third, policymakers should assess the incentives of overseas firms that are operating in critical parts of the financial system and how these firms would react in a crisis.

Banking has radically changed.

Banking is unrecognisable from what it was just 20 years ago. About 70% of transactions were made using cash in 2007. Today, that figure is around 13%.¹

The value of mobile wallet transactions increased from \$7 billion in 2018-19 to \$160 billion in 2024-25.² The value of buy-now-pay-later payments increased from \$3 billion in 2017-18 to \$19 billion in 2022-23.³

The percentage of mortgages that originated with a broker increased from 52% in 2014 to 75% in 2024.⁴

Digital-first banks, specialist lenders, fintechs, non-bank providers, investment banks, payment platforms, mobile wallets, buy-now-pay-later services, foreign exchange platforms, and online brokers have entered every banking segment, fragmenting the banking sector, delivering consumer choice and greater competition.

Global financial integration means there have been many new overseas entrants into the Australian banking industry, while local banks have raised more term funding in offshore markets.

Geopolitical risks have led to tighter cross-border controls and reduced access to certain payments. Smaller banks have withdrawn from complex routes while global payment service providers have picked up displaced flows.

Core financial services provided by banks cross-subsidise the collective goods Australians value.

Australia's major banks deliver crucial collective goods that underpin community wellbeing. Their capacity to sustain these services faces mounting pressure. Digital disruption and new competitors fragment their revenue base, while regulatory costs fall disproportionately on established major banks.

Regulatory decisions risk unintended consequences for the banking system.

Regulatory decisions deliver first-order benefits such as enhanced competition, consumer choice, stronger prudential foundations, and consumer protections. They can also create second-order systemic risks.

Regulatory interventions that increase banking costs or reduce revenue constrain major banks' organic capital generation. So too do arbitrage opportunities that allow fintechs and non-bank providers to operate outside the regulatory perimeter, while major banks continue to provide both digital-first offerings and legacy services.

This weakens system resilience and the ability to lend throughout the cycle. It also diminishes banks' ability to cross-subsidise collective goods such as ATMs, cash services, and regional branches.

Source: 1. RBA (2022) *Consumer Payments Explorer*; 2. Australian Banking Association (2025) *Bank on It*; 3. RBA (2019) *Payments System Board Annual Report*; RBA (2023) *Payments System Board Annual Report - 2023*; 4. Mortgage and Finance Association of Australia (2019, 2024) *Industry Intelligence Service*; Mandala analysis.

Executive summary (cont.)

Our current trajectory undermines the resilience of the Australian economy.

This path puts Australia's financial resilience at risk, too. Bank profits build shareholder capital, and shareholder capital is what allows lending to occur. Creating a \$500,000 home loan, for example, requires \$15,000 of shareholder capital. If income is drained from Australia's banking system causing shareholder capital to fall, lending falls too.

The current regulatory settings are uneven and unsustainable, with several foreign banks including HSBC and Citi exiting the market.

Whether it is war in Europe and the Middle East, or rising geopolitical tensions in Asia, the world is in a turbulent and dangerous period. The post-WWII rules-based order provided the peace, stability, and predictability that underpinned the largest growth in living standards in human history. This system, and the institutions that sustained them, are now being dismantled by the very countries that created them.

Governments are increasingly turning away from markets in favour of state intervention as a wave of new tariffs, taxes, subsidies, and regulations direct the behaviour of multinational firms and reshape industrial structures.

What do we need from our banks in this period?

We need them to be strong and resilient. We need them to support the economy if things get tough. We need our banks to be ready when called upon. We need our banks to protect consumers from scams, provide universal access to banking, maintain ATMs and local branches, support Australia's foreign policy objectives, and fund and maintain payment infrastructure.

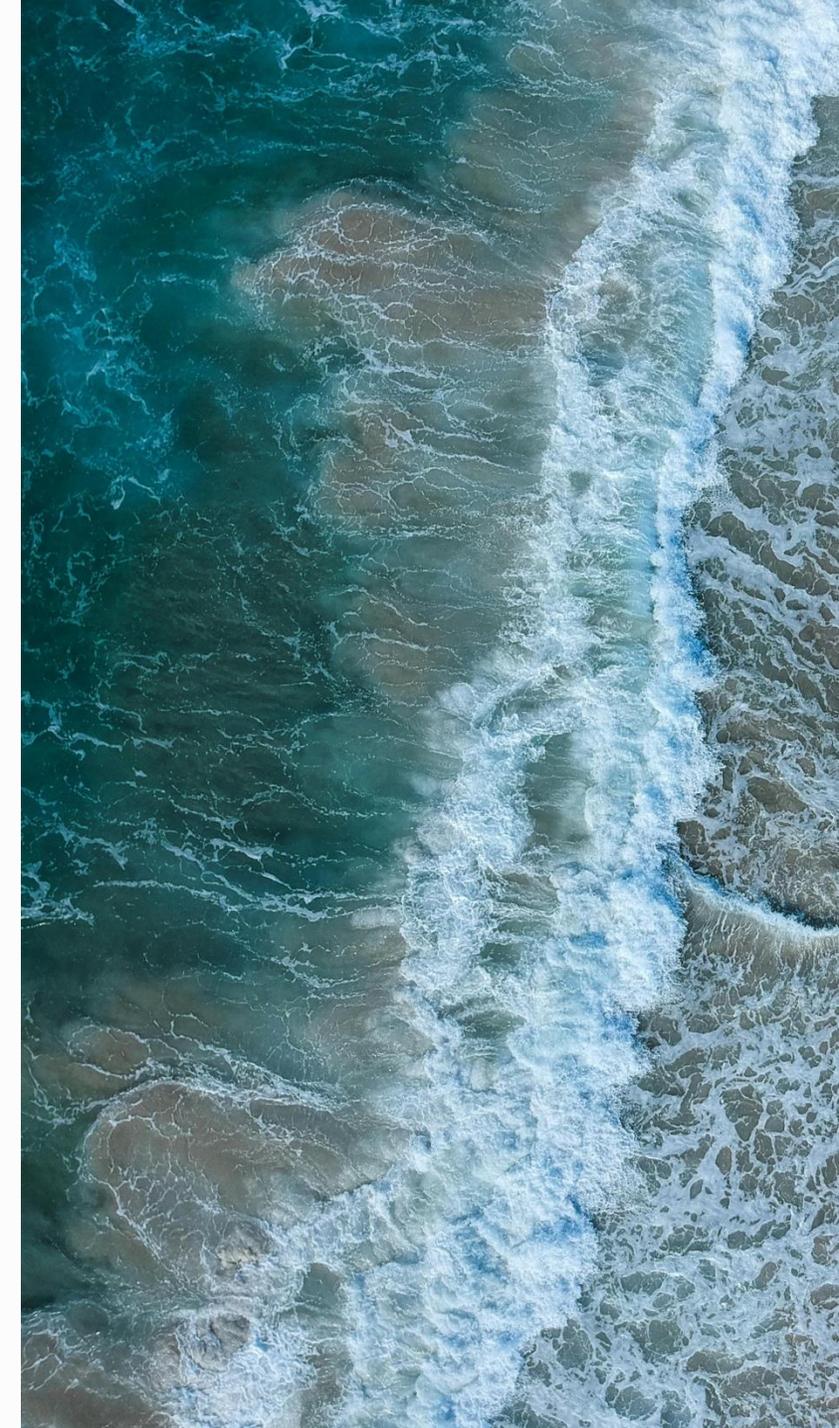
What policy principles will deliver this? Three stand out.

First, policymakers should consider the impact of policy choices on the financial system as a whole and ensure these choices advance the national interest – and continue to do so as national priorities evolve over time.

Second, firms that conduct the same activities and carry the same risk to the financial system should bear the same responsibilities to society. This supports strong national institutions that can be relied upon to advance the national interest, even, and perhaps especially, in times of crisis.

Third, policymakers should assess the incentives of overseas firms that are operating in critical parts of the financial system and how these firms would react in a crisis.

If we want to protect the services people value and strengthen our national resilience, we need to align our policies with what we want from our banks. Now is not the time for complacency.





1

Technology, globalisation, and regulation have transformed the nature and economics of banking in Australia

2

A strong banking sector is important to serve the national interest

3

Appendix

Significant technological and global developments have changed the structure of the world economy

FORCES

Technological



Digital transformation and a shift to intangibles

Moves value creation from physical assets to software and data, expanding the role of technology companies

Rise of cloud platforms

Builds in redundancy which supports resilience and enables platform scaling and faster product cycles

AI revolution

Automates knowledge work and delivers strong productivity gains, but risks unsettling labour markets with uncertainty surrounding the next frontier of AI innovation

Geostrategic



Interlinked capital markets

Shocks transmit instantly across borders, sharpening focus on financial resilience as a policy priority

Geoeconomic volatility

Shifting trade relationships and economic fragmentation create operational uncertainty for Australian institutions to manage and strengthen the imperative for broader economic resilience

Geopolitical tension

Rapidly changing global governance priorities introduce policy volatility for Australian institutions to navigate

KEY DEVELOPMENTS

Source: International Monetary Fund (2024) *Gen-AI: Artificial Intelligence and the Future of Work*; Laboratory of Economics and Management (2024) *Cloud technologies, firm growth and industry Concentration*; OECD (2023) *Compendium of Productivity Indicators*; International Energy Agency (2024) *World Energy Outlook*; CBA (2025) *Fasten your seatbelt: making sense of a new economic era*; Mandala analysis.

These shifts have dramatically changed how banks operate in Australia today

	Yesterday's banking		Today's banking
 <p>Technological</p>	<p>Physical services</p> <p>Branch-led service anchored in tangible infrastructure (e.g., branches, ATMs), with batch-settled payments</p>	➤	<p>Digital services</p> <p>Account opening, payments, and customer service transformed into instant, mobile-first experiences accessible 24/7 without physical branch visits. Innovations such as real-time insights, automated lending, and API-driven services are now offered</p>
	<p>Single-provider banking</p> <p>Customers kept most needs with one provider, which delivered services across accounts, lending, payments, and wealth</p>	➤	<p>Split banking</p> <p>Customers assemble a suite of accounts across providers for each need, as service lines unbundle to specialists, platforms, and brokers</p>
 <p>Global</p>	<p>Domestic rate setting</p> <p>Loan pricing based on cost of capital, cash rate, a long-term funding premium (reflecting the seven-year effective life of loan), and a smaller basis risk component</p>	➤	<p>Imported capital</p> <p>Australia's reliance on imported capital means banks depend on offshore wholesale funding, where international spreads and currency fluctuations directly drive domestic mortgage rates through their impact on funding costs</p>
	<p>Higher barriers to entry</p> <p>Entrants needed branches, local tech and operations, full regulatory licencing and compliance, and links to domestic payment rails</p>	➤	<p>Lower barriers for global players (especially for foreign vendors and non-banks)</p> <p>Foreign vendors enter market more easily, capturing distribution and fee pools without heavy local infrastructure</p>

Source: Mandala analysis.



Technological developments have made banking instant, transparent, and personalised, with more services offered by non-banking tech platforms

Technological developments	Description	Impact on banking services (non-exhaustive)	Key implications for banking sector
Real-time, mobile-first payment rails	A 24/7 instant-settlement system delivered through mobile-first biometric apps, underpinned by ~\$2 billion investment from major Australian banks	Payment digitalisation: Cards and mobile wallets process 87 percent of transactions, reducing cash and cheque dependency Real-time settlement: Shift from the four-party model (issuer-scheme-acquirer-merchant) to instant account-to-account (A2A) transfers, merchant-initiated transactions, and universal payment acceptance	Big tech companies increasingly intermediate digital payments A2A and New Payments Platform (NPP) eliminates interchange fees that fund consumer protections, shifting dispute liability to consumers while banks handle resolution
Trusted data, identity, and open-access fabric	A secure, consent-based data platform for ID verification and safe data sharing, backed by significant upfront and ongoing investment from Australia’s major banks	Transparent pricing: Customers easily share data to compare offers and switch providers instantly Frictionless onboarding: Instant identity verification and pre-filled data accelerate approvals	Split banking increases as low-cost digital banks and specialists enter market on price Personalisation and fast onboarding become table stakes for all players
AI-powered intelligence and automation	Machine learning systems that automate credit decisioning, detect fraud in real-time, and personalise customer experiences	Automated approvals: Instant credit decisions, personalised lending offers, real-time risk-based pricing Fraud prevention: Real-time fraud blocking before transactions complete, proactive account monitoring and alerts	Instant decisions and personalised rates shift volume to data-led lenders Banks now invest heavily in capabilities to detect and prevent scam and fraud losses

Source: RBA (2025) Access to Cash in Australia; RBA (2024) Financial Stability Implications of Artificial Intelligence; Australian Human Rights Commission (2023) AI-informed Decision-making Systems in Banking; National Anti-Scam Centre (2025) Targeting scams; RBA (2019) The Development and Initial Operations of the NPP; Mandala analysis.



Case study: In payments, the New Payments Platform has delivered new benefits and risks which banks and policymakers must navigate

EXAMPLE OF TECHNOLOGICAL CHANGE IN BANKING

New Payments Platform (NPP) offers significant benefits...

... but has also created new risks

Banks and policymakers have taken action to ensure users receive the benefits of NPP and PayID while minimising these risks

 **NPP offers real-time settlement** of account-to-account transactions. In comparison, the Bulk Electronic Clearing System (BECS) could take up to three business days.

 **Risks rise from the speed the NPP and PayID enable.** There is no time for checks and investigations, payments are irrevocable and funds can be moved offshore in seconds by people who commit fraud.

 **Banks and government are collaborating as part of the Australian Financial Crimes Exchange (AFCX)** to share intelligence to prevent scams, fraud, and financial crime.

 **NPP supports information-rich payments** which can embed data on payments types, including payroll, super, and tax.

 **Scam vulnerability arises.** Scammers trick individuals into resending money, responding to fake payment notifications, or refunding alleged overpayments. However, the risks are still lower than sharing a BSB and account number.

 **Banks have jointly developed tools like Confirmation of Payee** to help reduce scams and mistaken payments.

 **Policymakers have developed the Scams Prevention Framework and the National Anti-Scam Centre** in an effort to protect consumers from the risk of scams.

Source: RBA (2023) *Securing Australians' superannuation*; Australian Payments Plus (n.d.) *It's time to move to NPP*; The Hon Stephen Jones MP (2024) *Government joins cutting edge intel tool to fight scammers*; Australian Banking Association (n.d.) *Confirmation of payee*; Treasury (2025) *Scams Prevention Framework*; Whitfield, M (2023) *There's a PayID scam where 'buyers' are claiming they have to transfer additional money — Ella nearly fell for it*; Trueck, S (2024) *Using PayID service may increase identity theft risk*; Mandala analysis.

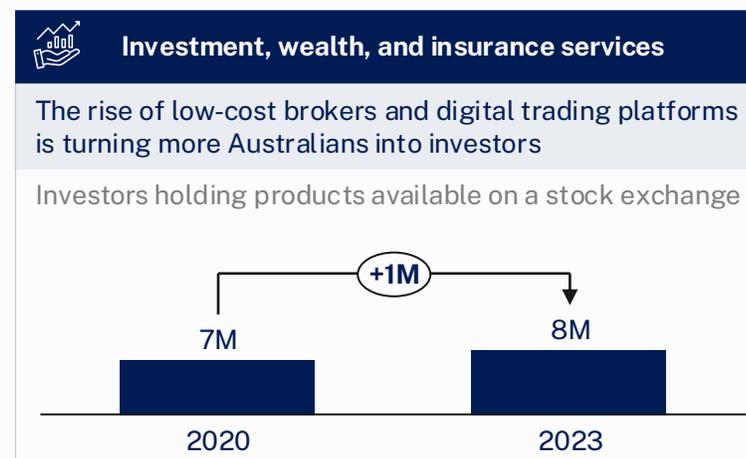
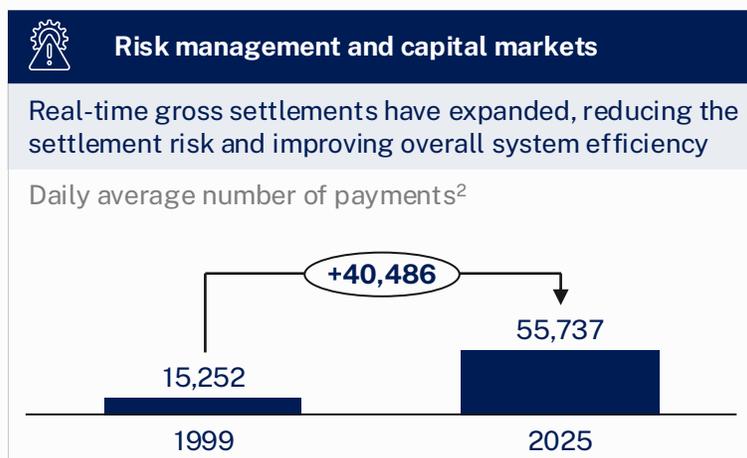
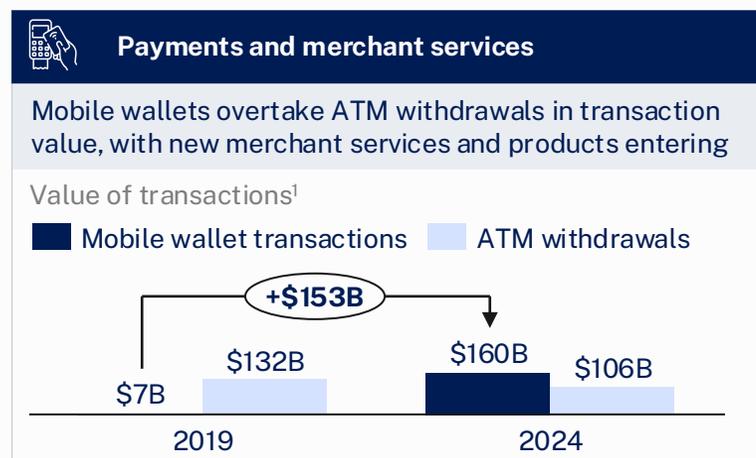
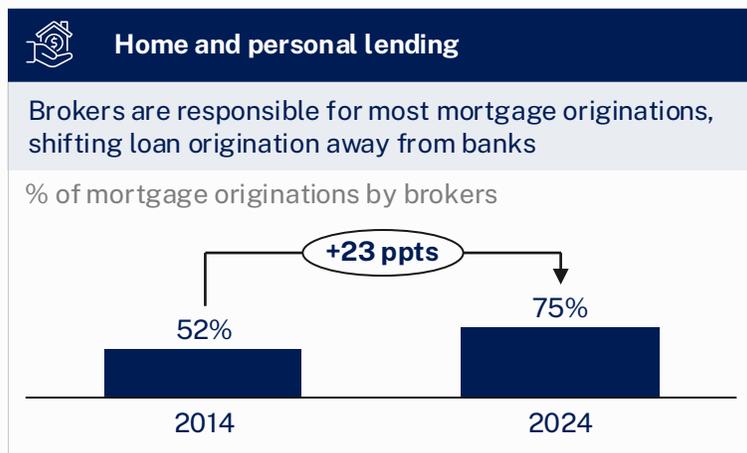
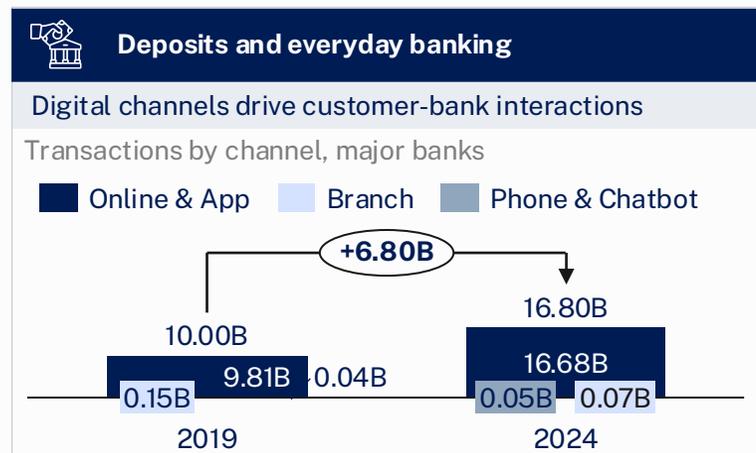


A shift toward economic nationalism has introduced volatility and risk into a globally interdependent banking market

Global developments	Description	Impact on banking services (non-exhaustive)	Key implications for banking sector
Geopolitics, sanctions and volatility transfer	Geopolitics and sanctions transmit global volatility into funding, payments, and trade networks	<p>Tighter cross-border controls: Expanded sanctions and Anti-Money Laundering (AML) checks improve financial system integrity but add friction, cost, and delays on higher-risk transactions</p> <p>Reduced access on certain payments: De-risking cuts coverage, shifting some payments and trade finance to specialist channels</p>	Smaller banks have withdrawn from complex routes while global Payment Service Providers pick up displaced flows
Offshore wholesale funding	Australian banks are exposed to global markets and volatility	<p>Globally sensitive loan pricing: Offshore borrowing and foreign exchange costs influence domestic lending rates and credit growth</p> <p>Liquidity and hedging: Banks issue longer-term debt and hedge currencies and interest rates to reduce risk and earnings volatility</p>	Scale and global market access favour majors, while smaller lenders retreat in volatility
Global cloud services	Use of global cloud services provides resilience but can create concentration risk	<p>Greater resilience: Cloud services provide a level of redundancy, especially for small and medium businesses</p> <p>Concentrated risk: Banks rely on a few offshore cloud providers which creates single-point-of-failure and economic-leverage risk</p>	Diversification across cloud providers is necessary to ensure financial sector resilience balances concentration risk in the major cloud providers
Open market access for global platforms	Open market access shifts flows to compliant platforms, with risky routes blocked	<p>Faster cross-border payments: Faster, trackable, lower-fee transfers with upfront foreign exchange quotes and local receiving details</p> <p>Simplified merchant services: Integrated acquiring and global settlement simplify acceptance for merchants, compressing fees</p>	Global Payment Service Providers capture cross-border and acquiring markets

Source: RBA (2025) *The Evolving Global Payments Landscape*; RBA (2023) *Foreign Currency Exposure and Hedging in Australia*; RBA (2014) *Submission to the Financial System Inquiry*; RBA (2013) *Financial Stability Review*; RBA (2023) *Correspondent Banking in the South Pacific*; Mandala analysis.

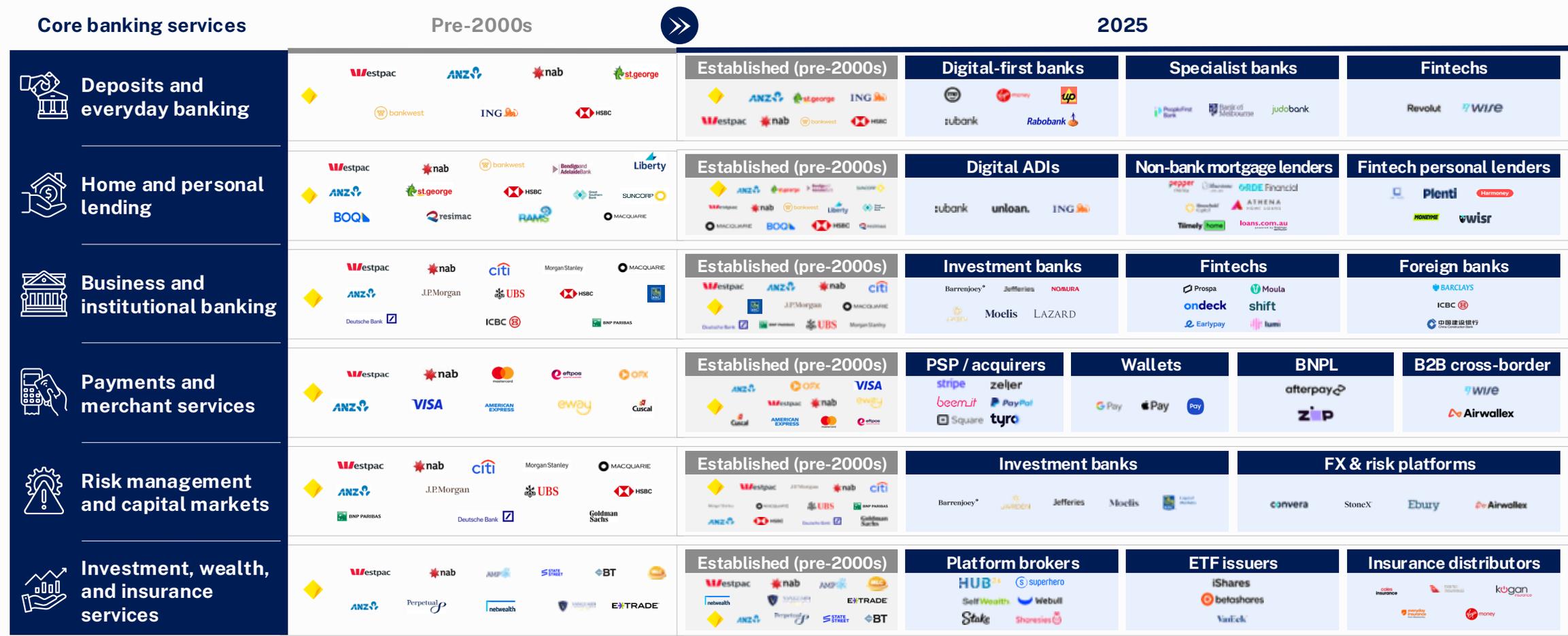
In recent years, core banking services across all banks have become more digitised with customers now having access to a broader range of service options



1. Reporting institutions for mobile wallet transactions are ABA member banks. Reporting institutions for ATM withdrawals include selected Australian banks, major foreign banks operating in Australia, building societies, credit unions, and certain other industry service providers. 2. Real-time gross settlements include the number of RITS, SWIFT and Austraclear payments. Excludes the number of FSS payments. The RTGS system was introduced in June 1998. Data shows the first financial year of operation (FY99), compared to the most recent financial year of operation (FY25).
 Source: Australian Banking Association (2025) *Customer Trends 2025*; Mortgage and Finance Association of Australia (2019, 2024) *Industry Intelligence Service*; RBA (2024) *Small Business Economic and Financial Conditions*; RBA (2023) *Syndicated Lending*; RBA (2023) *The Australian Financial System*; Landers (2025) *Overview of the Banking and Financial Services System*; CBA (2024); RBA (2025) *Statistical Tables - Real-time Gross Settlement Statistics - C7*; ASX (2023) *Australian Investor Study 2023*; Mandala analysis.

Established players are facing market crowding from digital banks, fintechs, and new non-bank players, fragmenting existing revenue bases

CHANGE IN MARKET PLAYERS ACROSS THE SIX CORE FINANCIAL SERVICES (NON-EXHAUSTIVE)



Source: RBA (2025) Payment System Board Annual Report; KPMG (2024) Australian Fintech Landscape; RBA (2025) Financial Stability Review; Australian Productivity Commission (2018) Competition in the Australian Financial System; Mandala analysis.

Core financial services pay for the collective goods that Australians value

CORE BANKING SERVICES – *Income-generating activities*

 Deposits and everyday banking	 Home and personal lending	 Business and institutional banking
 Payments and merchant services	 Risk management and capital markets	 Investment, wealth, and insurance services

 **PAY FOR** 

COLLECTIVE GOODS – *Non-income-generating activities which are important for society*

 System stability and policy transmission	 Consumer safeguards and public trust	 Credit supply and economic development
 Universal access and regional services	 Payment infrastructure	 Technology, data, and cyber resilience
 Crisis response and national resilience		

Source: Mandala analysis.

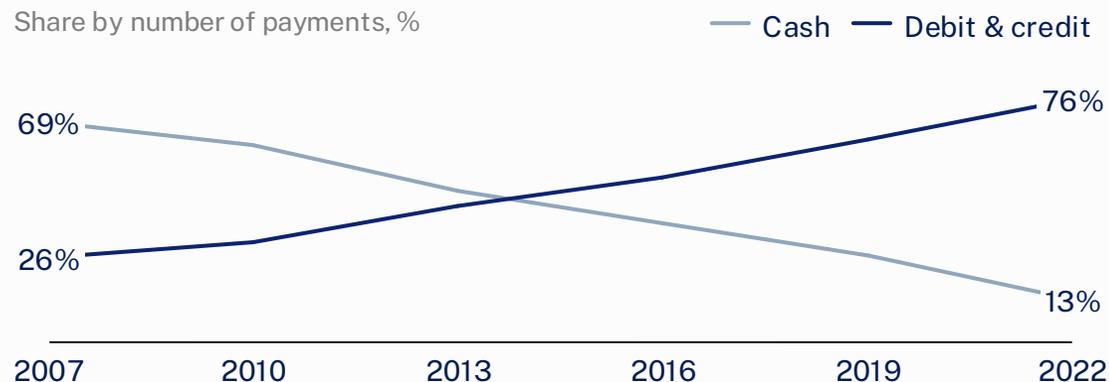
As the banking sector evolves, the role of major banks in delivering these collective goods continues to grow



Banks are responsible for critical infrastructure to facilitate growth in digital payments, while also maintaining cash services

Consumer payment methods

Share by number of payments, %



- Digital payments (debit and credit) now dominate at 76% of transactions, with cash declining to 13%, down from 69% in 2007
- Transaction volumes increased by 7x for debit and 2x for credit between 2007 and 2022
- Traditional financial institutions commission, fund, and maintain critical payment infrastructure (e.g. BECS, EFTPOS, BPAY, New Payments Platform) to facilitate a growing volume of digital payments
- Banks balance digital infrastructure investment with continued provision of cash and ATM services for accessibility, despite declining use

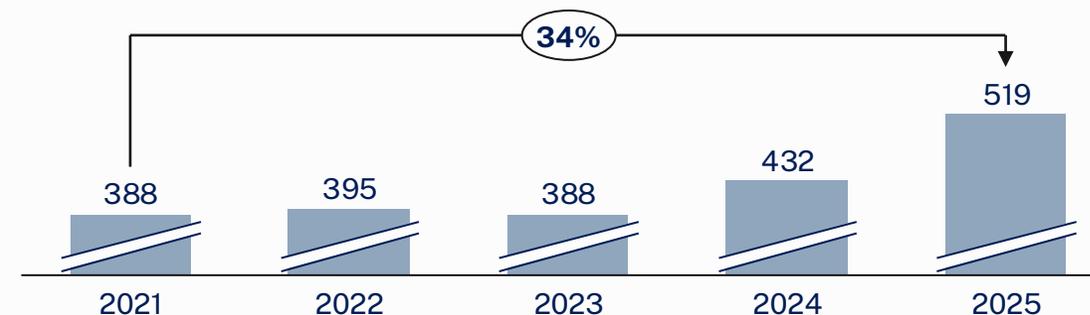
Source: RBA (2022) *Consumer Payments Explorer*; RBA (2025) *Payments Data*.



Banks offer accessible no- or low-fee accounts to ensure universal access to banking services to a growing number of Australians

Customer savings from no- or low-fee accounts

\$ millions, Authorised Deposit-taking Institutions



- These accounts improve accessibility of banking services, saving customers more than \$500 million in 2025
- Banks have increased customer savings from no- or low-fee accounts by 34% over five years, reflecting increasing recognition of financial inclusion as a core social responsibility
- Cost of living pressures increase the importance of no- or low-fee accounts

Source: Australian Banking Association (2025) *Bank On It: Customer Trends 2025*.

The sustainability of the collective goods Australians value is at risk – major banks fund a growing suite of goods with a shrinking income base

Major banks face a shrinking income base driven by both market evolution and regulatory imbalance. Some drivers reflect healthy competition: consumers have embraced digital banking, and new entrants have expanded choice. Others create distortions: the regulatory perimeter has not kept pace with innovation, unintentionally creating a fragmented landscape where different rules apply to competitors offering similar services, enabling some to benefit from regulatory arbitrage.

The imbalance is most acute given the expanding suite of collective goods that major banks provide. As economic pressures mount, Australians increasingly rely on services like regional banking and universal access, obligations that fall on major banks but not on competitors performing similar activities.

This places the banking system at risk. It risks lowering overall financial system and economic resilience, as banks draw on profits to lend throughout the cycle to absorb economic shocks.¹ It also limits the ability of major banks to cross-subsidise the collective goods that Australians value.

1. See pages 23 and 24.

KEY CHANGES IN THE BANKING SECTOR

FINANCIAL IMPACTS

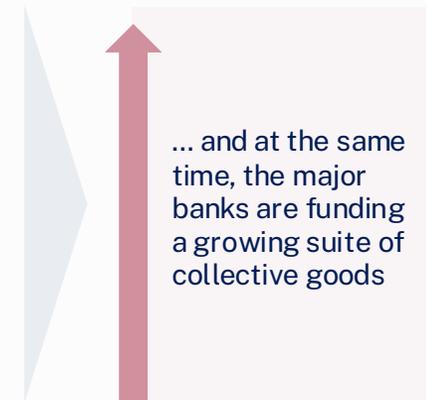
CORE FINANCIAL SERVICES
Revenue-generating activities

- 1 Regulations aimed at improving outcomes have also reduced bank capital generation:** Governments have introduced regulations to promote safety, resilience, and competition, but these have increased costs or reduced margins
- 2 Digital banks, fintechs, and new non-bank players have entered the market:** Revenue is shared across more players in the market, but regulations have not kept pace and apply unevenly
- 3 Consumer behaviour and preferences have shifted to digital:** Preference for digital services has led to industry bifurcation with the growth of digital-only business models



COLLECTIVE GOODS
Non-revenue-generating activities

- 4 Demands for collective goods have increased:** Hardship support, consumer safeguards and cyber security demands are increasing due to economic conditions and technological changes
- 5 Regional banking is under pressure:** Operation of regional services are under growing structural stress, with the costs of regional lending growing
- 6 Expectations of universal service remain despite a declining use of physical services:** Despite preference shifts, major banks must still maintain cash, ATM and branch services



Source: Mandala analysis.



1

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Appendix

Australia's economic and financial resilience depends on policy that meets the pressures of declining profitability, competition, and geopolitical uncertainty

Our current trajectory undermines the resilience of the Australian economy and puts Australia's financial resilience at risk.



Declining profitability, heightened competition, and geopolitical uncertainty are growing pressures that reinforce the need for principled policy, including regulatory parity and advancing the national interest.



If we want to protect the services people value and strengthen our national resilience, we need to align our policies with what we want from our banks.

POLICY PRINCIPLES

1 Consider system-wide impacts

Policymakers should consider the impact of policy choices on the financial system as a whole and ensure these choices advance the national interest and continue to do so as national priorities evolve over time.

2 Same activities and risk, same responsibilities

Firms that conduct the same activities and carry the same risk to the financial system should bear the same responsibilities to society. This supports strong national institutions that can be relied upon to advance the national interest, even in times of crisis.

3 Assess how overseas firms would respond in a crisis

Policymakers should assess the incentives of overseas firms that are operating in critical parts of the financial system and how these firms would react in a crisis.

Australia's national interest is best served by a banking system that is resilient, fair, and efficient

SUSTAINABLE GROWTH FOR THE NATIONAL INTEREST

An effective financial system that facilitates sustainable growth in the economy by meeting the financial needs of all Australians

NATIONAL INTEREST PILLARS

DEFINITION

COMPONENTS (non-exhaustive)

TRADE-OFFS

COLLECTIVE GOODS SUPPORTING PILLAR

	Resilience 	Fairness 	Efficiency 
DEFINITION	The system absorbs shocks to support continued lending and macroeconomic stability	Participants act with integrity and transparency so people can transact with confidence	Resources and risks are allocated to highest-value uses , supporting productivity and growth
COMPONENTS (non-exhaustive)	<ul style="list-style-type: none"> ▪ Capital stock: High-quality equity to absorb losses and protect depositors ▪ Organic capital generation: Profits retained to rebuild buffers and support lending in downturns ▪ Operational resilience: Robust infrastructure, cyber security, and controls to ensure continuous operations 	<ul style="list-style-type: none"> ▪ Universal access: Essential services available to all Australians, regardless of location or income ▪ Transparent conduct: Clear information and consistent treatment for customers ▪ Consumer safety: Fraud protections and effective dispute resolution 	<ul style="list-style-type: none"> ▪ Competitive markets: Keeps costs low, lifts service quality, and sustains innovation ▪ Efficient allocation: Minimal distortions and compliance burden so funds flow to highest-value uses ▪ Adaptive regulation: Rules updated regularly to keep pace with innovation
TRADE-OFFS	Higher buffers and tighter risk appetite lift costs and slow credit, reducing efficiency and access	Over-emphasis on fairness settings may lift compliance costs, moderating efficiency and narrowing product choice	Cost and speed focus can thin safeguards and risk controls, weakening resilience and consumer protection
COLLECTIVE GOODS SUPPORTING PILLAR	<ul style="list-style-type: none"> ▪ System stability and policy transmission ▪ Credit supply ▪ Cyber resilience 	<ul style="list-style-type: none"> ▪ Consumer safeguards and public trust ▪ Universal access 	<ul style="list-style-type: none"> ▪ Payment infrastructure ▪ Technology and data

Note: Pillars based on Australian Treasury (2014) *Financial Systems Inquiry Final Report*.
Source: Mandala analysis.

Australian banks' profitability is declining, placing future resilience at risk

Australia's banking profitability is lower than comparable markets. Industry returns have fallen by about a third over the past decade, and Australian banks' return on tangible equity now trails the UK, US, Europe and Canada despite world-class cost efficiency and very low credit losses. This reflects a market that is competitive and under structural pressure, not one with disproportionate returns.

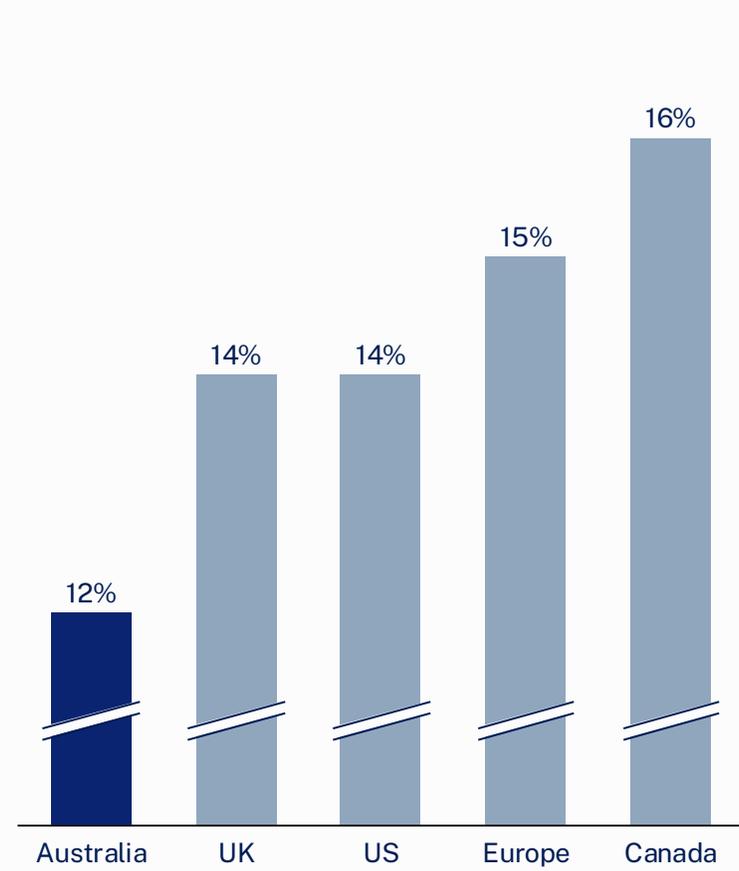
The decline is a result of structural characteristics of the Australian banking sector. Australian banks are unusually reliant on net interest income at 80–85% of total income versus ~55% for global banks, exposing them to changes in interest rates and funding costs. Furthermore, loans exceed deposits, increasing use of costlier wholesale funding. Policies and market interventions have also lowered revenue or raised cost, and uneven obligations let some participants focus on profitable segments while others bear universal-service costs.

It is in the national interest for Australian banks to remain profitable, to support economic growth and resilience. When returns fall below the cost of equity, lending, inclusion, and investment suffer. To keep profitability aligned with resilience and the national interest, settings should be stable, proportionate and competitively neutral, with costs and obligations shared fairly across participants.

Source: KPMG (2024) Australian Big Four Banks: Full Year 2024 Results Analysis; ECB (2024) Supervisory Banking Statistics: Fourth Quarter 2023; CBA (2025) Full Year Results Presentation.

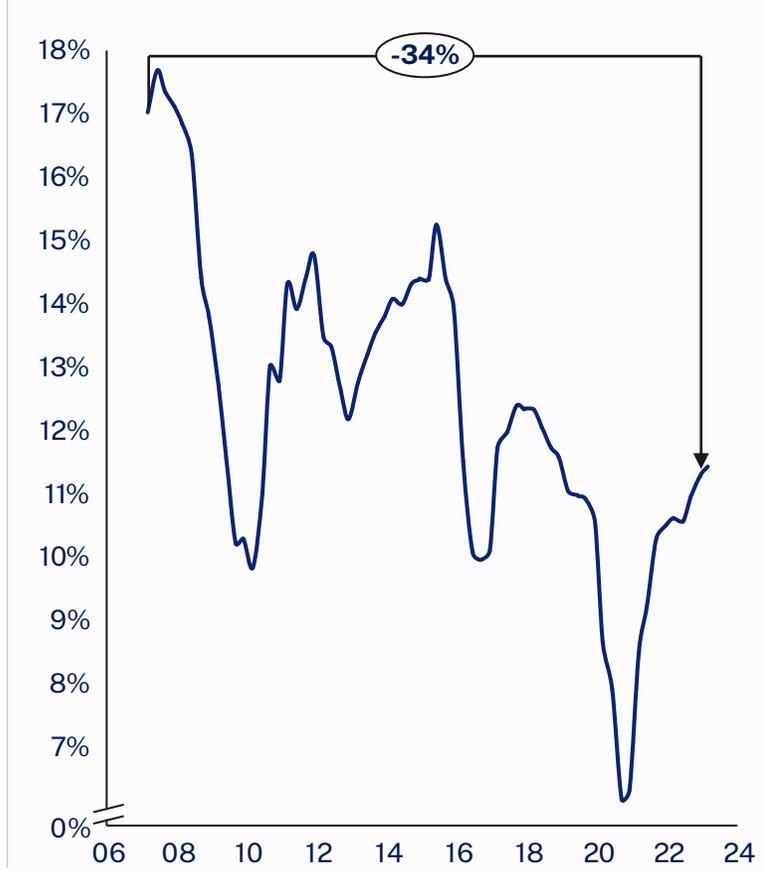
Global banking profitability

% , return on tangible equity, FY25



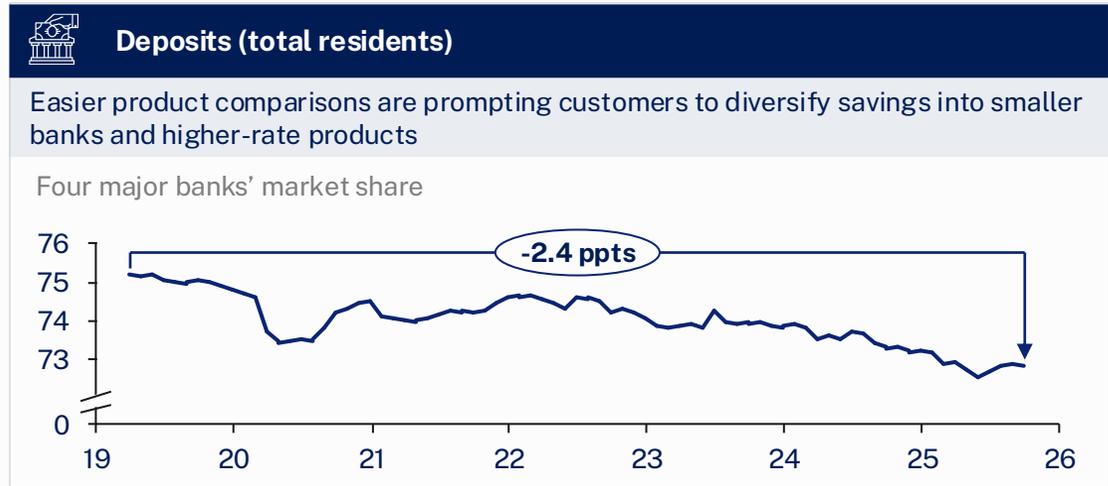
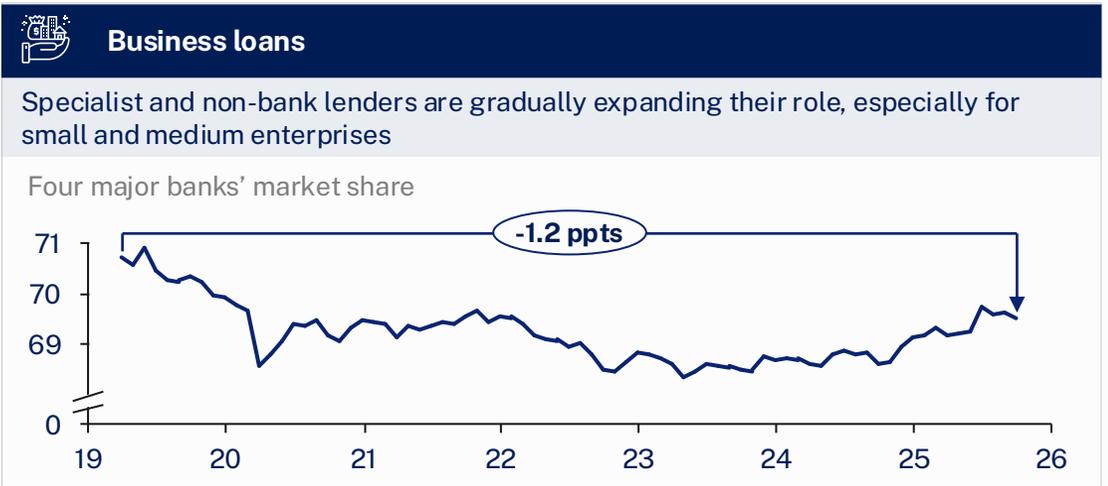
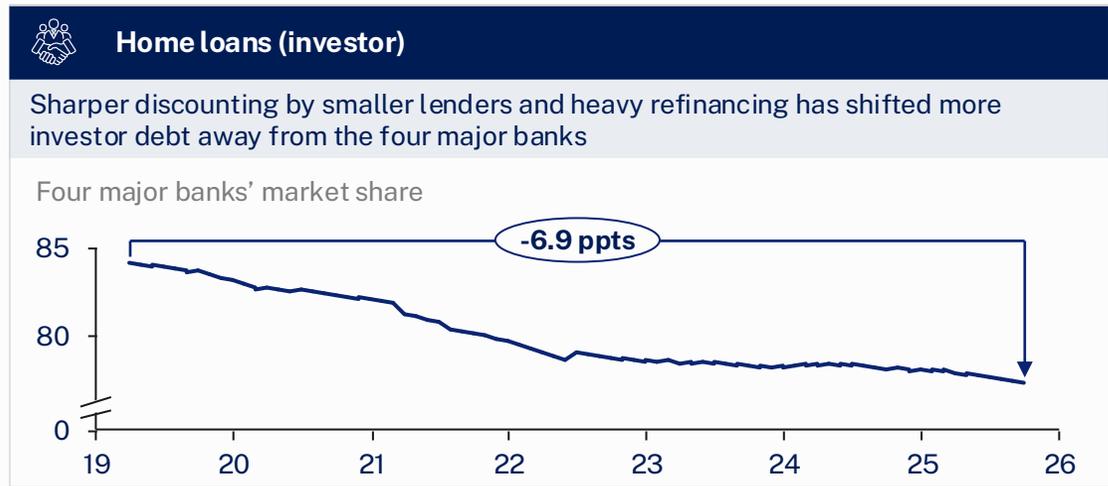
Australian banking profitability over time

% , return on equity, 2006-2024



Source: Company annual reports (2025); APRA (2025) Quarterly authorised deposit-taking institution statistics; CBA (2025) Full Year Results Presentation; Mandala analysis.

The four major banks' market share has been slowly declining across many banking products since 2019



Source: APRA (2025) Monthly Authorised Deposit-taking Institution Statistics; Mandala analysis.

Australia's financial resilience rests on stable, well-capitalised banks that rank among the strongest globally

Australia's major banks lead on capital strength. In 2024, their internationally adjusted Common Equity Tier 1 (CET1) capital was 18–20%, well above global peers and roughly double pre-GFC levels. This reflects APRA's 'unquestionably strong' benchmark, an additional buffer for Domestic Systemically Important Banks (D-SIB), and distribution rules that keep buffers above CET1 minimums.

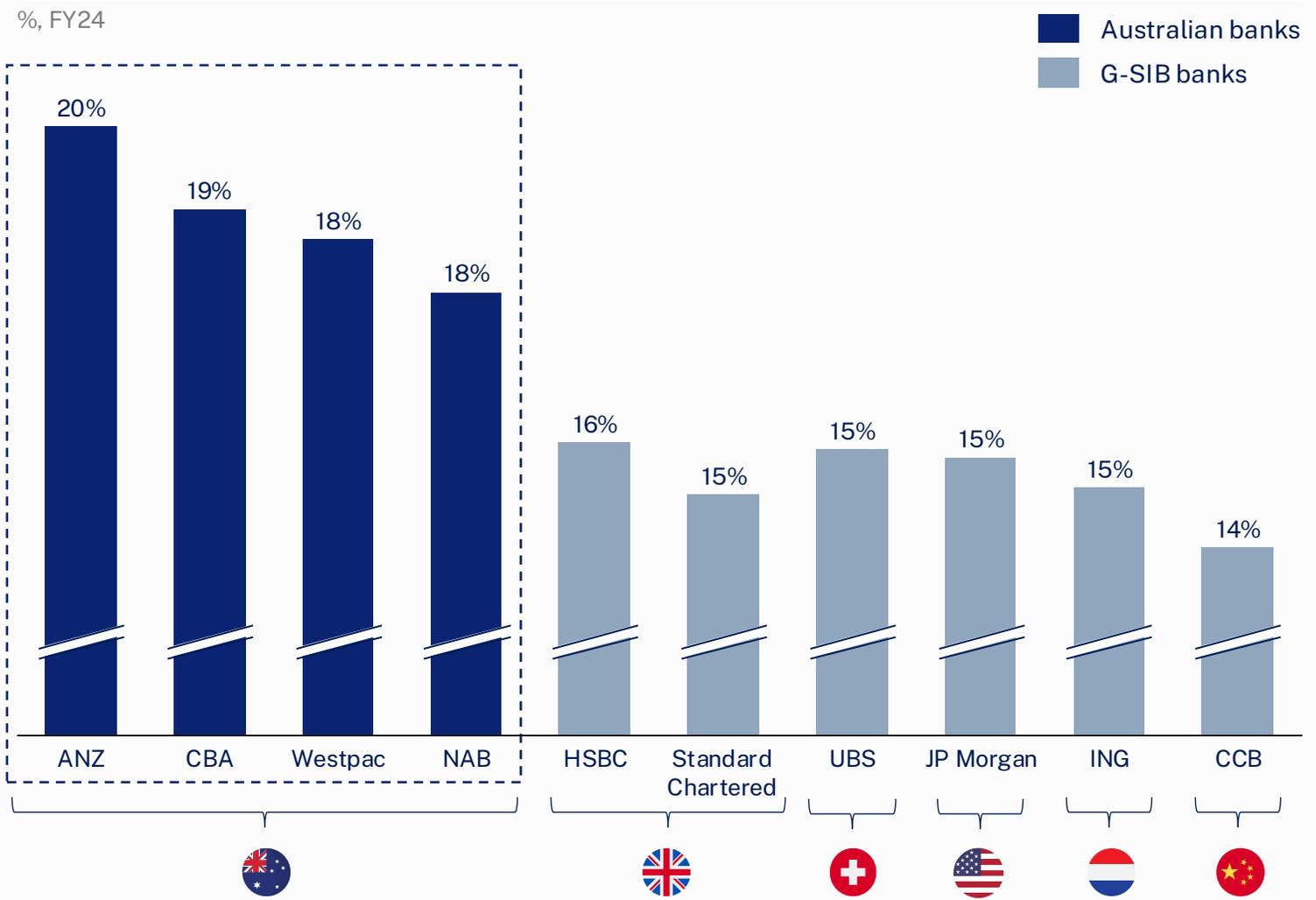
Well-capitalised banks are in the national interest, ensuring the system remains resilient in stress while protecting depositors and shielding taxpayers from bailouts. This is important for Australia as a small, open economy reliant on wholesale funding. Strong capital buffers also anchor confidence and lower risk premia, reducing funding costs and supporting investment and growth. Maintaining high CET1 capital ratios is appropriate and should not be weakened.

Sustaining this strength is important. Declining profitability, heightened competition and geopolitical uncertainty are testing resilience. Complacency would risk undermining the stability that has taken decades to build.

To keep leading we need the right settings: a stable, predictable framework that is proportionate to risk and competitively neutral. Clarity and simplicity, with room for productivity and innovation, help banks remain both safe and investable.

Source: APRA (2021) *An Unquestionably Strong Framework for Bank Capital*; CBA (2024); CBA (2024) *FY24 Results Presentation*.

CET1 ratio for largest Australian banks and selected G-SIB



Note: D-SIB refers to Domestic Systemically Important Banks, G-SIB refers to Global Systemically Important Banks, CET1 refers to Common Equity Tier 1. Australian bank ratios are adjusted from APRA-reported figures to a Basel III internationally comparable basis. All figures as of July 2024.
Source: Company annual reports (2024); CBA (2024) *FY24 Results Presentation*; Mandala analysis.

To sustain lending during downturns, banks must retain profits to build the shareholder capital that underpins loans

Profits build shareholder capital to support lending...



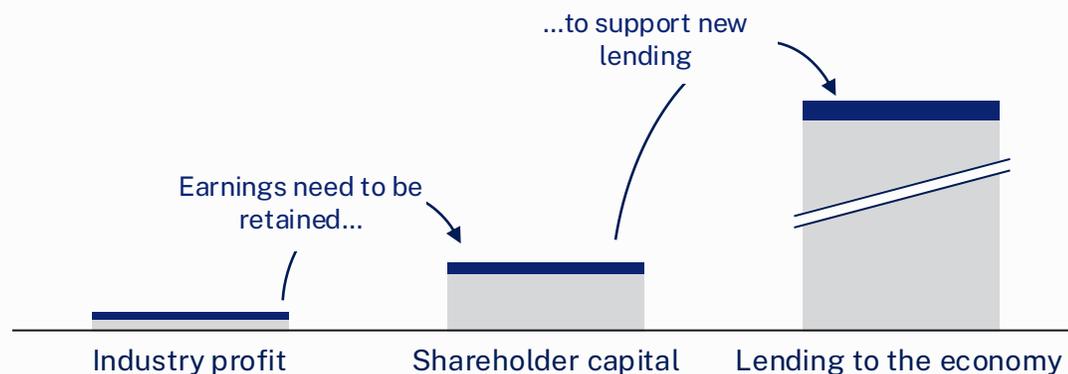
...more shareholder capital is required for loans in downturns



Relationship between profit, shareholder capital, and lending capacity

Illustrative

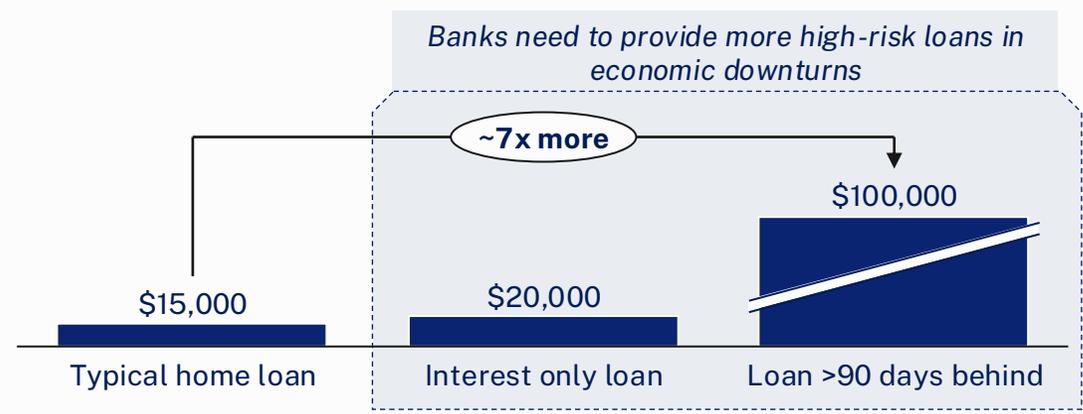
■ Capital for existing lending ■ Other capital



- **Retained profits add to shareholder equity**, building the capital base that backs new lending
- Strong capital lets banks **absorb losses** and still **expand credit** to households and businesses
- If profits are not retained, **capital to grow the economy builds more slowly** and **lending capacity shrinks**
- Lending to the economy **supports productive investment**

Shareholder capital held against different loan types for a \$500,000 loan

Illustrative, \$AU



- To safeguard depositors, the amount of shareholder capital **per loan rises with risk**
- In economic downturns the **loan mix skews toward higher risk**, **lifting capital needed** per dollar lent
- Well-capitalised banks can **keep lending through downturns** despite the higher capital load

The economy relies on banks to sustain lending in downturns and moderate inflation in upswings

Banks sustain lending to cushion GDP downturn in economic contractions. In downswings, arrears rise and risk weights lift the capital required per dollar of lending. Banks draw on built-up buffers to maintain credit supply and support targeted deferrals and restructures. This reduces the depth of the downturn.

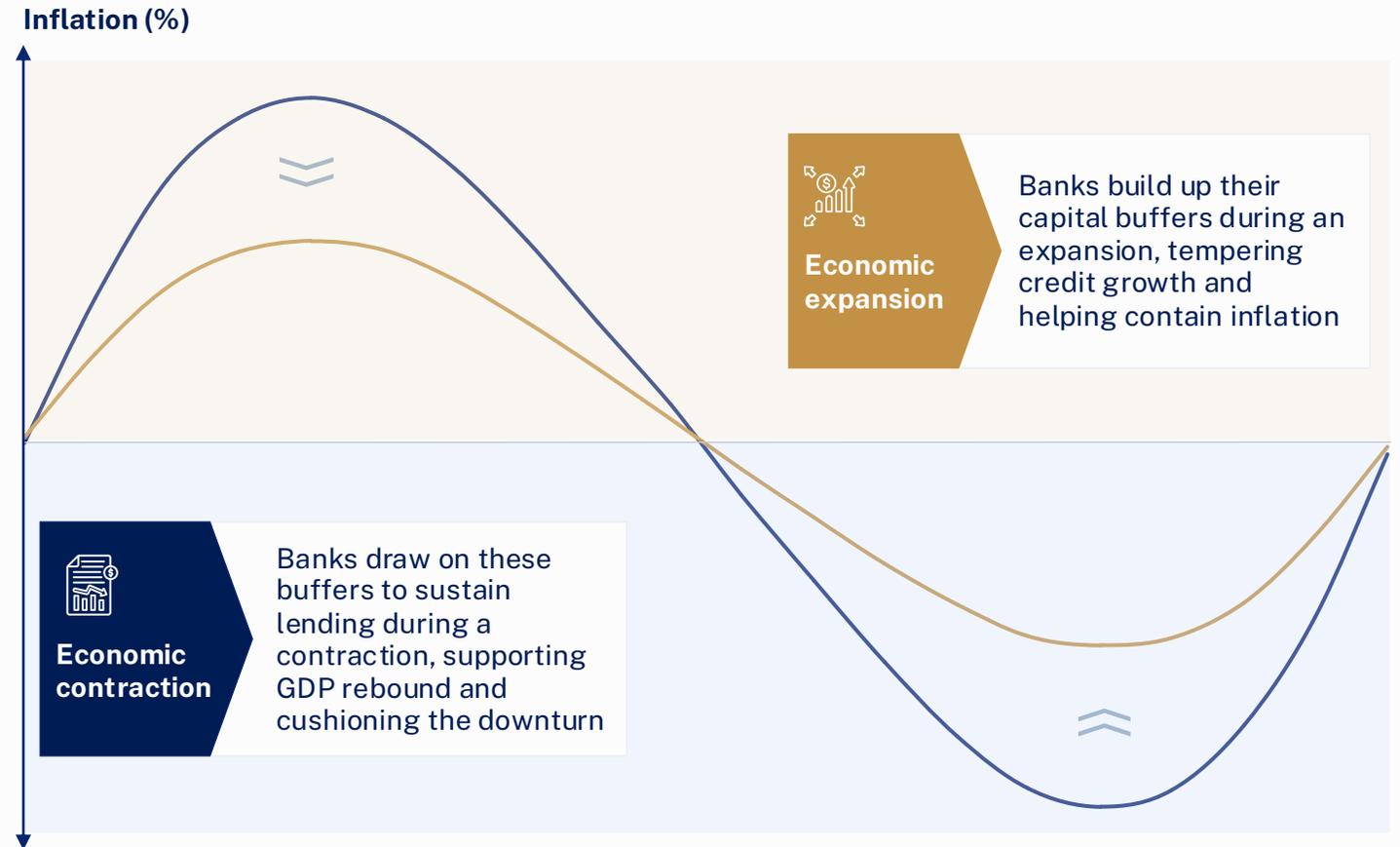
Banks temper credit growth and inflation in periods of economic expansion. In upswings, banks create headroom by retaining earnings and building capital. This moderates the peak of the cycle, as shown by the flatter managed path.

It is important to have appropriate capital buffers. Buffers can be drawn in stress and rebuilt in recovery. This keeps banks safe and investable, supports countercyclical lending, and reduces economic volatility.

Effect of bank capital management on inflation and stability

Illustrative

— Without bank capital management — With bank capital management



Source: BIS (2024) Capital buffers and the micro-macro nexus; RBA (2020) Different approaches to implementing a countercyclical capital buffer; Mandala analysis.

In Spain, unprofitable banks could not support the lending needed to recover from an economic downturn

Sustainable commercial models underpin national banking resilience. Profitable banks can absorb losses and maintain lending during downturns, while unprofitable banks are forced to cut credit, amplifying economic stress. Comparing Australia and Spain through the global financial crisis (GFC) and beyond illustrates this point.

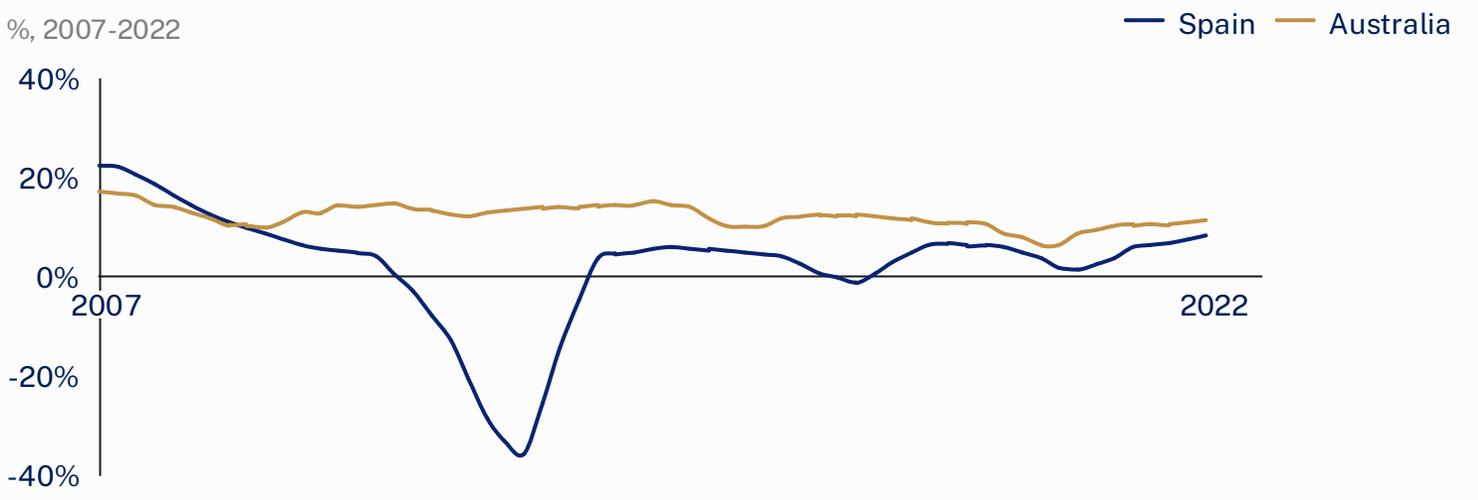
Spain's profit collapse cut credit and deepened the post-GFC downturn. Spanish banks entered the crisis with weaker profitability, less capital, and heavy exposure to bad loans. Unable to absorb losses, Spanish banks had to reduce lending. With fewer mortgages and business loans, firms lost working capital and delayed investment, households cut spending, construction fell, and the recession intensified as GDP growth plummeted.

By contrast, Australia's profitability and capital allowed banks to absorb losses and keep credit flowing. Stronger capital buffers allowed Australian banks to keep lending through the crisis, helping firms bridge cash flow gaps and households maintain spending. Sustained credit access supported GDP growth and avoided a recession.

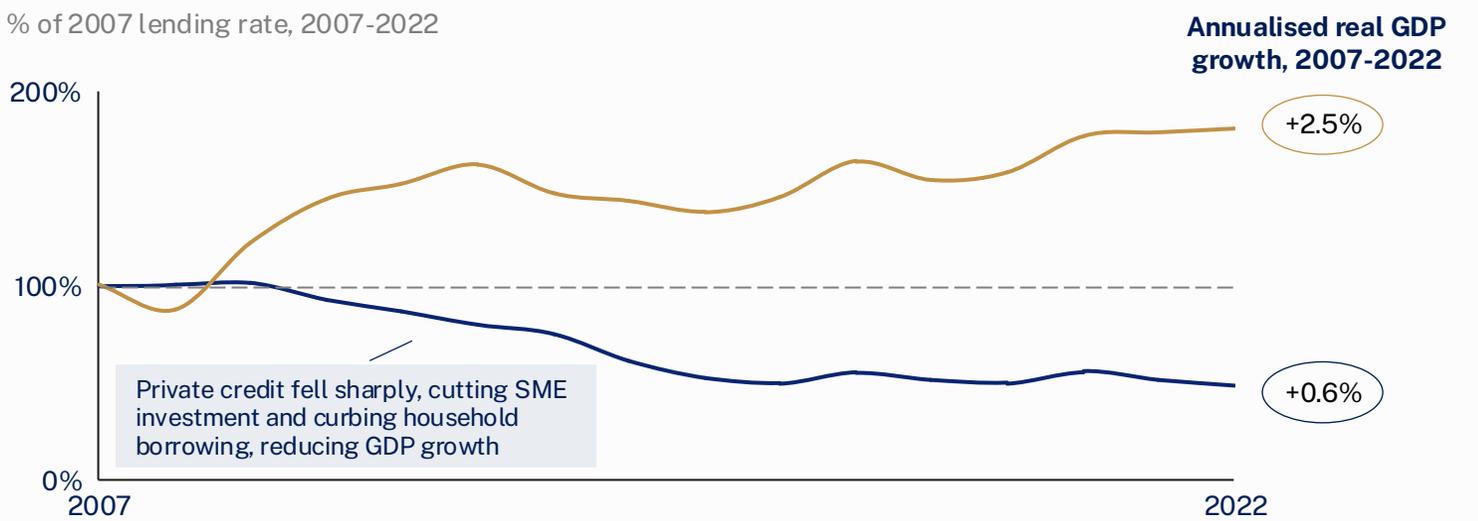
Regulatory settings shaped these outcomes. Australia's stable prudential framework meant buffers were built in good times and available in stress. Spain's fragmented oversight left banks unable to raise capital, forcing deleveraging that prolonged the recession.

Source: IMF (2012) *Spain: Financial System Stability Assessment*; APRA (2021) *An Unquestionably Strong Framework for Bank Capital*; APRA (2020) *Guidance on capital management for banks and insurers*.

Banks' return on capital: Spain and Australia



Lending and GDP growth: Spain and Australia

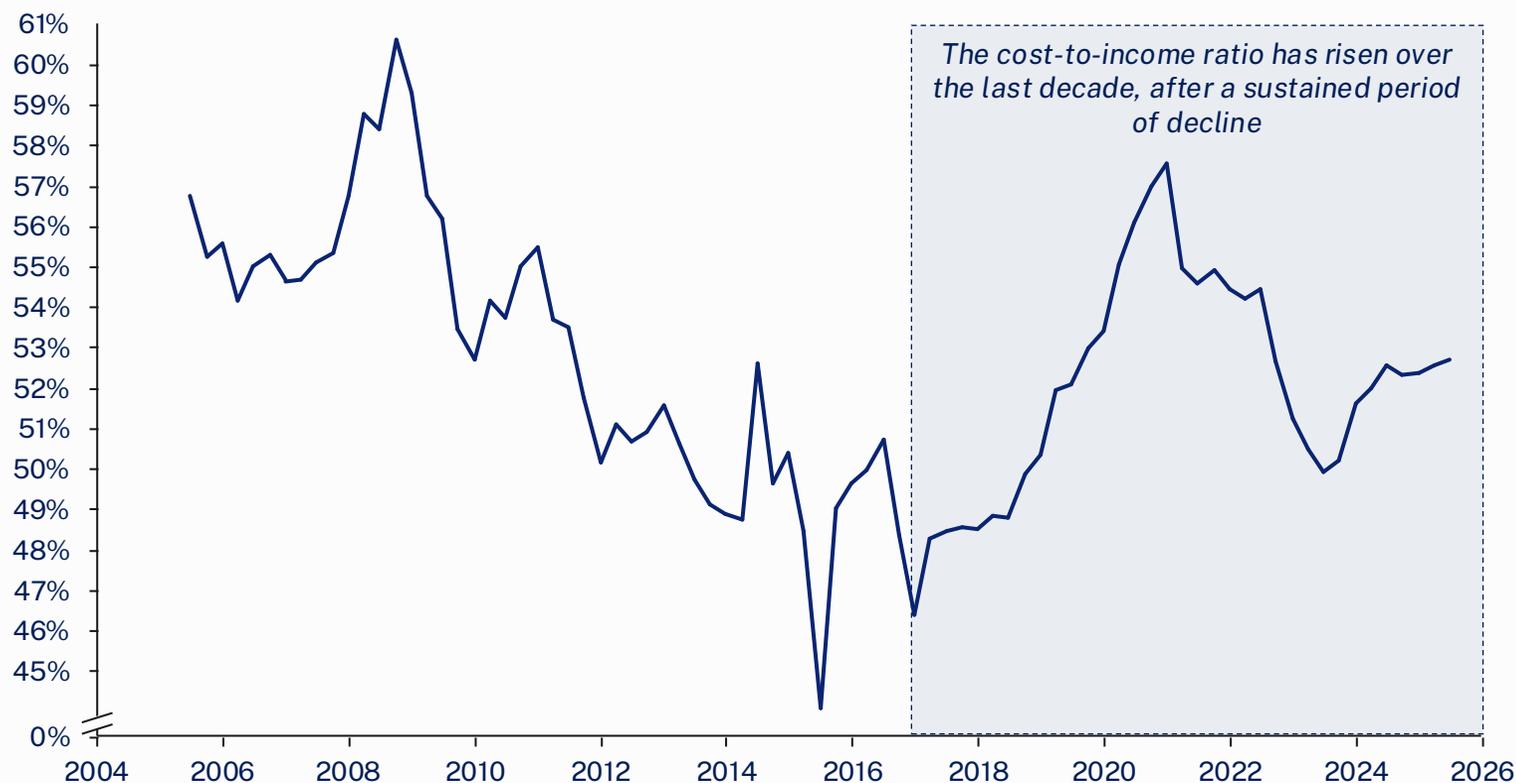


Source: CBA (2024); World Bank (2026) *GDP (constant 2015 \$US)*; Mandala analysis.

Banking efficiency drives economic growth, but cost-to-income ratios have risen as major banks absorb costs that new entrants avoid

Cost-to-income ratio for Authorised Deposit-taking Institution (ADI)

Rolling four quarter cost-to-income ratio



Key points

- **Cost-to-income ratios, a common measure of efficiency, have risen from 2017 to 2020 and again from 2024 onwards**, reversing decades of efficiency gains.
- **Cost-to-income ratios of Australian banks were among the lowest globally** in the mid-2010s with ratios of around 44%-48%.¹ Major cost drivers include technology upgrades, regulatory compliance, and scam prevention requirements.
- **Technology expenditure** has grown with banks making significant investments in digital channels, cybersecurity, mobile banking platforms, and payment infrastructure to meet evolving customer expectations and regulatory requirements under the NPP, Consumer Data Right (CDR) and ISD.
- **Compliance costs** have increased following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry which ran between 2017 and 2019.²
- **Reduced efficiency constrains banks' capacity to support productivity and growth across the economy.** This has economy-wide implications as less efficient resource allocation in the banking sector flows through to slower credit growth and constrained economic activity.

Note: Ratio calculated based on the total operating expenses and total operating income for ADI, excluding other ADI.

1. RBA (2014) Submission to the Financial System Inquiry - Competition, Efficiency and Innovation in Banking; 2. Royal Commissions (2019) Misconduct in the Banking, Superannuation and Financial Services Industry.

Source: APRA (2025) Quarterly authorised deposit-taking institution statistics; Mandala analysis.

Regulations are applied unevenly across institutions providing comparable services, creating distortions in the banking system

Application of requirements from regulation or banking codes across different types of financial institutions

		Banks					Non-banks		
		Major banks	Regional banks	Credit unions & mutuals	Int'l banks	Digital banks	Fintech firms	Big tech companies	Private credit
✓	Requirement applies generally to this type of institution								
✓	Requirement applies partially (see notes)								
Universal access	Maintenance of branches	✓	✓	✓					
	Provision of cash services	✓	✓	✓					
	Provision of low/no fee accounts	✓	✓	✓					
	Financial contribution to payment rails	✓	✓	✓	✓	✓			
Transparent conduct	Communications & disclosures (Financial Services Guide, Product Disclosure Statements)	✓	✓	✓	✓	✓	✓		
Consumer protection	Security protections (Scam Prevention Framework)	✓	✓	✓	✓	✓			
	Credit protections (FCS, CSLR)	✓	✓	✓	✓	✓	✓		
	Hardship protections (interest only repayments, temporary payment deferrals, loan extensions)	✓	✓	✓	✓	✓			
	Payment protections (ePayments Code)	✓	✓	✓	✓	✓	✓		
	Pricing controls (interchange and scheme fees)	✓	✓	✓	✓	✓			
	Capital buffers	✓	✓	✓	✓	✓			
	Bank levy	✓							

Note: The table represents regulations or banking codes which do not apply evenly across financial institutions. There are a series of other regulations or additional obligations which apply across all institution types, whether voluntarily or mandatory. 'Fintech firms' include BNPL providers. 'Int'l banks' refers to international banks operating in Australia. 'Big tech companies' refers to digital wallet providers operated by large technology companies (e.g., Apple Pay, Google Pay) that facilitate payments using cards issued by banks, rather than directly participating in payment systems as regulated entities. The lighter green shading indicates regulations or codes apply to some fintech firms but not all. For example, credit protections apply to BNPL providers and the ePayments Code is voluntary for opt in with some fintech firms adopting the voluntary code, but not all. Refer to the appendix for further details on the application of policy.

Source: Australian Banking Association (2025) *Banking Code of Practice*; Royal Commissions (2019) *Misconduct in the Banking, Superannuation and Financial Services Industry*; Australian Banking Association (2023) *Royal Commission*; ASIC (2022) *ePayments Code and Credit Code*; Mandala analysis.

Amid geopolitical uncertainty, it is more important than ever to have resilient banks

Global policy uncertainty is rising. Geopolitics and geoeconomic fragmentation have intensified, lifting the risk of abrupt policy shifts and weakening the traditional rules-based environment which the global economy has relied upon in the past. A growing trend toward industry policy over market-based approaches is evident as governments deploy tariffs, taxation policies, subsidies, and regulatory frameworks to influence multinational corporate behaviour and transform industry landscapes. Macroeconomic policy has been volatile after the post-COVID inflation shock, with ongoing uncertainty about the inflation path. At the same time, central banks are flagging cyber, AI, and climate risks as persistent stability challenges.

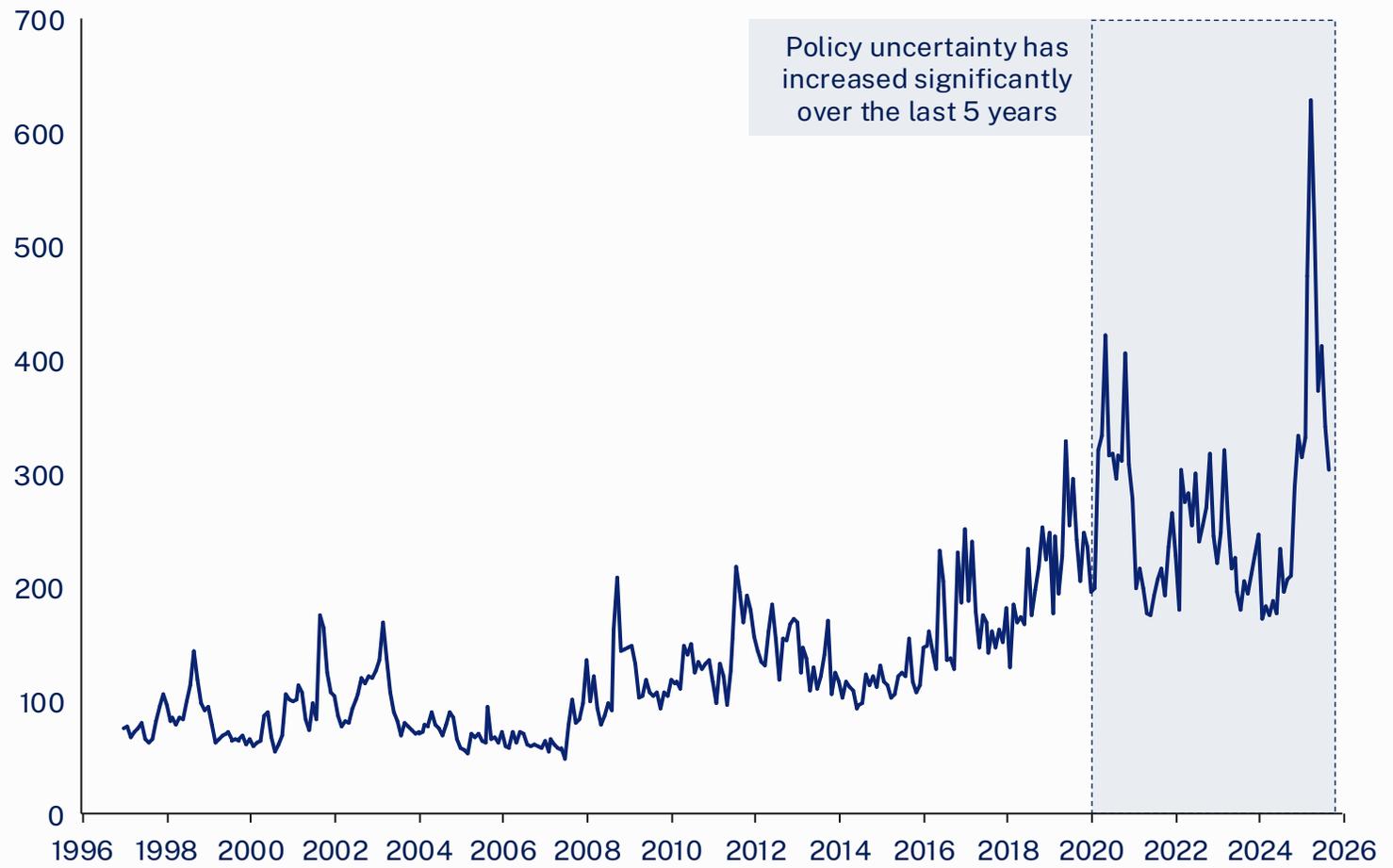
Global uncertainty can add stress to Australia’s economy. Policy pivots and market swings raise banks’ offshore funding costs and cut asset values, making refinancing harder. Shocks from technology change, climate events, or cyberattacks can disrupt payments and can spread into higher borrowing costs, delayed payments, and banks pulling back on new lending.

This is why resilience now matters more than ever. Australia needs banks with strong and usable capital and liquidity buffers, diversified and reliable funding, conservative risk controls and predictable prudential settings so credit can keep flowing when uncertainty spikes. That strength is built over time through steady, sustainable profits that top up capital and keep buffers ready to absorb losses.

Source: IMF (2024) *High Uncertainty and the Unknown*; RBA (2024) *Financial Stability Review*.

Global policy uncertainty

GPU index, 1997-2025



Source: Economic Policy Uncertainty (2025) *Global EPU Index*.



1

Technology, globalisation, and regulation have transformed the nature and economics of banking in Australia

2

A strong banking sector is important to serve the national interest

3

Appendix

Sources for application of policy across different types of financial institutions (1/2)

		Notes and rationale	Source
Universal access	Regional branches	<ul style="list-style-type: none"> Access to regional branches is implied under ABA banking code for inclusive and accessible banking. 	<ul style="list-style-type: none"> ABA (2025) <i>Banking code of practice.</i>
	Cash services	<ul style="list-style-type: none"> Access to cash services is implied under ABA banking code but is not specifically mentioned. The ABA has acted under obligation in the past with authorisation from the ACCC. 	<ul style="list-style-type: none"> ABA (2025) <i>Banking code of practice.</i> ABA (2023) <i>Banks act to keep cash convenient.</i>
	Low/No fee accounts	<ul style="list-style-type: none"> Access to low- and no-fee accounts is mentioned under ABA banking code for banking services for individuals with low or no income. 	<ul style="list-style-type: none"> ABA (2025) <i>Banking code of practice.</i>
	Payment rails	<ul style="list-style-type: none"> Payment rails such as the payment systems EFTPOS and AP+ are joint ventures backed by banks and other financial service providers and are regulated by the RBA. Fintech firms and big tech companies access payment rails through bank partnerships rather than directly participating in payment systems as regulated entities. 	<ul style="list-style-type: none"> Parliament of Australia (2021) <i>The payments ecosystem.</i> RBA (2025) <i>Regulations.</i>
Transparent conduct	Communications & disclosures (Financial Services Guide, Product Disclosure Statements)	<ul style="list-style-type: none"> Australian Financial Services Licenses (AFSL) and authorised representatives that provide financial services or financial products are obligated under the Corporations Act 2001 and other regulations to provide disclosure documents such as Product Disclosure Statements (PDS) and Financial Services Guides (FSG). Fintech firms carrying on a financial services business in Australia must hold an AFSL or be exempt from the requirement to be licensed. Big tech companies are not required to hold an AFSL. The provision of a credit facility is generally not a financial product, and providing loans would generally not require an AFSL or an AFSL exemption, meaning private credit falls outside the requirements for an AFSL. 	<ul style="list-style-type: none"> ASIC (2025) <i>Financial product disclosure.</i> ASIC (2025) <i>FSGs and website disclosure information.</i> Reeves, P. et al (2025) <i>Fintech Laws and Regulations 2025 – Australia.</i> Molan, A (2024) <i>Private credit in Australia – the regulated "unregulated."</i>

Source: Mandala analysis.

Sources for application of policy across different types of financial institutions

(2/2)

		Notes and rationale	Source
Consumer protection	Security protections (Scam Prevention Framework)	<ul style="list-style-type: none"> APRA-regulated entities including ADIs have information security obligations around the Prudential Standard CPS 234. The scam prevention framework covers banks, telcos and digital platforms, however disputes relating to telcos and digital platforms are yet to be covered by the Australian Financial Complaints Authority (AFCA). Private credit is not covered by these regulations. 	<ul style="list-style-type: none"> APRA (2019) <i>Prudential Standard CPS 234</i>. Treasury (2025) <i>Scams Prevention Framework</i>.
	Credit protections (FCS, CSLR)	<ul style="list-style-type: none"> Credit protections are included for ADIs covered under the Financial Claims Scheme (FCS), as well as part of the Compensation Scheme of Last Resort (CSLR). Private credit is not covered by the FCS, CSLR may cover private credit in limited cases. Fintech firms which are BNPL providers are required to have a Credit Licence. 	<ul style="list-style-type: none"> APRA (2026) <i>List of ADIs covered under FCS</i>. ASIC (2025) <i>ASIC alerts buy now pay later providers to apply for a licence under new laws</i>.
	Hardship protections (interest only repayments, temporary payment deferrals, loan extensions)	<ul style="list-style-type: none"> Hardship protections are implied under <i>Part D When things go wrong</i> section of the ABA banking code and under the National Consumer Credit Protection Act 2009. 	<ul style="list-style-type: none"> ABA (2025) <i>Banking code of practice</i>.
	Payment protections (ePayments Code)	<ul style="list-style-type: none"> Financial institutions are voluntarily subscribed to the ePayments Code. Many fintech firms are subscribed to the voluntary code but not all. 	<ul style="list-style-type: none"> ASIC (2024) <i>ePayments Code subscribers</i>.
	Pricing controls (interchange and scheme fees)	<ul style="list-style-type: none"> The RBA regulates interchange and scheme fees which typically involve financial institutions (mainly banks) and card networks. 	<ul style="list-style-type: none"> RBA (2024) <i>Backgrounder on interchange and scheme fees</i>.
	Capital buffers	<ul style="list-style-type: none"> APRA requires locally incorporated ADIs to hold capital buffers, with additional capital buffers for any ADI designated as a Domestic Systemically Important Bank (D-SIB). 	<ul style="list-style-type: none"> APRA (2026) <i>APRA explains capital buffers in banking</i>.
	Bank levies	<ul style="list-style-type: none"> Under the Major Bank Levy Bill 2017, five ADIs with total liabilities of more than \$100 billion (ANZ, CBA, NAB, Westpac and Macquarie Group) are required to pay a levy. 	<ul style="list-style-type: none"> Parliament of Australia (2017) <i>Major Bank Levy Bill 2017</i>.



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