Question and Answer

Warwick Bryan
Former Investor Relations Contact

[Operator Instructions] John Mott?

Jonathan Mott
UBS Investment Bank, Research Division

John Mott from UBS. A question on the cost-to-income on Project 35 that you've been working up in time with your net cost to income down to 35%. Since that target was put out there, the revenue environment obviously became a lot more difficult, which put a lot more challenge on getting the costs down in those businesses. So are you still comfortable that you'll be able to get to that 35% cost-to-income ratio? And very conscious [indiscernible] won't be here to see it so maybe [indiscernible] can you get there? And if that does involve taking group costs down, is that something that you'd be prepared to do?

Ralph James Norris
Former Director

Jonathan, you're absolutely right. The question is one that I don't have to be here to answer for the future. But certainly, aspirationally, it's all very much focused on the 35% and you are right to point out, obviously, when we made that announcement, that's what we were -- what were going to try to achieve. That did have a certain degree of reasonable growth and revenue. And so revenue has slowed somewhat, but certainly there's been no reappraisal of that number. We're still very much focused on that. And as you can see over the last 12 months, there's been a continuing reduction in that area, a reduction in the cost of income ratio in the retail bank and that is continuing into this half. And likewise, we've seen obviously a significant improvement in the cost -to-income ratio within Business and Private Banking substantial increase over the last 2 -- improvement over the last 2 years. And likewise, we're seeing a significant improvement in Bankwest. So overall, I'm confident that the organization is still very much on a trajectory of a lower cost-to-income ratio. And certainly, we haven't run up the white flag as far as 35 -- Project 35 is concerned. It's still very much our focus.

Jonathan Mott
UBS Investment Bank, Research Division

So that may involve falling costs, their group?

Ralph James Norris
Former Director

We're looking at improving performance productivity-wise.

Warwick Bryan
Former Investor Relations Contact

James Freeman?

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. David, I just want to get a little bit more detail around the margin, if I could, particularly actually on the deposit side of the equation. Given we're in an environment where deposits are exceeding lending at quite a rapid rate, just what the pressures are there that they're causing that to be declining impact on the NIM? And if, in the second half, particular distribution a bit of a split as to how the deposit part contributed to the margin where that's turning positive or where that's being negative? I know in the full year it's a negative, but distribution in the second half.

David Paul Craig

Former Group Executive, Financial Services & CFO

Right. I think there's a chart in the pack that gives you a breakup in that pack of NIM in the second half, which is on Page 67 of the pack. Where deposits and indeed funding -- net funding in the second half was broadly flat. In other words, slightly improving margins in HL deposits offset the continuing increasing cost of wholesale funding for the second half of the year.

James Freeman
Deutsche Bank AG, Research Division

And I mean, we're seeing some other banks start to reduce TD rates to serve your view on where you [indiscernible] perhaps in a slightly different way, is the spot margin, at the moment, how different is that relative to the...

David Paul Craig
Former Group Executive, Financial Services & CFO

Look, it's moving around all over the shop and obviously, in the last few days, we're seeing even more volatility and even more uncertainty in things. I mean, if this volatility continues, then you're going to expect that even more retail deposits will come in as there tends to be flight to strength in these times. And if so, if that continues, then we'll actually get more deposits in, which will mean less reliance on wholesale funding. But nonetheless, our wholesale funding is still -- we're still rolling off the remaining part of that old cheap, pre-GFC long-term debt with more expensive debt. That's costing us about 0.5 basis point a month now. We're expecting that to finish or peak and to turn the curb as it were around January next year, so we've got another 7 or 8 months to go. And that'll, as I've said, continue to add to the cost. But then we'll just have to see what happens on the retail deposit side.

Warwick Bryan
Former Investor Relations Contact

Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin, Credit Suisse. Let me first by start saying as painful it is for an Aussie to compliment a Kiwi, especially in the year of World Cup, congratulations on a sensational tenure as CEO of CBA, Ralph. Can I just go to Slide 15? The core bank transformation. My understanding was that the deposit products were meant to have completed move over to the core bank system by the end of 31st December 2010 and then 2011 was for the lending products to go over. This looks as if it's moving out 6, potentially 12 months, whether there has been a slowdown or a change in what's happened in terms of moving products over to the new system. And whether that impacts your ability to start to turn off systems and get some of the productivity benefits out of the new system.

Ralph James Norris
Former Director

Jarrod, I mean certainly the intention was always to move the business banking deposit products across this year. And that's been the case for some considerable period of time. And we completed the conversion of all of the retail deposits transaction accounts, savings accounts, time deposits last year. And certainly, we're now opening all of the new business banking accounts on the new system. But we do have the portfolio of existing accounts to transfer over the next month or 2. When we announced, obviously, that we were increasing the cost of the program, that was due to the fact that obviously, we were including more functionality into the system. And that obviously meant that the timeframe was going to go out into the latter part of 2012. Originally, the plan was for completion to be in the area of March -- April of 2012, that's now going to move out towards the end of 2012. But that's the reason why we made the announcement last year around the increase in costs. And that was a timeframe impact as much as an increase in functionality.

Jarrod Martin

Crédit Suisse AG, Research Division

Does that impact cost benefits from the system and especially in light of your outlook for FY '12?

Ralph James Norris
Former Director

I think some of the benefits that are coming to account now are quite strong. So obviously the new GoalSaver account, et cetera, is achieving additional benefits over and above what we anticipated. And certainly the announcements that we made in the next few months in regard to the new product initiatives around mobile banking, which weren't included in the benefits that we put in place originally, will, I think, significantly enhance the business case because you need a realtime system to do what we're going to announce later on in the year.

Warwick Bryan
Former Investor Relations Contact

Can you just pass it forward to Craig, please? Craig Williams.

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi here. You talked about not putting up the white flag on Project 35. I note, the message seems to have changed on home loan market share from 6 months ago when you talked with determination about growing that system again. Now you're starting a low growth environment, so not willing to chase share. So other than your economist forecast having come down, what sort of changed the mindset or thinking around that? And given that you do have the lowest mortgage processing costs in the system and probably the lowest retail bank cost-to-income ratio, your thoughts about flexing your muscle more in that respect.

Ralph James Norris
Former Director

Okay. We made some pretty aggressive announcements yesterday in regard to fixed-rate loans across the range of durations on fixed-rate loans. Also if you look at the last quarter, it's easy for you to say that we increased our share of mortgages, not quite the system, but not very far off system. So we have seen a momentum in regard to the growth of our share of the mortgage market. And that certainly comes about because there's no doubt that brokers in particular understand the value of our processing system, the speed with which we can obviously provide approvals and the speed in which we can execute. So we've had to step in for a number of our competitors who've had issues or problems with their own systems where they've not been able to meet segment timeframes and certainly we've got a number of instances where that's happened in the last 3 to 6 months, in particular.

Craig Anthony Williams
Citigroup Inc, Research Division

Just noting the recent volatility in markets, can you comment on how your books, I suppose, being positioned after the volatile movements in FX markets, interest rate markets, et cetera in the last couple of weeks?

Ralph James Norris
Former Director

Well Craig, some time ago, we took a decision that we wanted to make sure that we had a very strong balance sheet and that we had high levels of liquidity. We are carrying significant buffers in liquidity to make sure that we could handle any closing of markets for periods of 3 to 6 months. And certainly, we took the view that the global financial crisis, as it's been termed, has not yet been completed. And that while we may have come over the biggest hump, there are going to be a lot of lumps and bumps on the way. And as a result of that, we've taken a very conservative position in regard to our balance sheet and our liquidity to make sure that we're not going to have any surprises. So I feel very confident that we are in a situation where we've got the appropriate buffers and flexibility to be able to handle what it is effectively thrown at us.

Craig Anthony Williams
Citigroup Inc, Research Division

So no trading income volatility?

Ralph James Norris
Former Director

Well I think there's no doubt that trading income has been down in the last 12 months. And as David obviously demonstrated in the presentation, we've seen a drop of around 11% in trading income. Obviously in times of volatility, then it's usually a situation where trading income does pick up as people, organizations and give it to put in place swaps and hedges. And so certainly I think we'll probably see a slight improvement in trading income on the back of that. But I wouldn't make that a forecast at this point on the basis of a few days' volatility.

Warwick Bryan
Former Investor Relations Contact

Ben, we'll take one question here and then we'll go to the phones and then we'll come back to the room. So Ben Koo from Goldman Sachs.

Ben Koo
Goldman Sachs JBWere Pty Ltd, Research Division

Ben Koo from Goldman Sachs. Just sort of taking a step back, going back to Slide 36, where we have a look at the troublesome exposures. I just wanted to dig in a little bit more into that and have a look at -- this says that's declined over the half, yet you also flagged that the net upgrades or downgrades are relatively neutral over the half. So could you just give us a little bit more color behind this? Any particular industry segments that are performing better or worse that's driving that improvement in troublesome exposures? And then, perhaps looking to the growth perspective in terms of the business lending growth that you've seen despite the Bankwest runoff, is there any particular industry segments there that are showing signs of growth as well?

Ralph James Norris
Former Director

I'll just make a comment before I pass on to David. As far as the upgrades and downgrades are concerned, they're based around the number of customers. They don't quite exactly to dollar volumes, so dollar volumes have been less, relatively speaking, on the point of view of downgrades. But you've got a situation where we put that chart in there based around customers. So that's why you see the difference in the overall impairment number. David might like to add a bit of color to that.

David Paul Craig
Former Group Executive, Financial Services & CFO

Yes. So the troublesome exposures reflect really what I was saying before, which is the overall credit quality of the book continues to improve. And so then in troublesome, they've either stopped being troublesome or they've moved into impaired. That final back on -- at the bottom right-hand corner chart on Page 36 shows you that our impaired assets are pretty flat for the period, at the end of the period. Now that's because in that last bucket, it takes a long while for them to move out. So they sort of migrate through the process or improve. But when they get into the last bucket, then it takes a longer period just to shift them through. In terms of, particularly the exchange rate, we're seeing some signs of stress in the sorts of areas you'd expect to be seen that are affected by the Australian Dollar, so some manufacturing, obviously some small retail, transport logistics, and sort of Southeast Queensland, but not Brisbane property. We have very low exposure to that area, other than some residual stuff in Bankwest, so that's fine. So from our point of view, net-net to books, performing well. In terms of where it's growing and we might throw across to Ian, but broadly as far as the book's concerned, it's been across -the-board, steady growth. What we're finding is, if you go and talk to your customers and actually build a relationship with them, then over time, you get the confidence and you get business from them over time. And it's more of an across-the-board growth, as I said. And Ian's nodding vigorously, so I think that probably covers that question.

Ralph James Norris
Former Director

Good morning, TS. We're going to the phones. You had a question?

T.S. Lim
Southern Cross Equities Limited, Research Division

Just a couple of questions. Do you think the rating agencies have too much power? And what are the consequences, if they actually downgrade the major banks in Australia?

Ralph James Norris
Former Director

Well rating agencies haven't really covered themselves in glory over the last decade or so with what's actually lead to the global financial crisis. And they seem to be always a bit late to the party, in my view.

T.S. Lim
Southern Cross Equities Limited, Research Division

Yes. And what would be the consequences if they do downgrade the major banks by a notch?

Ralph James Norris
Former Director

Well I think you have to look at that from the point view of, TS, as to what it does to the banks, globally. I mean this is not a situation where Standard & Poor's is looking at Australian banks alone. They're looking at the whole rating model, which would have an impact across financial institutions internationally. So it comes down to what would be the ratings, as far as a comparability with other like financial institutions. So I suspect that when you look at banks like the Australian majors, they've very clearly demonstrated their ability to withstand what has been the biggest shock in financial markets since the last depression. And I don't think that any change by the rating agencies is really going to change the way that the banks are able to carry out the business and react to markets in general. So I think to a large extent, the change is somewhat meaningless, but it depends on whether or not Australian banks end up being disproportionately rated compared to the market as a whole. But I would suspect that, that would not be the case.

Warwick Bryan
Former Investor Relations Contact

We'll now go to Matt Davidson from Merrill Lynch.

Matthew Davison
BofA Merrill Lynch, Research Division

Ralph, you've overseen a period of very strong ROEs on average, around 20%. And I guess I'm just interested in your outlook statement today is fairly subdued. The credit growth forecasts from your economists have come down rapidly. So just interested whether you think it's realistic to assume that the cost efficiency initiatives ahead can preserve the sort of 20% ROEs? Or whether the group needs to look elsewhere to either find growth or return going forward? Or investors need to accept lower ROEs going forward?

Ralph James Norris
Former Director

Well this whole issue around ROEs is obviously a vexed one. Certainly we're looking at other means by which we can obviously grow our business going forward. And so that obviously means businesses that we are currently in, making sure that we can grow those in order to make sure that we're able to continue to provide good and more superior returns to our shareholders. There's no doubt that there are a number of headwinds. When you look forward with regulatory changes, Basel III changes, et cetera, which all will have some impact on, obviously, returns. So therefore from an organization such as ourselves, it's very important that we are focused very much on productivity. And the things that we are doing inside our business, process simplification, new contemporary systems, are all going to obviously provide us with productivity advantages going forward. And obviously, over time we're going to transition to a lower cost operating environment. And that's going to provide some degree of hedge against the deterioration in margins. But there's no doubt that running larger ROEs in high teens is going to be challenging. But certainly that's just another part of the mix. And certainly that's why we're obviously very focused on making sure that we are going to get our cost-to-income ratios down to levels which will be very much at the global leading edge. And I see no reason why we shouldn't be able to do that. But there's no doubt that it's a challenge.

Warwick Bryan
Former Investor Relations Contact

One more question from the front. Brian Johnson from CLSA.

Brian D. Johnson
CLSA Limited, Research Division

I had 2 questions for David, if I may, which are very, kind of, regulatory driven. Looking at Slide 51, which is the deposit funding. The liquidity assets sit at $101 billion. David, could you just give us your initial feel on how much of that $101 billion will count as liquidity under the new liquidity coverage ratio? What might be the shortfall we should see on 1 January 2015 and what the impact would be?

David Paul Craig
Former Group Executive, Financial Services & CFO

Well, Brian, of course we're waiting for the final rules, and in particular, what we know is that there will be some form of facility being offered by the Reserve Bank, given that we can't hold sufficient high-quality liquid assets around sufficient high-quality liquid assets in Australia, so that we will be, in a sense, offering up, I suspect, some of that RMBS at a fee to the Reserve Bank. We don't know the margin yet. So that's the sort of open question. In total -- in terms of total liquids, I think we've said, and we've continued to say that we expect that the total liquid assets required will be roughly double what the current regulatory minimum liquid assets are and that still seems to be the situation. So in terms then of cost, the cost, we don't know, Brian, because we don't know what the Reserve Bank's going to charge for that extra amount. And of course then the question is needing to pass it on in the marketplace.

Brian D. Johnson
CLSA Limited, Research Division

And David, will most of the green $30 billion effectively disappear from that calculation?

David Paul Craig
Former Group Executive, Financial Services & CFO

Well again that depends on exactly what's defined as qualifying or not. We might just pass over to Lyn to give you a little bit more color on that, Brian.

Lynette Elizabeth Cobley
Former Executive General Manager of Retail Products and Customers

Yes. Look at this stage, our expectation is that all of the gray and all of the green will be part of the qualifying liquid assets [indiscernible] will have to pay a fee, for that part of it that's the green section. What we don't know yet is how much of the blue section, which is already internal RMBS, we may be able to count as liquid assets as well and therefore, how we might reshape that. But as David said, we'll know better in September when the new liquidity rules come out.

Brian D. Johnson
CLSA Limited, Research Division

Okay. The second one, David, is on the next slide. If you have a look at Slide 53, where you're talking about your Basel core equity, Tier 1. If we take out the Basel III requirements before the international harmonization that everyone loves to talk about, it's sitting at 7.1%. Yesterday, Mark Joiner at NAB suggested debt ratio should be 7.5%. He thought it would be around 7.5% to 8% level. And I know obviously this would be very cavie because the guidance hasn't been issued yet. But can you give us a feeling, a, has your expectation of that target ultimately drifted up? And could you share with us just where you think it may well be?

David Paul Craig
Former Group Executive, Financial Services & CFO

Well Mark's obviously much better informed than I am. We know there's an APRA paper coming out on the 19th of August, which I'm anxiously awaiting. But I don't know anything more than that.

Brian D. Johnson
CLSA Limited, Research Division

And, David, has your expectation on that requirement drifted up?

David Paul Craig
Former Group Executive, Financial Services & CFO

Well again, you're asking the same question, a different way. I think, Bryan, we don't know what's exactly in APRA's mind. We'll wait and see. I mean, it's fair to say, though, that we would always be holding something above the regulatory minimum anyway, so it really just becomes -- and that's why we're sitting obviously where we are now. So it just becomes a question of what the final rules are and how much we think's prudent to hold above those limits.

Ralph James Norris
Former Director

I think, Bryan, the issue here is that, obviously, we've had in the APRA model previously, a situation where they've discounted a number of instruments from the capital composition, and it's going to be interesting to see under the new Basel III arrangement whether or not they continue down that path as far as some of those deductions that have been made previously. I think there's no doubt that the amount is going to be above 7%. I think it's also important to note that we've obviously been generating very good internal capital, and see that we would continue to do that over the period ahead before the Basel III requirements become mandatory. So I think at the moment, we are probably reasonably relaxed. But I think you're probably right that we are going to see that number drift up a bit.

Warwick Bryan
Former Investor Relations Contact

I'll take one from the web. From Roger Patel [ph] at Solis[ph]. And this is for you David. Can you explain why you released overlay reserves despite the weakening macroeconomic data?

David Paul Craig
Former Group Executive, Financial Services & CFO

Well, as I explained earlier, it's not a question of releasing overlays. I mean these are all audited numbers that -- we already have a specific overlay for specific things, such as, you acquire Bankwest and you're required to amortize a provision that you hold over the life of the loans, they just automatically come down. And we've actually increased to the extent that we have any discretionary power, we've actually increased our overlay by $50 million for economic circumstances.

Warwick Bryan
Former Investor Relations Contact

Thanks, David. Victor?

Victor German
Nomura Securities Co. Ltd., Research Division

This is Victor German from Nomura. Just to go back to David's point that obviously credit environment in terms of growth is not as strong as it has been in the past and it's difficult for a player of your size to gain market share. And at the same time, as a group you're generating a lot of surplus capital. Your thoughts about inorganic strategies. And I see the slide on CBA position in Asia is drifting its way towards the beginning of the presentation. So maybe if you can just share some thoughts about potential opportunities in Asia, and is there anything of interest? And if Ian's views are significantly different to yours, I'd be interested to get his views, too.

Ralph James Norris
Former Director

Well I think it's fair to say that we've obviously identified the fact that Asia, which is no surprise to anybody, is obviously going to have a stronger growth profile going forward than any other geographic region. One of the advantages for Australia is that we do sit on the edge of Asia. We don't -- are not confronted with the tyranny of distance that we have had in the 20th century, where most of the active markets were U.S. and European. So this time we are obviously in a situation where we can take advantage of that. And certainly we have been investing in Asia. We've been improving our capability and up through Asia. And certainly I see that, that is an area of the business that will continue to grow. The other point as David made was if you look at our CFSGAM business now, 54% of the revenue from that business now comes from offshore. And certainly we see opportunities in wealth management outside of Australia. And we're obviously looking at opportunities, as and when they arise. There's nothing at the moment that I could specifically point to. Obviously if there was, we'd be making some announcements to the Exchange in that regard. But certainly I think you'll find that the organization will be making sure that it's not just going to rely on its existing revenue streams, it will be looking for other revenue streams. But I think we all have to be careful that, when we hear the words "transformational" or "strategic" preceding the word "acquisition", that usually means that an organization is going to spend too much. My view is that the best sorts of acquisitions are the ones that are undertaken opportunistically. And I think that Bankwest is a classic example of that. And if we continue to see the sort of volatility that we've seen in recent weeks, that does tend to present opportunities that, for well-capitalized, large organizations, they have the opportunity to move. So we do a lot of work inside this organization, in looking at a large range of organizations and businesses. And so we're always well prepared, if something is to shake loose to be able to move because we're generally will have found that we've actually done the work on it. So I see that Ian will approach it in not a dissimilar manner going forward. And I see him nodding.

Warwick Bryan
Former Investor Relations Contact

Scott Manning from JPMorgan.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

I was just interested in Slide 93. On the home loan arrears chart, the top left-hand side, the emergence of the little red line, the low deposit premium. Could you explain how much of the originations of that over 80% LVR portfolio are effectively self-insured? And was that something that you'll looking to do increasingly going forward to try and capture before margin? And also what's the corresponding differential capital treatment, if it's not mortgage-insured with that over 80% LVR?

David Paul Craig
Former Group Executive, Financial Services & CFO

Well, the percentage that we do there is relatively low. But, yes, because we've got pretty accurate credit scorecards, where we have a prime customer who we know well and who -- generally that being a customer for a long while, we know well, and we have a very good understanding of their income and so forth. Then sometimes we will charge them the higher premium that we would otherwise charge -- that would otherwise be paid to the mortgage insurer, and we take that additional premium ourselves. And as you can see, the arrears rates on those accounts is substantially below our normal insured -- uninsured risk. Let alone, the [indiscernible] insured risk. In other words, that just validates that the scorecards are very accurate, and it enables us to add a little bit more margin to the game.

Ralph James Norris
Former Director

Generally, as David, said those customers are long-term customers of the bank. And certainly we find that long-term customers of the bank have 6 times less propensity to default on loans, and so we know that history. And generally you'll find that these people are professionals, so you have people like doctors and the like, who are young, qualified, and as an example as a group, and are good credit risks going forward.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

[indiscernible] because it fit into that category, too? So do you have any numbers in terms of the proportion of 80% LVRs that you are charging directly?

Ralph James Norris
Former Director

It's very, very small. Ross, have you got that number?

Ross Maxwell McEwan
Former Group Executive of Retail Banking Services

No, But at least around 3% It's a pretty low number.

Ralph James Norris
Former Director

So it's around 3%, is the number.

Ross Maxwell McEwan
Former Group Executive of Retail Banking Services

Just remember we only take on board ourselves those we categorize 1 through to 5. 1 being a very, very good risk that we've assessed. We're only taking onboard self-insuring 1s and 2s, and only up to an LVR. I think it is of 90% to 95% for those. So it is the best risk we're holding for ourselves. And you'll see a very low arrears on that bucket. Next to nothing. So it's a nice premium.

Ralph James Norris
Former Director

So it's 3% of the loans in that category.

Michael Wiblin
Macquarie Research

Mike Wiblin from Macquarie. Just on investments then. I wonder whether you can maybe just give us an indication of the outlook for that particular piece. You highlight here that it's kind of 1 percentage point of your cost growth. Is that going to be a natural tailwind? I guess just the benefits from core banking come through, and I'm assuming the costs roll-off. And then also how much regulatory pickup on the investment side are you expecting?

Ralph James Norris
Former Director

I think if you go back to where we were 5 or 6 years ago, we were spending around $400 million a year, and today we spend around $1 billion. And I think it's fair to say that we've spent a lot of money over the recent years in refurbishing the network. We've obviously refurbished our accommodation footprint as well. And at the same time, we've undertaken significant investments across a range of technology platforms. It's fair to say that we're probably going to see a situation where we're flat into the future once we get past core banking. And so certainly I think that while there is still some pent-up demand in some areas for upgrades of systems, which we've obviously taken a view that we want to make sure that we complete the core banking system. I would suspect that we will see that start to ease off as a percentage.

Unknown Analyst

[Indiscernible] I just wonder if you could share with us your thoughts on Canberra and the Reserve Bank, you're move 6 months ago to protect -- save the mining tax. So how do you see things going forward given you got one last chance to fire away?

Ralph James Norris
Former Director

I think I've picked a few battles in my time. I don't know whether I want to pick a few more today. But certainly I think as far as the Reserve Bank is concerned, I think we are very well served as a country by the quality of our Reserve Bank. And so I have every confidence in the Reserve Bank making the right calls going forward. I think obviously we do have some issues around political uncertainty at this stage. But that seems to be an issue that's confronting countries around the world, whether it be in Europe, U.S., and in this part of the world, I mean, it's always difficult for governments when they're in a minority situation, where they have to balance the requirements of their coalition partners and their own policies. So it's never an easy situation, and one that I'm glad I'm not in.

Andrew Lyons
RBS Strategy

This is Andrew Lyons from RBS. Just to pass a question for Lyn. Lyn, can you just make some comments just on what you've seen in funding markets, given volatility that we're seeing over the last week or 2? And then also just looking at Slide 50. The funding tenor of the new issuance has been falling over the last few halfs. Are you comfortable with that in light of the new regulatory environment? Just any comment on that as well.

Lynette Elizabeth Cobley
Former Executive General Manager of Retail Products and Customers

Okay. Well let me take the first point. The volatility over the last few weeks is, I think David and Ralph both mentioned, does tend to increase some of the potential costs in term funding, particularly in the offshore markets. Fortunately we haven't been in those markets. We very successfully raised a large quantity of funds in the Australian market a few weeks ago, before all this started. So we're very, very well funded. And in fact actually what we're finding is a flight to quality in the short end, the USCP [ph], ACP [ph]. We're getting very, very large amounts away at exactly the levels that we were doing prior to this crisis. So we're in an extremely strong-funded position. I think in relation to the weighted average maturity you're talking about, we have done this term funding for obvious reasons this year as deposits have ended up funding most of our asset growth over time. As we continue to repay our maturities, you'll see that those maturities, the weighted average maturity stretched out. And so it's really just a timing issue as much as anything we haven't needed, the term funding, so we haven't been stretching out the maturities. But clearly, directionally with the changes in the regulatory rules, we will be heading towards that direction over time.

Unknown Analyst

Brett Lemaitre [ph] BBY. A question on the different strategies you've adopted. In the Retail Bank, you've gone for price rather than volume, as the margins have gone up. But your growth has been below system. But in the business and private bank, the reverse has been the case. Volumes have been going up ahead of system and margins have been falling. Can you comment on the reasons you've taken different strategies for those 2 businesses?

Ralph James Norris
Former Director

Well, it's fair to say that we've obviously done well in business, but I wouldn't say that that's been on a cost-cutting basis...

David Paul Craig
Former Group Executive, Financial Services & CFO

No, we're actually increasing. I'm not sure where the margins have been falling comes from.

Unknown Analyst

It comes from Slide 74, where net interest income has gone down from 851 to 836, while volumes have gone up.

David Paul Craig
Former Group Executive, Financial Services & CFO

Yes. That's because of bills of exchange. So customers in business banking largely use bills of exchange which in the line fees of those exchange comes from other banking income.

Unknown Analyst

Okay. Total banking income has gone from $1,513 to $1,539. So that's up a couple of percent.

David Paul Craig
Former Group Executive, Financial Services & CFO

Yes. 3 fewer days, we're looking at halfs. 3 fewer days in the second half than the first half. All right?

Unknown Analyst

Yes. We still do get to the same...

Ralph James Norris
Former Director

We still refer to that 2%.

Unknown Analyst

We still get to the same point, but your income hasn't increased and the Business and Private bank, but it has in the retail bank.

David Paul Craig
Former Group Executive, Financial Services & CFO

The banking income, don't forget that in the second half, we've got the reduced commissions on CommSec, so you're looking at -- I understand the confusion but you're looking at 5 separate businesses, all aggregated into 2 lines. So CommSec's commissions and income are down. But the banking businesses are up strongly, both on margin and obviously particularly on volume.

Ralph James Norris
Former Director

So there's been about a 12% drop in the performance of CommSec and its income.

Unknown Analyst

It's only a small proportion of the business.

Ralph James Norris
Former Director

And so it comes to 1% or 2%. So when we're talking about -- so the numbers that we're talking, all of those 3 factors together.

Unknown Analyst

So you're saying the strategy's the same?

Ralph James Norris
Former Director

The same.

Unknown Analyst

And you're saying the outcome's the same?

David Paul Craig
Former Group Executive, Financial Services & CFO

Well, it's profitable growth. I mean, look, at the end of the day, what we said -- I think we should come back to 6 months ago, where we said our target over the medium term is to maintain market share in home loans, for example. Several days later, one of our competitors announced a price war in the home loans sector. We're interested in profitable growth. We're not necessarily going to go absolutely head-to-head and slash our margins and slash our profits just for the sake of a competitor. But assumably there's been no price war at all in business banking and in that area, customer satisfaction and great service have counted fantastically. And that's why we've grown a double system in that space over that period.

Ralph James Norris
Former Director

In fact there's been one bank that's been pretty easy pickings in that regard. Concentrating on one area, but not concentrating too much in the other. But as far as the retail business is concerned, over the last quarter we're seeing a closing in the gap between what we were doing previously and what we're doing now. So we're not very far off system in that regard. Craig? Ross? So you'll see that come through over the next 6 months in particular. And as I said, the news that we took yesterday will have an impact and already having an impact. Ross will make a comment on that, if you like.

Ross Maxwell McEwan
Former Group Executive of Retail Banking Services

We have a little bit over 2 years that we grew the hardest -- the most, where the largest margined-years that we've had for a long period of time. If you have a look at the year that we have grown the least is the least margin in new business that you've ever seen for a long period of time, so to me you're smarter -- well I think you're smarter, going at a time when the margins are thicker and then holding on to those customers when the margins are thinner. So I'd be happy to run just under system and hold on to a margin over last 12 months but we have been booting back up for about 2 basis points off system in the last month, but the margins have been maintained. So for me that's probably a good outcome. And let's see what now happens on the fixed rate parts of book, where we've been happy to bring the rates down to look after the customers going forward in that part of the book and happy to compete. Good margin.

Warwick Bryan
Former Investor Relations Contact

Just going back to the phones for one more question on the phones. Brian Johnson from CLSA.

Brian D. Johnson
CLSA Limited, Research Division

I had a question. I suspect Ross will be -- chime in on this. Could I just refer everyone across to slide 93, just these low deposit premium products you've been writing. Ross, my understanding was that you actually booked that premium, you recognized that income over the first 2 years, whereas if you speak to any of the lenders mortgage insurance groups, they'll tell you they don't really season -- a bad loan doesn't come out on the housing loans till years 3, 4 and 5. Can you confirm that the profit recognition of that premium is over the first 2 years as opposed to some years 3, 4 and 5?

Ross Maxwell McEwan
Former Group Executive of Retail Banking Services

No, Bryan. It's over the -- we spread it over the life of the loan, which, at the moment is about 4 and a bit years, I think it is. So we don't take the premium in just in the first 2 years, but we do spread that premium.

Brian D. Johnson
CLSA Limited, Research Division

Okay. And the second one, Ross is, there's been a lot of talk about how first-time buyers, when some may say that they're no worse quality than the other banks. But I'm looking at those charts on Page 93, and when you think about the peak of the first-time buyers was actually down in '09, which is probably yet the season, what's your thoughts? Are the first-time buyers as good a quality as the rest of the portfolio? Because that's just your charts on Page 93, when you think of the peak -- the borrowing at the interest rate lows and the subsidized highs haven't seasoned yet, I would have thought that it's kind of indicating that the asset quality is a little bit worse?

Ross Maxwell McEwan
Former Group Executive of Retail Banking Services

Yes. Look at good Christian Bob [ph] what we're seeing year-on-year and like-for-like are exactly the same. That graph on bottom left hand on Page 93 so shows, that we do watch that book, the first-time buyer, thinking exactly what you're thinking. But it's performing exactly the same as the same groups that are seasoning through that period of time. So we haven't seen the first-time buyer grouping perform any differently at this point in time. And now, you'd expect if you're seeing it coming through your book over the last 6 months. And just put on in 208 [sic] [2008], into 2009, the bulk of it.

Brian D. Johnson
CLSA Limited, Research Division

Okay. And one for David on Slide 95. The probability of default stress factor that you said goes from 1x to 6x, what is that?

David Paul Craig
Former Group Executive, Financial Services & CFO

Well it's 6x probability default. So that's...

Brian D. Johnson
CLSA Limited, Research Division

So, is 6x a really, really low number?

David Paul Craig
Former Group Executive, Financial Services & CFO

No. Good question. No, so I think unemployment is 11%.

Ralph James Norris
Former Director

Well it's 10% or 11%.

David Paul Craig

Former Group Executive, Financial Services & CFO

Unemployment 10% or 11%. 30% drop in property values.

Brian D. Johnson
CLSA Limited, Research Division

So I'm more interested in what the PD stress factor is.

David Paul Craig
Former Group Executive, Financial Services & CFO

The 6x factor from today would be equivalent to unemployment going up to between 10% and 11%, and at the same time, property prices dropping 30%. So that would give a 6x higher PD and that would give you the $576 million loss.

Warwick Bryan
Former Investor Relations Contact
Look, we might wind it up. Thank you very much. Thank you for coming today, and see you again in 6 months.