Question and Answer

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman Sachs. Just 2 questions relating to your noninterest income. Firstly, just on your markets trading income, it was a good result in total, but sales was soft half-over-half despite what was a pretty volatile second half of the calendar year in 2016. Can you maybe just talk about those trends? And then secondly, just on fees and commissions, you had a very strong result. Commissions, I think, were up 9% on pcp; fees, up 5%. Can you maybe just give -- we've obviously had a number of years of weakness on that front at the system level. Can you maybe just talk about the sustainability of the very good trends you had in the first half?

David Paul Craig
Former Group Executive, Financial Services & CFO

Well, I'll take the first question. So trading income, which you can see on Slide 43 in your pack. As you point out, the sales component of that at -- sitting at $388 million in total compared to $357 million this time last year, but trading up strongly. I think we're going to find this is the feature of most financial institution results around the world. There was a lot of volatility in the last 6 months, and I think banks will have done well in that particular period on trading income -- on that part of the trading income. Your second question was around...

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Commissions.

David Paul Craig
Former Group Executive, Financial Services & CFO

Commissions?

Ian Mark Narev
Former Executive

Yes, I mean -- in terms of commissions, I mean, Andrew, you've correctly noted this was a pretty strong half. You'll know there are a whole number of factors that go into that. Overall, as you will know, we don't really forecast, but what I will say is it was a strong half but not an amazingly strong half in the sense that there were aspects of that, that were probably a bit better than they have been and they might be but overall, it's just -- it's a really good underlying result.

Melanie Kirk

We'll take the next question from Craig Williams.

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi here. I think it's pretty interesting result, this one. It shows almost nirvana from that common and a retail-oriented bank like CBA. Perhaps questions then emerge about sustainability of some of your business trends. You've grown volumes quite heavily sort of across your business, but it's really only in retail banking in Australia where this is delivering really strong revenue and profit growth. So to what extent can retail banking continue to sort of carry the load and withstand competitive pressures in a manner which other divisions don't seem quite as capable of doing at present? And second question, with investment spend sort of down 12% or 13% versus the previous 2 halves to around $600 million this half, to what extent is the group over the hump, if you like, on that compliance and technology spend, allowing the bank to continue to drive modest sort of cost outcomes and consequently, positive jaws? Or is it a sort of a tactical adjustment for the revenue environment that you're seeing there?

Ian Mark Narev
Former Executive

Let me take a crack at both of them, and then David might want to add. I mean, look, in terms of the volume and margin, the first thing I'd say in the areas outside retail banking is that clearly, the revenue story is a function of the combination of volume and margin. And while I'd say the Retail Bank income story clearly has been the standout at the result, if you look at BPB, if you look at ASB, we are seeing good income growth. We are seeing in a lot of these areas increased competition, and I don't think that it's necessarily going to abate. But I think we're always thinking about what is the way of maximizing the combination of volume and margin, and we look at that very carefully over time. In terms of retail banking, if you look at the underlying drivers here, you've got reasonably good ongoing system credit growth, and we'll all have our view on what that's going to look like. You've got margin where, yes, there has been some margin benefit from repricing but on an ongoing competitive market. And you've got very good expense control. Now what I can say is that the elements that are within the control of management, we're nowhere near tapped out. And I think the ongoing ability of Matt and his team to manage debt balance and to manage expense as well is not a one-off. That's an ongoing trend. So the ability of it to continue is going to very much depend on your view of how the system grows and where competition is going to grow. Separately, on investment, it's down a little bit. There are a number of different reasons for that. And one good example, if you look on the branch investment line, is that the previous period had a whole lot of investment in items which we haven't had to repeat in the half. It's not really an example of any strategic read, the technical change investment. Are we over the hump in investment in technology? Absolutely not. I mean, it's been a critical part of our view for a long time. That just continues. Are we over the hump of regulatory investment? I don't think we're yet at a point where we can say the growth in that has come off, but it's probably a little bit more stable at the moment than it has been. But that can always change.

David Paul Craig
Former Group Executive, Financial Services & CFO

Yes, I mean, if I just add on both of those. I mean, firstly, on the revenue side, I think one of the reasons that we've shown that graph that Ian showed early on in his presentation about the consistent outperformance on revenue, there's no magic answer to will we grow volume more next time or margin more next time or what. It's a matter of every business and every product owner watching the market and working out how to optimize revenue. We've been able to do that over a consistent period, and we will continue to do so. However, it's a function of the economy. And so a feature, as Ian pointed out, is that revenue growth in general is lower than it was 2 or 3 years ago because there's less lending going on in the market because there's less demand for lending. So it's going to be a function of particularly the Australian economy. But we are committed to positive jaws, and we will manage our costs to less than our revenue. On the investment spend, it is a timing difference there as much as anything in dollars. The P&L hit this period is $22 million less than it was 6 months ago. So it's peanuts, the difference. But I would expect that, that will bounce back in the second half. So it's more timing than anything. And certainly, we're committed to continuing to invest in technology.

Melanie Kirk

The next question, we'll take from Jon Mott.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. If I could just follow up, Ian, with a comment on the other operating income that Andrew mentioned before, but more specifically, if you delve into the business bank and consumer finance, where it looks like it is a big step-up in the fee income that's coming through commissions lines and other lines, which has been flat for a long time. Can you just go into a bit more detail there? Are we actually seeing a change in pricing that's come through? Is it volumes that are going to come through that are more sustained? And if the volumes pick up, transaction is picking up. This is an ongoing increase that we should be thinking about in both the business bank and the consumer finance. I think you also talked about loyalty points there. So if you can delve into that. And also, David, it would be hard to go talking through a briefing without talking about the unquestionably strong capital ratios, so I might as well keep going. With the leverage ratio fell from 5% to 4.9%, so could you actually comment not so much about the CET1 because we know there's a lot of discussion globally about that. But let's focus on the leverage ratio, if we could.

Ian Mark Narev
Former Executive

So Jon, to pick up on the other banking income question. The first point -- and David mentioned this briefly in his summary, when we're looking at business banking products because of various vagaries of how we account for these things, some of the -- what really is interest income in nature but line fees and various things turn up in the other banking income line, as you're probably aware. And although we've made some product structure changes, reduced dependency on bills, et cetera, the nature of facet loans originate on the facet system and other things mean that a lot of the growth that you see when the balance sheet is growing actually turns up in the OBI line, not in the NII line. And it's one of the reasons, as David mentioned, that the margin can look a bit weaker. By the same token, you see OBI going up as a function of just business banking activity, which you can see in the business banking line. On the commissions, look, as I said, a number of different things going in the consumer finance. Yes, when there's more activity in the market, obviously, the overall fee environment goes well. We're constantly working with other partners we've got. We've got a very strong relationship with MasterCard about optimizing the relationship we've got from them for their benefit and from our benefit. So to come back to what I said before, I think this is a good period. It's certainly better than previous ones we've had. Underlying it are trends that we can see continuing. But I think this is one half where it's probably been a bit better than people might have expected.

David Paul Craig
Former Group Executive, Financial Services & CFO

Yes, I'll just add to that. I mean, as I said -- and I've said this, too, before, particularly in the corporate space, it's much better to try and analyze and look at total banking income than try and dissect the thing between the 2 because different types of customers like different types of products. And there's been a strong growth in those facet accounts in this particular period. And as far as the rebates from credit cards are concerned, we see that as an ongoing benefit. So I don't think there'll be any reversal of that. Glad to see that you're excited about leverage ratio. It's such a sophisticated measure. Unfortunately, the way the leverage ratio works is that when you make your balance sheet stronger by holding more liquidity, that counts against you in the leverage ratio. So the maths of the leverage ratio is purely a function of that higher liquidity being held coming into the change in the -- that committed liquidity facility.

Melanie Kirk

We'll take the next question from Victor, yes.

Victor German
Macquarie Research

Victor German from Macquarie. I was hoping to follow up on a question in expenses. The 1% growth, obviously has been a very good performance for the half. Maybe just to get a little bit more understanding in terms of the key -- some of the drivers there. I've noticed on Page 56, you've made changes to accounting standard -- sorry, accounting change relating to performance within the wealth management business. So just wondering what that would have done to your expenses if you haven't made that retrospective change. And also the accelerated amortization, what sort of change would that -- if you didn't accelerate those amortized balances, what that would have had?

David Paul Craig
Former Group Executive, Financial Services & CFO

Sure. So the answer is 0 in both cases. So the change, the retrospective change in Global Asset Management accounting had no impact on this period at all. And the acceleration of amortization happened at the 31st of December, so we took the full old amortization in this period.

Victor German
Nomura Securities Co. Ltd., Research Division

So the retained earning adjustment didn't have any impact on expenses this period at all?

David Paul Craig
Former Group Executive, Financial Services & CFO

No, it didn't.

Victor German
Macquarie Research

Okay. And so the second question, just sort of a follow-up. I noticed there's a slight change in your rhetoric on expenses from both Ian and David in terms of managing for the current times. Over the long period now, you always highlighted that you are trying to manage expenses to jaws. Is that a reflection that you think that we're going to continue to see a challenging revenue environment? Or is this a slight change in the way you are planning to address your expenses going forward?

Ian Mark Narev
Former Executive

No change at all in the approach to expenses, Victor. I mean, David showed that a year ago, we had income growth of 6%, and we had tolerance for higher expense growth. This time, we've got low income growth. We've got lower expense growth. We've created a decent amount of flexibility for ourselves through just an ongoing focus on productivity. And the key point in my mind, and this is, I think, something we've been consistent on 2 points. Number one, as we've said, we will do our absolute best to keep expense growth below revenue growth. And we've also said we will always maintain a long-term focus on the -- in terms of managing the institution. So to me, the critical part of this is we've got expenses growing at just over 1% on a pretty sustainable footing. At the same time, we've invested $600 million in the 6 months, and we've invested in things like time, which is entirely expense, and that's all in the expense number. So the story that we've continually had is we'll do our best to keep expenses below income, and we've done it. We're very confident we can continue to do it. And that will create the opportunity to continue to invest, which we continued to do. So I think in a year, we won't be sitting here remedying underinvestment for 2 years, but I can't find anybody who believes the top line environment is going to get radically better over the next couple of years. So we're pretty happy with the income -- the expense trajectory we're on.

Melanie Kirk

We'll take the next question from Jarrod Martin.

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. You've had a pretty strong improvement in your investment property lending over the last 6 months, growing year-on-year now around the mid-7s. And if you look at the spot sort of December result, you're sort of close to that 10% mark. A couple of questions on that. One, what has driven the improvement in that segment of the market? And then secondly, we've heard recent reports that CBA is no longer going to refinance investment property lines through brokers. Yesterday Bankwest, not going to incorporate negative gearing aspects within income assessment. So is that being -- what's driven that change there? Is it the fact that you're close to that 10%, and you're going to get a knock on the door from APRA and some more capital? Or is it credit concerns and just how toppy [ph] the market is?

Ian Mark Narev
Former Executive

Look, we can see there's still a vibrant property market and household lending market, and we exist to be part of it. So we're very happy to be doing that. In terms of the investor lending specifically, the activities remain pretty strong. What's driving, I think, is the same fundamental drivers that we've had for a little while, is that we've got a combination of people liking the investment proposition. Other people with money, they want to come to work for them, and other people from offshore are doing things. In terms of our own position, we are very serious about the 10% benchmark that APRA has set, as you would expect every bank to be. I just want of acknowledge it's very difficult from the outside to look at these numbers because inevitably, when you do -- having these discussions with regulators, you are using numbers with them, which are very technically defined and therefore don't match to anything you folks can see. But let me just be very clear. We have not exceeded the 10% benchmark. And also, we are determined not to, and in an environment of strong growth, there are steps we have to take to do that. Some of it is pricing responses, which lead to some of the repricing, including this morning. And other aspects is making sure that we can support existing customers as a priority. So as the activities come up and we've got to manage this carefully, one of the steps we will take is reducing refinancing from other financial institutions because we don't want to come to a point where our own customers are coming to us, wanting to borrow and we are saying, "Sorry, we can't because of the benchmark." In terms of credit standards, you always want to be careful in environments. We've had sustained growth, and we'll continue to be very careful. This is a discussion at executive level and Matt's team at board level. We're very comfortable with credit quality. We're very comfortable with origination of credit quality, and we'll continue to watch it pretty carefully. David, should I add anything?

David Paul Craig
Former Group Executive, Financial Services & CFO

No.

Melanie Kirk

We'll take the next question from Richard Wiles.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. Ian, there's so much going on in the mortgage market around repricing of different products and constraints on who you will and won't lend to, that it must be very difficult for customers to work out what they're going to get from different banks. So despite your improved performance in the branch network, which you've highlighted in a flag today -- in a slide today, do you think that customers will increasingly turn to brokers? And following that, there's margin pressure across the entire financial services industry, and yet brokers are earning more because they're getting the same commissions on higher balances. Do you think it's time that you review the commissions you're paying to the broker industry given you've got such a strong performance in your proprietary network?

Ian Mark Narev
Former Executive

On the first question, which I think is a very fair observation. I mean, the combination of various regulatory changes that have happened in home lending, capital and investor benchmarks have added complexity. What I will say, and this comes back to our branch performance and our proprietary performance that we are very well equipped to talk to customers about the complexity. And we've put more customers in the branch -- lenders in the branch because we're having the conversations well. And actually if anything, the complexity is probably driving people to the bank they know well if they're existing customers, and we're doing a lot of really good business with them. But we acknowledge it's getting more complicated, and we want to try to keep things as simple as we possibly can. In terms of the broker, look, our view on this has been the same for the last long period of time. And I'd say the same to Jon Simon [ph]. We would love to originate every line we can through the proprietary network. The reality is the broker network has a strong proposition for customers, so we'll continue to be active there. The broker network is -- functions in a very competitive banking market. And therefore, the history is littered when we go back 15 years in Australia or probably just over 1 decade in New Zealand with people who had a great idea to cut commissions. Word followed, and then the -- it became sort of back from a position of great deficit in the broker market. So the brokers have established a proposition. We need to be part of it. We will be. But the best response we can have is to make sure that our proprietary channels are as good and competitive as they possibly can be. And I think that this period shows that we can have some success in it, but we're going to keep working very, very hard on it.

Melanie Kirk

We'll take the next question from Andrew Triggs.

Andrew Triggs
Deutsche Bank AG, Research Division

Andrew Triggs from Deutsche Bank. A couple of questions, please. Just provide a bit more detail, if you could, please, on the investments you're making within the business. And private banking division, obviously, one area that CBA remains somewhat underweight. And second question, just around funding costs. A good disclosure on Slide 103 suggests that funding costs are about at the level of the back book. But in terms of the short-term funding cost pressures, are they all the way through and into the base now? Or is there some ongoing headwind there? And also some broad competition -- broad commentary on deposit competition as well, please?

Ian Mark Narev
Former Executive

Let me take the BPB investments, and then David can take the funding cost question. Two areas in business banking -- people and technology. Adam Bennett has made a very strong case that when we are thinking about investment at the start of the budget year, we should be prepared to think about people in allocating investment as well as thinking about investing in software and hardware. And so his voice was heard loudly. And you can see here, as David pointed out, we've got 4% expense growth in that business despite lower revenue growth explicitly in the budget because we're prepared to add people. And undoubtedly, that's paid off a bit and will continue to pay off. Secondarily, the core of the proposition in business banking over time and the thing that I think Adam and his team are most sort of on the hook to deliver is we want to break down the proposition that your share of the market is correlated with your share of bankers. So yes, we need to put more on bankers, but our belief is that we're at the starting point of establishing a really differentiating technology proposition centered around real-time banking, centered around the Albert and Pi merchant experience and centered around the use of analytics. And Daily IQ, the analytics offering, that the really exciting thing about this for fans of small business is we are able to use our data and our scale to give them insights into their customer base, which previously frankly only large corporations could have. And it's early days, but it's starting to drive preference. And Adam will tell you that's the first question he always gets asked either at the Executive Committee or the board, is how's that going, and we'll continue to invest behind it.

David Paul Craig
Former Group Executive, Financial Services & CFO

So on funding cost, as you know, this is an extremely complex dynamic and it's very hard to forecast. So if we start with deposits, which are 66% of our funding, clearly, we're managing to grow transaction accounts and transaction account balances ahead of system. And they're relatively less expensive than other forms of deposits. But on the other hand, time deposits, you've seen all sorts of competition. And so as we disclosed in this period overall, the move in deposits have cost us 2 basis points. And then on the wholesale side, there's long-term, short-term and basis risk. These are all key components of what that will be. Long-term funding isn't just what is the price in the market today but what was the price, say, 5 years ago when we -- when the debt that's rolling off was priced and now we're replacing it with new debt in under 5-year period. So we certainly had a period where there's been an elevated roll-off, although the long-term funding cost, as you'll see from diagrams in here, are a little lower than they were 6 months ago. But it's a question of what were they 5 years ago. On the short-term funding markets, again, it's moving up and down a lot. We've had a lot of volatility in pricing. Overall, though, it's reasonably good at the moment. How long that will last, I'm not sure. And then finally, on basis risk, which is a question of volatility, that has been moving around quite a lot during this period, not surprisingly because of what's been going on internationally. And of course, it reflects in what you're seeing in trading results as well. So hard to predict, but I think at the moment, we would be, if I was to stick a finger in the air, we'd hope that funding costs stayed fairly flat for the period. I always say if we can keep margins flat in any given period, that's been a pretty good outcome.

Melanie Kirk

We're going to take question from the phones now. We have Scott Manning on the line.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

A couple of questions. Firstly, on the 203 disclosures, those $10 billion dollar reduction in risk-weighted assets for improved credit quality versus recently flat provisioning outcomes in the P&L and the balance sheet. Could you talk through that differential, please?

Ian Mark Narev
Former Executive

Do you want to take it? Yes, I mean, we'll have to look at the 2 different numbers. You're talking about the bottom line as the underlying credit qualities we've been talking about has been improving, and that's showing up in the pillar 3. In terms of the balance between the 2 numbers, I'm not -- I don't have them off the top of my head.

David Paul Craig
Former Group Executive, Financial Services & CFO

I mean, the other feature in the pillar 3, which I'm sure you've picked up, Scott, is that we have been reaccredited for Bankwest. So there's quite a movement between standardized accreditation and advanced accreditation, and that makes looking at comparatives a little bit difficult. But in aggregate, risk-weighted asset quality is improving. Obviously, volume is going up, which is increasing risk-weighted assets. And finally, the other big mover is the increase in interest rate risk in the banking book.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And another question on capital. I noticed there wasn't a lot of maturity of wealth instruments this period. So I just wanted to confirm that there was still about $1.6 billion outstanding there, which is about 40 basis points of capital in addition to the 20 basis points of mortgages that at core Tier 1 at 9.5 on a pro forma basis is probably closer to 9.3 or 9.4.

David Paul Craig
Former Group Executive, Financial Services & CFO

It's not that much, but we have got -- there is disclosure in the pack about what's still to come. Let us come back to you with the exact numbers of what's remaining. But of course, it's the same maturity profile that we've been disclosing all along.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

I thought -- I'll back at that. There's one question on capital. If I can squeeze in one more on costs?

Ian Mark Narev
Former Executive

Go on.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

I just wanted to get your insight into the decision process around the amount of capitalized software to write off in hindsight compared to the asset sales. And indeed, will that lead to a bit of a free kick on expense growth going forward? Or will you signal higher amortization charges as a general theme going forward, which means that, that expense hole will get absorbed by a methodology change?

David Paul Craig
Former Group Executive, Financial Services & CFO

So it's a bit of both. The newer software that we're developing tends to be more for digital platforms, which we tend to amortize over a shorter period. But on the other hand, we will clearly have a benefit in the sense that we don't have to amortize that chunk of -- on those 17 items of software that we've accelerated the amortization on. So there's swings and roundabouts on that, but I would imagine amortization might be a little bit lower next period.

Melanie Kirk

We'll take the next question from Brian Johnson.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Ian, as unpleasant as it was, Commbank got a no vote on the remuneration report at the AGM. One of the measures that you talked about is the profit after capital charge. Could you tell everyone in the room what is the cost of capital that you used for that calculation? It's just x percent. Could we get that? And then I have 2 other small questions as well.

Ian Mark Narev
Former Executive

Yes, I'm not sure what the relationship is between the 2 parts of your question, but...

Brian D. Johnson
CLSA Limited, Research Division

Because we get what we pay for.

Ian Mark Narev
Former Executive

The profit after capital charge is our internal measure of profit once the capital applied to the business has been done, and we don't talk externally about what that capital charge is.

Brian D. Johnson
CLSA Limited, Research Division

Okay. The second one is on that software, David, that $400 million of accelerated amortization, another way of asking Scott's question is what period would that have been amortized over so we can work out what the saving will be? And how many years it is over?

David Paul Craig
Former Group Executive, Financial Services & CFO

It's -- well, it's again 17 items of software all with different -- both different amortization terms and different term remaining, but I'd say it's about 2.5 to 3 years.

Brian D. Johnson
CLSA Limited, Research Division

Okay. And then the final one is going back when APRA from 1 July have changed the housing risk weightings to be this minimum average of 25%, we know that the NAB and Westpac models have been accredited, but as at the last result, the ANZ and CBA ones hadn't. Is what you're saying today, this extra 20 bps, is that the model still hasn't been accredited? Is that where this extra 20 bps come from, David?

Unknown Executive

Brian, if you're talking about the home loan [indiscernible] model, that's under redevelopment at the moment, and it kicks in on the 1st of July. So we're going through a process now, and we'll then go through a process where we have to have that approved.

Brian D. Johnson
CLSA Limited, Research Division

Sorry. I thought it came in from 1 July 2016.

Unknown Executive

No. So -- yes, but we have been working with APRA to redevelop the model so that we can actually apply the new model, incorporating APRA's new standard.

Ian Mark Narev
Former Executive

This is what David said, Brian. He said that we have said last time around, we thought the difference would be 100 basis points in the capital [indiscernible] 80. And as David said at the start, he expects that could be another 20 by the time that's said and done.

Brian D. Johnson
CLSA Limited, Research Division

So -- sorry, just to clarify. So the existing model that you're using right now is accredited, but there's a new one coming onboard that will probably give that another 20.

David Paul Craig
Former Group Executive, Financial Services & CFO

Correct, that's right.

Ian Mark Narev
Former Executive

That's correct.

Melanie Kirk

We'll take the next question from Brett.

Brett Le Mesurier

Brett Le Mesurier, Velocity Trade. On to the income protection business. You said that there was a $90 million strengthening in the claims reserves and that, that was conservative. Do we interpret that as meaning that you've allowed for future deterioration in that business, such that it's the same experience continued, then the future charge will be less?

Ian Mark Narev
Former Executive

Yes, Brett, a, it's obviously -- as you will know, a phenomenon through the industry driven by a combination of factors -- people, more claims, people staying on claims longer, et cetera. The loss recognition is part of an actuarial calculation. When we make the actuarial calculation, there's a degree of conservatism done and then you wait and see how things go in the ensuing months. And I mean, we've taken a number which we think is obviously appropriate and on the conservative side. And we could be sitting here in 6 and 12 months having found it's very conservative or having found there's more to take. But traditionally, on these things, we try and be on the more conservative side, and we'll wait and see over the next 6 to 12 months how it pans out.

Brett Le Mesurier

So you've taken a view which allows for more deterioration relative to the current position? That's what you're saying?

Ian Mark Narev
Former Executive

Yes, I mean, the view that the actuaries is really taking us if you look at the current experience, how long do you think it's going to go on for relative to the pricing of the market so that you're really balancing those 2 things. Now I won't go into the detail of the actuarial calculation, but we've made assumptions based on that and we'll see over the coming months whether those assumptions pan out to be right or not. But we never go out trying to minimize those things, but experience is always what experience is, and we'll see how we go.

David Paul Craig
Former Group Executive, Financial Services & CFO

Yes. And just to add to that, I'll put it in another way. I mean, the calculations, it's about the product being in loss and loss for the rest of its life. But there are factors that are in that like claims experience but also like what will the price of the policy be going forward. Now at the moment, the whole industry appears to be losing money on this product because the nature of the claims has changed significantly with more mental health claims, with longer-term claims and so on, so it's clearly a very difficult time for the industry. But the industry as whole has to react to that, and we have to see how it plays out.

Brett Le Mesurier

So you have capitalized the future losses or...

David Paul Craig
Former Group Executive, Financial Services & CFO

We've capitalized future losses that we'd see. So this is not just this period's expense. This is us making an actuarial assessment of what we think the loss will be on this product over its remaining life.

Melanie Kirk

We're just going to take one question from the phones now. We're going to take David Spotswood's call.

David Spotswood
Shaw and Partners Limited, Research Division

[indiscernible], so the comments on their exit NIM, they said their exit NIM was 2.14, up 4 basis points from the first half. Is it possible we can get any comment in where your exit NIM is or where your run rate is exiting versus the first half? And I see that you've pushed up interest earning lending now to 12 basis points today. So presumably, they are [indiscernible] going forward as well? Or do you have any tailwinds to offset that?

David Paul Craig
Former Group Executive, Financial Services & CFO

Yes. We don't talk about exit NIMs. We're obviously giving a lot of disclosure here about margins. And clearly, if you put up an interest rate on a product, then that is an improvement in the revenue. But on the other hand, as we've talked about, there's also -- it's a funding cost movement. So it's very hard to predict what margins will be.

Melanie Kirk

We'll move back to the room now, and we'll take a question from David Ellis just down here.

David Ellis
Morningstar Inc., Research Division

David Ellis from Morningstar. There's a lot to like in the result. We have impressive ROE, good volume growth, strong balance sheet, good asset quality, cost control, solid dividend. But what do you see as some of the key specific earnings risks for Commonwealth Bank going forward? And how do you manage for those risks?

Ian Mark Narev
Former Executive

Whenever we get a question that starts with "there's a lot to like about the result," we know there must be a but in there, and there was. Look, obviously, in these sorts of environments, the starting point for us, as for other major banks, is just what's the macro environment going to look like. And we look at things we can control, and we look at the things that we can't control. And obviously, in terms of how we manage expenses, investment, et cetera, absent anything turning out we don't know about, we can get a pretty strong sense of where that would be going. So what are the key uncertainties? How the macro environment is going to go is number one always. There is no part of the business anywhere where the intensity and breadth of competition is getting any easier, and that would be the second aspect. And then thirdly, it's just really overall here, just keeping the momentum of the business going. Because ultimately, we've talked about having a reasonably consistent approach of keeping investing, keeping investing in technology, but the level of execution has just got to remain very high if the bank is going to perform well. And we do some aspects very well. A lot of aspects need improvement. We've just got to keep raising the standards and delivering against it, and for a management team that's always a big, big challenge.

Melanie Kirk
That now brings us to the end of the briefing. So thank everyone for joining us this morning.