Question and Answer

Andrew Bowden
Head of Investor Relations

Thanks, Phil. I want you to stand from there, Richard?

Richard E. Wiles
Morgan Stanley, Research Division

It's Richard Wiles from Morgan Stanley. Could I ask the question on capital. The ratio is above the 8.5%, top end of your target range, you've announced a special dividend of $0.10. You've got surplus franking credits, would it be reasonable to think that if loan growth remains relatively low, if the ratio remains above the 8.5%, you will utilize those franking credits and maybe think about paying a small special at any time that you're above 8.7% -- above 8.5%?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Richard, look, I think obviously, the board will make that deliberation every half. That's the way in which dividend decisions are worked. I think Phil has outlined it pretty well. That we think we've struck a really good balance this half. It remains conservative because there are still unknowns out there. And as a bank and as a stance, we prefer to remain conservative, but at the same time, demonstrate that we're getting value back to the shareholders. So -- but that's a consideration that we'll look out every half. I think what we've done quite clearly is, put out the framework for investors to actually see how we think about it.

Richard E. Wiles
Morgan Stanley, Research Division

Does your 8% to 8.5% range take into account the possibility that APRA could move on to domestic leases systemically important banks?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Certainly, certainly. That's a way out there still. APRA is on record themselves saying that, that will be implemented from 2016, so that's quite away from now, but based on what we know, it certainly does. It takes into consideration all elements of uncertainty that might be out there. And based on what we know, it remains very conservative.

Andrew Bowden
Head of Investor Relations

Richard, just pass it.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. A question on the operational side, and if you look at the performance of AFS in the last half, and further while, you've done very well on the deposit side, which is something that you've really been focused on, so well done there, but on the lending side, it hasn't been as strong, I think. If you look at the 2 parts there, it was about 1% credit growth, 3% deposits. Now remembering that you had very good growth in 2009 and '10, and along those lines, and now you're going to be reaching a stage where they're going to accelerate their amortization just to -- given those vintages, it's going to be another headwind to growing credit over the next little while. So my question really comes down to, can you grow lending at the same time, as growing deposits or -- without having to go to broker channel or is this really a case of pick your poison?

Gail Patricia Kelly

Former Chief Executive Officer, Managing Director and Executive Director

Thanks, thanks, Jon. A really good question. Look, what I'd say as regard to AFS, is firstly there's a portfolio, and it's one of the benefits that we have within our AFS, AFS model, is we have a portfolio. And so even within that portfolio, you've seen St.George, Bank of Melbourne, actually grow well above system on mortgages. While Westpac RBB has actually been under-system on mortgages. So that's -- and what I've really seen is I'd like to grow at or around system, but happy to grow a little less, with system being so modest. So system growth is only 4%, 4.5%. If you're growing at 0.8% or 0.9% of system, I'm comfortable with that but as long as you're managing the margin. Having said that, we would like to and we think we can, without compromising anything around discipline, without compromising anything around risk, quality or pricing and margin management discipline, we think we can pick up our growth a little on the lending side. And so Brian has too many sites to grow his overall mortgages for AFS as a whole at around system growth for the second half. Now remember, that's against the portfolio, so it may not be identical across every brand, but around system growth, so there's a little bit of a pickup in mortgages. And then on the business side, Westpac RBB has been adjacent but sort of more or less wholesale, some more or less flat, haven't you on the business side? But we've lost a bit of growth in the St.George side, and that's largely because of the run-off factors within St.George, the run-off of stress exposures contributed to that. Now there's a bit more of that to come, but we think actually that will stabilize in the second half. So we won't grow particularly in business lending in the second half, but we're not going to run-off either, so it's going to be more or less stable. That's the scenario that George is actually working to. Business in web has actually been growing, but with some margin issues that I've touched on earlier, so a bit more growth to come but in a very balanced and managed way.

Andrew Bowden
Head of Investor Relations

Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. Two questions, one short-term and one a more -- a bit more long-term deal. Gail, you mentioned about institutional margins under pressure and not abating going forward. I wondered if we could get, one, a bit more color on that and how that -- how you manage that under your sort of disciplined margin management statement. And more sort of longer-term question, previous CFO of Westpac used to talk about bad debts between 20 and 40 basis points as a general sort of range. I wondered, Phil, given the mix of the Westpac book now, as well as I suppose, the outlook for less asset price inflation, what are more appropriate range would be for Westpac?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Thanks, Jarrod. Look, on the first one, fully expecting that question because clearly, as a point of difference was with one of our peer's comments, so I'll then ask Rob to comment a little bit more on what he's seeing. He'll give you a little bit more color on exactly what he's seeing on the institutional side with regard to margin depression, and Phil, you might want to pick up on the second question.

Robert Whitfield
Former Chief Executive of Westpac Institutional Bank

Thanks, Gail. Thanks, Jarrod. Look, we are seeing pressure on the margin side and I think you need to break it down to both sides of the balance sheet. So let's start with the asset side first. We're seeing pressure, of course, most of the financing products, and it's coming from 2 sources. The first is demand has been subdued, so clearly, low credit growth in Australia and softer credit growth than we expected in Asia. And you add that or couple that with the wall of liquidity that we've been speaking to, and with the Bank of Japan adding to that liquidity, there is so much cash, and the banks internationally and domestically, are competing for those assets very aggressively, so there is a competition type playing through. On the liability side, it's more of a domestic story, and we're seeing strong competition from all the domestic banks, still chasing Basel III compliant deposits very sensibly. And so we have seen that affect our performance in the first 6 months, and we'd certainly expect it to see part of the second, trend not abating, part of the performance in the second half. In terms of how we position for that, it goes really to the strength of our strategy. I mean that really the deepening customer relationships and our strong risk management disciplines that really plays into this part of the cycle for us. Thanks, Jarrod.

Phillip Matthew Coffey
Former Chief Financial Officer

On the, what impairment charge should we expect, I guess, since that 20 to 40 range was promulgated, 2 pretty important things have changed, one is the accounting methodology has changed, so we're no longer under-expected, we're now on incurred, and that makes it harder to be more predictive. The second thing is, our book is quite a bit higher quality than it was. There's a lot more mortgages in total in the book so there's a lot more secured exposures than we had at the time of the 20 to 40. So I think on that basis, you could easily see how the low point could be quite a lot lower than 20 and maybe, the high point at some point in a nasty recession will be quite a lot higher. We haven't tried to give a serious guidance on this. If you had to twist my arm and say, where should it be? I don't know, 20 to 30 is probably, where you'd see the average. But we know averages actually disguise a lot of variability in the actual distribution. And so what we tried to be clear on today is that we're at 17. We think that's a good point to be. It's hard for us to be even more bullish than 17, but I'm not going to put a line at there.

Andrew Bowden
Head of Investor Relations

I might take a call from the phone. I'll take a call from Brian Johnson, please. James, would like to?

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. Two questions, one just on the margin. You've mentioned roughly flat for '13, if I actually have a look at what you're telling us here, institutional margins falling, New Zealand still coming under a little bit of pressure, Australia did very well from the mortgage rate pricing, which is obviously now in the base, unlikely -- well, I'd say unlikely, to be something in the second half of the year, and some still deposit competition on the mix side. How do you actually get to that flat margin for the second half and actually for the full year? And the second question just on bad debts, everything seems to be improving, 17 basis points, impaired is down, mining is down, watch list down, overlay up. I'm a little confused, just at what point do you actually going to start to get this overlay to reflect what's actually happening in the underlying book?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Well, let me start with the first question on margin. I think what Phil has said and what I've said is with regard to the margin for the full year of '13, is that we'll remain very disciplined, and we're going to be very disciplined. I don't think we said, we'd necessarily be flat. We'll aim at flat, you were to really twist my arm and if someone really twisted Phil's arm, I would say it probably would be down 1 basis point or 2 in the second half, for the reasons of the factors that you've outlined. I mean clearly, like any period, there's tailwinds and there's headwinds. But we're going to work really hard in a disciplined way to seek to maintain it flat. However, if you were to twist my arm, I'd say it would be slightly down in the second half due to the factors that you've outlined. On the bad debt side, Phil, you've...

Phillip Matthew Coffey
Former Chief Financial Officer

Okay. Can I also just -- because I think we will definitely be where you just said, Gail. But there is no wholesale funding cost that we will be rolling over. It's only $12-odd billion in the half so it's not going to be massive, but it's still better. And the interesting I think to see through the half what impact these much lower wholesale rates have on deposits spreads. To date, they really haven't dragged deposits spreads lower, but that's something that would be a big factor for us in terms of where the margins land over the half and the next year. Look, in terms of the overlay and underlying book, we got criticized when we released overlays and now we're getting criticized when we put them on. So it's a tricky balance to get here with you guys. But I -- look, I think what the overlay does is it looks to say, what's going on that we can see in the portfolio that's yes to turned down in specific provisions? And I don't think we're surprising anybody in saying that there's no doubt manufacturing is exhibiting signs of stress, particularly because of the higher A dollar. And so it does make sense for us to actually see that level of provisioning allocated to that industry increase. And so we're comfortable that that's what's happened. We think it's totally consistent with what we're seeing in the portfolio. The fact that the overall portfolio entitle is improving, you see in the fact that overall provisions are slightly lower, and we think that all that is, consistent.

Andrew Bowden
Head of Investor Relations

I might take a question from the phone. Another question from the phone, Craig Williams.

Craig Anthony Williams
Citigroup Inc, Research Division

If I look at what Slide 20, at least on my computer, I'm not sure how that aligns with the books you're working for day today, but looking at asset quality, continues to improve, a slide that Phil talked to, if we look at the impaired level for the group, as it sits today and compare that with the precrisis 2007, 2008 level, I think your impaired is still tracking around 2 to 3x the level of precrisis level, as measured as a percentage of your PCA. Your bad debt charge through the P&L today, as Gail noted, in fact sort of 2006 levels, however, is there a school of thought internally, that says you tackle your impairments impaired assets more aggressively in preparation for the next credit cycle?

Phillip Matthew Coffey
Former Chief Financial Officer

Look, I think, Craig, the fact that we have been strongly capitalized, and I think the whole industry has been strongly capitalized just mean it's been quite an orderly market in terms of dealing with stress and impaired assets. And I think that's why as an industry, you've seen us be slower in actually both writing off and clearing out problem assets. And I think that's an appropriate thing to do. Now obviously, as additional cash has come back into the marketplace, and I talked about that in the commercial property space, it does give you the opportunity to find buyers who are prepared to pay what we think is the appropriate price for the asset. And as that happens, there is a possibility that we will see that accelerate in the next periods. You will see in the next slide that our new and increased impaired assets continue to decline. So if that happens, then we are going through a bit faster cleanup process and -- that overall, impaired balance will actually shrink quite a bit faster.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

It's quite interesting, Craig, if you look at the property side, over the last 2 or 3 or 4 years when we're talking about property impairments, is this sort of a big factor -- the big picture. And actually, this half, we've had a positive benefit out of property, which is quite extraordinary. So net benefit because for the first time, as we've grown, keep turning the handle and doing the revaluations, we've been able to in fact, give some properties away, where they're valued, which means you get a write-back, so properties contribute a net benefit to this half's P&L, which is complete turnaround from the scenario we had a few years ago.

Andrew Bowden
Head of Investor Relations

Michael, take it.

Michael Wiblin
Macquarie Research

Michael Wiblin from Macquarie. Obviously, you had very strong customer trading results. I just wondered if maybe you could talk a little bit about the drivers, you more staff, you had less volatility or more volatility?

And then I guess, the sustainability of that result going forward. Is it a good base to grow off? Is there more to come there? And then just the second question on the Queensland cat claims, is that over and done with now or do you just don't know?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Okay. Well, I mean on the trading results, the major drivers are customers. As you heard me say in my remarks, the customer revenues up 5%, and so that's the major driver on the trading side. And in an environment like this, volatility, customers look for us to help support them and hedging their activities and so on, and that's been the major driver here since our debt markets has done particularly well. Always very difficult to forecast that particular number. I don't know if you -- you're shaking your head, you don't want a forecast, do you? No? But that's the major factor there, so it's really quality business in a volatile environmental with customers wanting us to support them. On the Queensland side, you want to add to that?

Phillip Matthew Coffey
Former Chief Financial Officer

I was just going to say, Slide 45, Mike, kind of gives you a sense of what demand is customer, what demand is risk. And you see that the vast bulk of our market's income is customer, and that's continued to be really good in the half. And as Gail said, the pickup in this half was debt markets now. The nice thing about Rob's business is he's got a number of different elements to it, debt markets in different parts of foreign exchange and commodities and the like. And so we do get a portfolio effect and not everyone shoots the lights out every half, that was the case again this half, the debt markets did really well, obviously, for the reasons that Gail has said. On the Queensland cat claims, we basically processed them through the General Insurance pretty rapidly, and you'll see that when you dig into the insurance numbers, that -- actually that's a big part of why the insurance business was a negative this half, it's what Gail said. Because they are so seasonally related, so the weather patterns that we see in the country, that's why we encourage people to look at the comparison with the prior corresponding period.

Andrew Bowden
Head of Investor Relations

Okay. Take another question from the phones, Victor, please?

Victor German
Nomura Securities Co. Ltd., Research Division

My question relates to Jonathan's question before on the growth outlook in the lending portfolio. I think for some time, the view has been that the pricing on the standard variable mortgages is not really impacting all your higher pricing than peers, it's not really impacting market share. If we look at more recent trends from APRA statistics, it looks like Westpac's market share has been significantly lower than peer group. I'm just wondering as we go forward, what your views are in relation to is there a need to align your pricing relative to peers, or do you think you'll be able to achieve more like system growth without necessarily, aligning those SVR rates?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Look, thank you very much. As you've heard me say, firstly, we think about it in the portfolio -- but I'll ask Brian to comment in a moment, too. But we think about in the portfolio since, so across Brian's business, what's happening in Bank of Melbourne, RAMS is another one, St.George and Westpac. So in the portfolio it seems I would like us to achieve a round system growth in mortgages. We had that big pickup, as Jonathan mentioned, in 2009 and our mortgages took us up 2 percentage points, that's really stood us an excellent stead, so I'd like to grow it around system growth. In Jason's specific business, yes, it's been lower than system and indeed, probably about 0.5 of system. Now one factor there is the very significantly repayments ahead of schedule, repayments, that our customers do. We tend to have a high-quality customer base and indeed, a more affluent customer base in Jason's Westpac business, and they've tended to put away as much as they possibly can. So we've had quite a pickup over this past period over accelerated payments. That's been the major driver there. But, Brian, would you like to add anything?

Brian Charles Hartzer

Thanks, Gail. I think that's a pretty good summary. What I would add is that SVR is really just a headline rate and most customers don't pay the SVR rate. We use packages in various tactics in actually what we originate. I think the key point that you've made is that, we do think about this as a portfolio of brands, of channels, of products. We use offers very carefully in different places, and we have been affected, particularly in RBB, by the accelerated repayments. What we have started to do is compete a bit more aggressively and in the last few months, we've seen really strong application volume, and we feel pretty confident that we can ramp that up.

Andrew Bowden
Head of Investor Relations

Brett?

Brett Le Mesurier
Asia Pacific Prudential Securities Pty Ltd., Research Division

Brett Le Mesurier from BBY. Phil, you -- talking about deposit growth slowing in this half that we're currently in, so it looks like we're heading towards deposit funding being about 60% of total funding. Is that the target level that you're heading for, the ultimate right sort of number? And if so, why would -- why do -- would you think that 60% is the right sort of number?

Phillip Matthew Coffey
Former Chief Financial Officer

If I think 60% is the right number, why do I think 60% is the right number? Well, I'm not sure the 60% is the right number, Brett. I do think that the outcome of that, whatever the outcome will be, actually functions just how much appetite you've got for wholesale borrowings. And I think we have actually recalibrated our wholesale to a point where we're very comfortable, both in terms of how much short-term we've got, where it's, particularly how much short-term offshore we've got, and what the maturity profile of our term wholesale looks like. So that means we can actually have a quite a degree of flexibility around where we source the next dollar of funding. I guess, my point is, if the system is giving you faster deposit growth than loan growth, and we're setting ourselves up to do well in that, then we'll probably see that deposit-to-loan ratio continue to improve. Where it settles, I'm not sure. As I said, I think it will be a function more of what you're wholesale appetite is than having a target number. We don't have a target deposit-to-loan or deposit-to-total-funding ratio. we have limits around how much wholesale we're prepared to have, and then we're basically looking to make sure that we get several funding for our loans.

Andrew Bowden
Head of Investor Relations
I know it's a busy day for everybody, so I'm going to call a halt at that point. And thank you very much for attending both here and on the phone, and good afternoon.