Question and Answer

Andrew Bowden

Thanks, Gail, Just standard procedure, please if you just state your name and where you're from, it would be great. And if you could just limit to one question each, that would be great as well. [Inaudible].

John Watts
UBS

Hi, guys, John Watts from UBS. I actually had a question on deposits and the trend in the second half. So I'm just referring to the full result, the 4A [ph] on Page 19 which goes into a bit of detail about the deposit mix. One thing that you're seeing in Australia in particular is that a big slowdown in deposits in the second half to close to zero, but not only that, big swings around it in the movements. You're seeing at-call [ph] really pick up and the term deposits saw those moves. So could you just give us a bit of a background on what's happening there in the deposits firstly slowing down in the second half and why the big movement in those categories [ph]?

Gail Kelly

Certainly the big trend has been, as you correctly say, from term deposits which was the phenomenon, the feature of the first half into online deposits and savings deposits in the second half. Just recently actually it slowed a little and just recently the PRAS [ph] competitiveness has come off a little. PRASes [ph] have been just a little more favorable from that point of view. But I don’t think it's slowed materially for us over the whole half, it's been really just a sift of composition, more from the term onto the online side.

Phil Coffey

Yes, I think in fact - I mean that's what those - that table shows you that actually our customer deposits actually had just as good growth in the second half, in fact slightly higher, than we did in the full year.

And I think once again it's a matter of sort of the composition of them. I think the thing we're most pleased about is that total customer deposits in the retail businesses, St George and Westpac RBB continued to perform well. So, as Gail mentioned, compositional shift, yes; but aggregate growth, no, it didn't slow that much for us at all.

Andrew Bowden

Victor?

Victor German
Nomura

Victor German from Nomura. Just a question on the dividend policy, if we look at your capital positions, clearly very strong and you're generating significant amount of service capital. Can you just perhaps give us an idea how you see your dividend policy pan out over the next few years, particularly if we're entering a lower volume growth environment?

Gail Kelly

Well, let me start off, and Phil, I'm sure you'll add in. I mean as we see things at the moment and as we understand the changes that are coming our way in terms of capital in the Basel III regime, we feel very comfortable with our dividend payout ratio at around the 70% level. We are driving strong organic growth within - organic capital growth at the moment. Now obviously things may change, there may be something unexpected that emerges and then we may need to adjust for that. But as we see it at the moment in terms of what we see coming our way in terms of the reason [ph] to change, we remain comfortable with our payout ratio. Phil, I don’t know if you want to add to that.

Phil Coffey

The only thing I'd add is the shrinking [ph] balance for Westpac given the amount of Australian dollar earnings that we generate is a healthy surface today and will continue to be healthy and we weigh that up in terms of what should we pay out as the dividend to return those shrinking [ph] credits to shareholders versus what kind of dilution you might get through issuing shares in the DRP. And so we've kind of weighed that up. We've come to the balanced view that maintaining the dividend and issuing shares and discounting [ph] to the DRP is the right balance to get those shrinking [ph] credits back out to shareholders.

Andrew Bowden

James?

James Freeman
Deutsche Bank

James Freeman from Deutsche Bank. I just wanted to ask a little bit about the economic overlay, we saw the reduction come out this half, just sort of any indications to what we can get for next year. I mean, is expectation you'll get rid of the whole economic overlay or do you want to keep some of it around? If you could run that please.

Phil Coffey

Look, I think the expectation is that we will continue to have an economic overlay for the foreseeable future. About half of the economic overlay really goes to uncertainty in the economic environment and half of it goes to individual risk items that we believe are unusual. And those risk items over the last few years have covered things like aspects of the property market, aspects of exposures in New Zealand, exposures to financial institutions early in the GSC. And those are the kind of things that actually play out in terms of justifying holding an additional provision in the form of an overlay.

Over the last 12 months, we got into the end of 2010, we looked at a number of those factors and came to the conclusion that it was very difficult for us to justify holding the full amount of the provision in sales or the - the release actually has got two bits to it. There's a release to do with Australian exposures into the property sector, given how much we've already recognized, but we actually topped some up for uncertainty coming out of the Christchurch earthquake. So those sorts of things played their way through the overall provision balance.

Over time whether that provision balance gets released, how much gets released, will be a function of those specific issues and also obviously what's happening to the other collective provisions as credit growth starts to grow again.

Andrew Bowden

Ben?

Ben Koo
Goldman Sachs

Hi. Ben Koo, Goldman Sachs. Just got a question, or two questions, on the revenue growth outlook. The first one is just when looking at Slide 6 of what you've just shown us there with the treasury contribution, the treasury markets contribution over the last half, and comparing that to the '08 halves, the second half tends to look [ph] relatively elevated versus the '08 average. Is that - and your comments about halves broad-based, is that just around the view that it's now a bigger balance sheet so you just don't see as much normalization risk going forward. So that's the first question on the revenue outlook.

And then the other one is, in terms of your comments about improvement in business lending, can you just give us a feel for what you're seeing the pot line for business lending growth as well?

Gail Kelly

I think you've really almost got the answer there, Ben, with regard to the markets and treasury income. So, look, clearly there's volatility there, but our view is that it's back to a more sort of sustainable level. It certainly is a bigger balance sheet and that's the key factor about why it would be expected to be higher than it was in 2008. So that's the key answer there.

With regard to business lending which is your other major question, look, I think we've all expected over the course of this past period to see the pot lines that are there for business lending to start to translate into draw-downs, but it has been a whole lot slower, there's remained caution in our business customer segments and I would expect actually that to continue for a period. So there will be a pickup and we're set for that pickup when it happens. There are still quite healthy pot lines in our business banking businesses, institutional is still in a deleveraging phase. But really I would see that more as a second half 2011 pickup.

So, credit growth I think Phil briefly spoke to. I mean it will be at least a strong as it was this year. It should be stronger when business credit starts to pick up in that second half of next year with home lending being much the same as it's been this year, this sort of 6%, 7%, and then we'll start to see a pickup of business credit next year.

Andrew Bowden

Jarrod?

Jarrod Martin
Credit Suisse

Jarrod Martin from Credit Suisse. Notwithstanding the strong headline results, you pointed out the core earnings growth was a bit tougher in particular in the second half, it was weaker sequentially, pointing out to the rebasing of fees and treasury. Particularly on the rebasing of fees, you say you have gone harder than others and gone further. Could you comment on that against the backdrop we have. Is that an inquiry into competition where you've also got Wayne Swan announcing that he's going to come up with ideas next month in terms of competition? Where are the vulnerabilities, one, for the sector, and also in particular for Westpac, and whether there is actually further rebasing to go for the industry as a whole?

Gail Kelly

Well, there's lots of uncertainty in all of that, I'd have to say. Certainly on the exception fee side, as you'll recall, going back to September last year, we made a call to actually rebase all of those fees and to do it at once, so across our personal customer segments, across our product [inaudible] overdraft-type products as well as credit cards, across all of our brands in Australia and New Zealand. So at one turn we actually reset all of those fees and took them down to $9 which is a sustainable level, so from what was obviously higher levels and different levels.

So that was going further than others. There are still some organizations out there that haven't done as much in that particular area. They may have done in some product categories or in some custom segments but not quite as comprehensively as we have. So we think that does position us quite strongly with that category of fees that's called those exception fees.

Difficult to know where to see what the next steps will be with regard to the announcements that Wayne Swan made yesterday. Certainly hope that there'll be proper consultation and discussion with the industry on that. But I would have to say, I think from a Westpac and St George point of view, we paid a lot of attention to the range of fees that we have over the course of this year, and whether it's mortgage exit fees or other fees, really to make sure that we're comfortable with where they sit just at the moment.

Jarrod Martin
Credit Suisse

Is that likely to be one of the risks for your revenue next year then?

Gail Kelly

I think - well, we wait and see, I'd have to say. We need to wait and see what actually emerges out of the reform that's being tabled, and certainly hope that we can engage constructively with government on that, because as always when there's new reform coming and new regulations coming, there can unintended consequences and things that pop up that hadn't been expected. So we certainly hope and expect that we'll have an opportunity to engage constructively with government on that and understand those impacts.

We are certainly very pro-competition. We believe competition is a healthy thing. We believe there's plenty of competition in the market and we want to be in a position where customers choose to bank with us and that's because we provide good service for them, deep relationships for them and support for them through the cycle. So we're certainly pro-competition.

Andrew Bowden

Ben?

Ben Zucker
CBA Equities

Ben Zucker from CBA Equities. Just two quick questions. One around funding, trying to get a bit of feel for, you talked about the improvement in funding mix, deposit growth has been healthy, happy with some of the terming out that you've done to date, et cetera. But when you look forward, how intensely do you still plan to compete for deposits and the priority there? And also, how much more in terms of terming out of funding?

And on the cost management side, in terms of investment spend and the pressure that's coming through there, the productivity initiatives and how much that will offset that, how would you describe I suppose the cost pressure and ability to maintain your efficiency?

Gail Kelly

Well, look, I mean on the funding side, as you heard me say, this has really been a big year, this 2010 year, raising as we did 43 billion in wholesale markets, and of course doing quite extensive maturity terming out of the portfolios, extending the term of the portfolio, both in the longer-term funding profile and in the shorter-term funding. We don't expect to need to do as much with regard to wholesale funding next year, and it's partly because we think that the credit growth will remain relatively modest next year.

We've also improved our capability of raising retail deposits. I'd have to say we've got more to do there. It has been a source of focus for us really ever since I've arrived in the organization, and part of the shift I think we're all going through in the industry of shifting our bankers from thinking about lending, just thinking about relationships, and making absolutely sure they're talking to customers and engaging on the deposit and transactional side of the balance sheet. So we've got more to do there but we have upped the focus on that and that's the way we incentivize people, the way we manage people, what's in scoreboards with our local bank managers.

So we expect to continue to grow above market share with regard to retail deposit gathering. We have strong franchises that speak to customers in terms of safety and security and looking after all of their savings. So we'll expect to continue with that.

Phil, do you want to add to that and perhaps answer the productivity one?

Phil Coffey

I think that - I mean there's a lot of different moving parts that will shape the balance sheet and therefore shape how much wholesale fundraising we need to do given Gail touched on deposits. I think that the only other - I mean a couple of points to make are, one, in the process of this year's term raising, we've also reduced our short-term wholesale and we reduced some of the WIB deposit balances that were quasi-short-term wholesale. And so that we think we've - is part of the element of strengthening and repositioning the balance sheet which we wouldn't expect to have to do next year.

Similarly, the Australian dollar plays into just how much wholesale fundraising you need to do. And whilst we might expect the Australian dollar to perhaps be strong and even stronger next year, the reality is over the course of the last 12 months we've had an extremely strong Australian dollar. And that's led to more collateralization balances and that's absorbed some of their wholesale funding as well. So those things I think will also - might be [ph] as severe in 2011 as what we've seen in 2010.

Look, on productivity, I thought we had a good session at the start of the month. It is important for us to ensure that we are able to find the wherewithal in the company to invest in the technology that we want to invest in. And we've got two programs at work that Bob and Peter spoke to which Bob talked about what we're looking to do from a technology point of view. They will have benefits but they are longer-term benefits, and we have to find a way in the company to absorb the cost of that until those benefits start to play through. And so the productivity initiatives that Peter is leading that really are right across the company are already starting to have traction. They do go to actually doing things smarter, not just trying to tighten the belt, and they will lead to a lot of costs. And that in turn as I said will be the mechanism by which we fund the company.

Andrew Bowden

Richard?

Richard Wiles
Morgan Stanley

Richard Wiles, Morgan Stanley. Phil, in Westpac and Retail Bank, you said you'd ultimately expect relatively better margins. Could you explain what you mean by that? Do you mean relative to this year or relative to the peers? And given that you've made no decision at this time in relation to the home loan interest rates, does your guidance for the group's full year margin assume that current level of interest rate remains in place?

Phil Coffey

So the relatively better margins goes to the reality that if you're originating a mortgage through your own distribution channels, you're not paying brokerage and therefore your return is [inaudible] by the amount of brokerage that you're not paying to a third party. And so as we've shifted the mix of our origination to more first party and less third party, therefore the return on that individual loan should be higher. So that's the comment on that and that's part of an overall mechanism that we should expect to get as a return on the investment that we've made in Westpac local and that we are making in a broader-based St George distribution. So it really goes to that's what you would expect us to get as a return on that investment, better margins per loan.

Look, I think when we think about our margins going forward, we're thinking about the fact that our cost of funds will continue to increase. They did in 2010, higher average long-term wholesale, higher deposit costs. We would expect that to continue through 2011 and we need to find ways to offset that. But overall we're thinking that our margins will be slightly lower, but the decline will be less than what we experienced and recorded in 2010.

Andrew Bowden

I'm going to take a question from the phone. Craig Williams please?

Craig Williams
Citigroup

Yes, good morning. I think one of your short-term incentive drivers is customer advocacy. Can you talk about customer advocacy as a driver of volume growth in the business? If I refer to Page 67 of your result deck, St George appears to be growing below system and lending and probably deposits, you've called out today, that 62% of St George's mortgage origination comes through proprietary channels, 71 for Westpac brand. If you could provide motivations [ph] around that please.

Gail Kelly

Thanks, Craig. Well, certainly one reason why St George would be growing below system and lending is that very shift of focusing more on raising the loans through the proprietary channel. Because if you'd recall, St George's primary geographies, its primary states, it primary strength is in New South Wales and then in South Australia through the banking say franchise. And as we're winding back the focus on raising broker-originated loans, necessarily in areas such as Victoria and Queensland and Western Australia, we would by subsystem.

So when you look at St George, really you shouldn't be looking at St George's performance relative to system as a whole, you should be looking at St George's performance relative to New South Wales system and with regard to South Australia system. And certainly we would expect them, and Rob Chapman, the new CEO of St George would expect to grow about system in his core geographies, and using his proprietary channel as the area of primary focus.

So, have I answered the question? What was the other one?

Andrew Bowden

Customer advocacy.

Gail Kelly

Customer advocacy. Look, that's always been a long battle within St George, sort of I recall going back many years ago when I was there too, that one had very strong customer advocacy and strong customer satisfaction and yet one seem to have to work really hard to have that actually translate into increased products per customer.

We're beginning to get that right, I'd have to say. It's been really good to see over the course of the past year that St George's products per customer have risen quite significantly. And what we measure there is in particular customers with four or more products in our chosen segments, and we've definitely seen uplift there. I think it's referred to in one of the slides.

So that remains a key area of focus. But pleasingly, all the way through the merger, it is I think a highlight of St George and it does speak to its strong culture and it does speak to the effectiveness of the merger, that we've retained number one spot in both consumer and in business and consumer advocacy over that period.

Craig Williams
Citigroup

Okay, thank you.

Andrew Bowden

A quick question from Matt Davison from the phone please.

Matt Davison
Bank of America-Merrill Lynch

Thank you. Good morning everyone. I had a question on costs as well. I guess just initially on the headcount. If we go back to when the merger was done with St George, it was just under 36,700 staff, and today there's 38,500. Recognize there's a lot of temporary staff in the numbers at the moment. I'm just interested on a two-year view where you see that staff number coming back to once the projects are over.

If I can [inaudible] just a bit more near term on costs, you've been very adamant about managing the growth in the near term, you had 3% growth in the last half. If I look into the next half, you will have an amortization headwind, you're not going to benefit from really staff cost provision and the headcount move as well. So I'm just interested if you think you can do better than 3% per half on cost growth over the next couple of halves?

Gail Kelly

Look, on the staff number, let me start with that; Phil, you might want to deal with the absolute growth in cost. On staff number, what we said at the presentation that we gave just a few weeks ago is that we expect our overall staff numbers to be lower at the end of this year and then lower again at the end of next year. So those are the points that we made.

And there are a number of moving pieces within that, which is why we don't want to be more definitive than that. We are still putting on staff in our technology areas to actually deal to those 14 strategic investment priorities that we have there. We put on something like over 1,000 over the course of last year, and we're putting on more people as those programs ramp up and as we need to implement there. So there's increase in costs going on, specifically in projects.

But we also are continuing to invest in distribution where we believe necessary. But in our head office areas, in our operational areas, there is staff reductions occurring. So overall we would see staff numbers coming down, but really don't want to be more definitive than that.

Phil Coffey

I think on the cost base, Matt, the reality in the second half, we've called out a couple of things. I mean I called out a couple of things that were also sort of one-offs in the half, the $20 million of grant to Westpac Foundation and the additional restructuring cost, both those we've taken above the line, there's $40 million of additional costs. The software, as you pointed out, is going to be up again, but we did have some of that in the half. It's up quite a bit on the first half as well.

And then lastly, the productivity benefits that we expect to get from the productivity program, we started to get those in the half but they're actually pretty minor, and we would expect to see a much better result going forward to allow us to have quite a bit better result than 3% per half.

Matt Davison
Bank of America-Merrill Lynch

Thank you.

Andrew Bowden

A call from Brian Johnson on the phone please?

Brian Johnson
CLSA

Hi. My question basically came down [ph], Phil, could you give us a bit of an explanation Page 47, the movement in the expected loss, capital deduction, it would strip out the impact of St George's change?

Phil Coffey

Well, you picked up the point, Brian, that the bulk of that increase was actually due to the fact that when you transition St George from standardized to advanced, you then have to take an expected loss calculation into consideration which was not there before. And so that led to quite a material uplift in the reg expected loss. The overall benefit though turns up in the fact that you get much lower risk-weighted assets for that same portfolio.

I don't have the numbers at hand in terms of what the direct impact was on the reg expected loss, I'm happy to get it for you. But I can assure you that the overall combination of those two things was a significant improvement. And we call that out in terms of what was the overall impact from the St George advanced accreditation on capital and we called that including those things together gave us an 18 basis-point uplift in our tier 1 capital ratio.

Brian Johnson
CLSA

Phil, do you think that all the major banks [inaudible] systematically important banks for Basel III?

Phil Coffey

I think, Brian, that the origination of the concept of systematically important came from a view that when looking at the global disruption that was - that occurred, a number of very large global entities were having ramifications broader than their impact in their home economies. And I think the regulators then said, well, we need to consider a globally systemic importance here when we look at what's the appropriate allocation of capital. I think that discussion has moved broader. I'm not sure it's actually broadened in the regulatory space but it certainly broadened in other commentary to say, well, isn't every big bank in their home market systemically important?

My view and the discussion with our local regulator is that they think that's part and parcel of what they do. They provide credential supervision on the banking system here, that they take account of different size banks and the different importance that we have for the local financial system. And there's lots of means of doing that through credential supervision that don't necessarily jump straight to, shouldn't we be applying a different capital measure?

So I think the debate's got some way to go. I think we'll distinguish between domestic and global, and I don’t think you should necessarily assume that therefore domestics have to get additional capital overlay.

Brian Johnson
CLSA

Thank you.

Andrew Bowden

Bret, could you --?

Brett Le Mesurier
Axiom Equities

Brett Le Mesurier from Axiom Equities. Question on the outlook on your core earnings. Since you've had income falling from the first half to the second half and obviously you've described the reasons for that, it looks like the - it will be difficult, and given that your expenses are continuing to go up, it looks like it will be difficult for your core earnings in 2011 to exceed the pro forma number that you provided for 2009. Would you agree with that observation?

Gail Kelly

I'm not sure what pro forma number we provided for 2009. But just to talk to the overall points about the factors that drive our revenue and core earnings. I think we've discussed the - explained this already, the factors therefore that drive the revenue. But 2011, as we've said already, we think will be a challenging year, there will be continued modest credit growth, although you've heard me say already I think the credit growth will be at least as strong as it was this year, frankly it should be higher, as business credit starts to pick up later in the year.

So, and we would expect to actually grow in our chosen segments ahead of system growth in the areas that we've chosen. So we've used this year, this 2010 year really to significantly strengthen our franchise and rebase that revenue. We've dealt with some of the major headwinds during the 2010 year and we don't expect that they will come back in 2011.

And what we've done through our Westpac distribution and St George is really strengthened their front line distribution with an absolutely razor-sharp focus on particular segments. And we would expect to grow above system in those key segments over next year. In St George's case, as I've said, in their natural geographies; in Westpac's case, in those key segments nationwide.

So we feel we've used this year quite well to be really disciplined and very focused, critical segment focus where we can have deep relationships, long-standing relationships with four or more products per customers. And then a real focus on our proprietary channels because we believe that drives a greater value for us and is in line with our strategy. So that's some of the pointers that would actually go to revenue growth.

Andrew Bowden

Had a question at the back there.

Unidentified Participant

Yeah, [Philip] [inaudible] Management. Could you just give us a feel for around the housing line sector, whether the movement in default [ph] is sustained over the last period? And also just on the product improvement that you've got with the full product you're talking about at 30%, just the main products there and where you getting that growth from?

Gail Kelly

Okay. Well, I might ask Rob Coombe, he may want to add something to the product piece actually about where he's getting the product growth from. I mean the wealth product has been particularly strong, but I know that Rob would like to add to that.

On the housing situation and with regard to the performance, it does remain an exceptionally high-quality portfolio and performing very, very well. There's been some pickup, as you would have seen, in our 90-day delinquencies, but it's off a very low base, so the overall 90-day delinquency for our Australian home loan portfolio across the board at both St George and Westpac comes in I think at 0.43. Our overall properties in position [ph] have grown a little and it's new coming on and taking a little longer to actually move those that you have in the system out, but it's 383. Now that's against obviously an overall portfolio that's well over a million, 1.5 million sort of properties.

So it does remain a very well-performing portfolio, more than 55% of our people actually are ahead of their repayments, our overall loan to valuation ratio across the portfolio as a whole is in the 40s, and loan to valuation ratio for new to bank customers at origination is in the 60s, I think it's 67%. So the portfolio does remain in very good shape.

Out low doc portfolio, that obviously grew during the period last year, remains, as we see it, I think at the half, better performing than actually the portfolio as a whole. And we have a particularly strong product per customer relationship with our low doc customers. So that's performing well too.

Rob, would you like to add something on where you're getting the products per customer?

Rob Coombe

Well, firstly, it's mainly coming from the segments that we relationship-managed and we've lifted the level of relationship - I was going to say I was standing up [inaudible] we've heard that before. The areas where we relationship-managed and we've lifted relationship management focus particularly in the SME segment and also in the upper end of affluence. So we've been significantly lifting penetration of products per customers in those levels in particular.

If you want to look at the products, it's been primarily in the wealth area, so in our premium financial services area which is the upper end of the affluent area we've lifted wealth [ph] of 60% year-on-year. We've lifted Super for Life sales 37% over the year, and more broadly, we've lifted wealth [ph] sales by about 30%. As you can imagine, given my background, it's an area that I'm particularly interested in continuing to up the ante on.

Andrew Bowden

Thanks. T.S.?

T.S. Lim
Southern Cross

Hi. T.S. from Southern Cross. Bank matching [ph] seems to be back in fashion. Does it make it more difficult for you to sustain St George as a fighting [ph] brand, I mean perception-wise, given its association with Westpac?

Gail Kelly

Not at all. T.S., that's not the way I would have thought the question would have gone actually. I think if anything, it gives us additional strength. St George is a very strong brand with a very strong culture and connection to customers, providing customers choice, and customers respond to that. And I think it provides us with an opportunity to speak to different types of customers. We've seen remarkably little overlap between customers who choose St George and customers who choose Westpac. It's one of the reasons why we've had no customer attrition. And so I think it gives us an opportunity to actually have a multi-brand approach, and [inaudible] customers choosing those brands, deepening relationships with those brands, it helps us rather than anything else.

Andrew Bowden

Scott?

Scott Manning
JPMorgan

Scott Manning from JPMorgan. Just wanted to further have a look at the liquidity requirements, and I know that that's obviously not coming through until the end of this year when the discussions are going to be had. But of that $47 billion liquid portfolio, would you able to share what proportion of that is into bank paper including government guarantee paper? Just to get a sense of in terms of what we've got to consider in terms of the potential [inaudible] funding requirement [inaudible] challenge.

Phil Coffey

Yes. So we've got - I think we've got it in our IDP [inaudible] I don’t know what page it's on. But -

Gail Kelly

Do you want Curt to answer it?

Phil Coffey

Yeah, maybe you want to answer that, Curt.

Gail Kelly

Curt, do you want to answer that?

Curt Zuber

So at the moment we've got 24 of the total [inaudible] what we call DT [ph] which is the [inaudible] and everything else, 23 of it's in banking, corporate and RMBS. I mean I think the thing to remember is obviously that 23 does roll off, so it turns into cash. There's no new funding requirement for that. Going forward, I think when you think about liquidity, will soon go away from just looking at the liquid assets, say, we'll look at management of outflows and inflows. So inflows are obviously skewed very much towards liquid assets [inaudible] you can do on the outflows. And obviously the third thing, and we don't know yet, is what the high-quality liquid asset solution that we're going to get.

So I think all those things factor in at the moment that it's very difficult to predict what the economic is going to be, whether it's better to hold more liquids or to manage your outflows out.

So at the moment, I think the key thing is it's all refill-eligible, it provides us with that insurance that we talked about in the past, it's built up appropriately given what's happened in the world over the last couple of years and at the moment we're really comfortable with the position, where we stand.

Andrew Bowden

We've got a question from Johan Vanderlugt on the phone please?

Johan Vanderlugt
Daiwa Capital Markets

Yes. Good afternoon everyone. First, an observation that I am sort of missing the product spread metrics in the fact that used to be in the cash earnings retail [ph] section, but just as an aside. And then a question on New Zealand, we're seeing the net interest margin improving by 9 basis points for the half which is explained by a mix of new business and some repricing. Could you provide some further details around that NIM movement, and also your expectations in terms of the repricing that you may look forward to for the current FY11 financial year, especially in the light if I look at some of the peers, their sort of NIM improvement in the second half seems to be bit less than what we have seen for the other two banks reporting.

Phil Coffey

So I'll answer that, Johan. So I mean the product spread data really obviously also had a large element of internal transfer pricing as the component part of driving that, and we thought, without having a consistent approach to doing that across the sector, it's very hard to include that data.

In terms of New Zealand NIM, you picked up a number of the factors that have driven the improvement. I guess the one you didn't mention was the mix shift in mortgage origination and mortgage book which has shifted to more floating rate and less fixed rate. That has had quite a material mix benefit to the margin.

There's been repricing, there's probably been another round of repricing across the industry in business, and I think that probably reflects the assessment of the credit risks that exist in business lending in New Zealand, and I think that that's been an industry phenomenon that we're starting to see ply through in New Zealand. We feel quite positive about the way that the team in New Zealand is managing that volume margin trade-off. Volumes are continuing to be quite modest but actually still positive, which is different to the system. So we're actually gaining share both in mortgages and in business in New Zealand but we're still improving margins. And that feels to be the right mix. We'd rather do that rather than see volumes down to repair margins.

Gail Kelly

I was just going to say, we could test the system and see if George can actually add something to that. George, can you hear us? George should be listening in. You perhaps want to add something to that from the ground.

George Frazis

Can you hear me, Gail?

Gail Kelly

Yes, we can.

George Frazis

Look, I think Phil sort of characterized it correctly in the sense that we're making the right trade-offs between margin and volume. So we've gained share in all of our key products and been able to see the benefits of repricing the first half flowing through into second half. There will be some more repricing flowing through as the book turns over and we will continue to manage that tightly.

Andrew Bowden
Okay. Well, there is no more questions on the phone or in here. So I'm going to call proceedings to a halt. Thank you very much for attending, and good morning everyone.