Question and Answer

Jill Craig
Former Group General Manager, Investor Relations

Thanks, Peter. If you will be very familiar with the procedure for this. We'll start with questions in Melbourne. If you could wait until a microphone comes to you, because there are people listening on the phone and by the web. With that, we'll start with Craig, please.

Craig Anthony Williams
Citigroup Inc, Research Division

It's Craig Williams from Citi. I recognized that your result was solid and you're well positioned for growth in the medium term. If I look back at third quarter '10 in your trading update, you called out a need to focus more on productivity. Today, your result, you've called out a stronger emphasis on generating ongoing efficiencies given the more constrained domestic conditions and heard and paid a summary of focus on productivity. Reality is, this year, as you look at it, 5% pro forma revenue growth, 8% pro forma expense growth and the strategy, which does require investments. So what have you done specifically just in the leakage on cost growth in the business? Can you put some more meat on the bones, so to speak, around that.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, I mean, there's been a huge emphasis on this. I mean, if you would have put a normalized trading income back into that and the jaws would obviously been positive. We've always managed this in terms of adjusting expense growth to what we can afford. And the problem was this year in that second half was that the trading income was a much more significant reduction than we would've expected. So I see it more as an income problem rather than a cost problem. The fact that we were able to pull back costs very substantially, particularly in institutional, I think is important. But we did have quite a high cost growth in institutional as a result of that big increase and at the end of 2010, where we put very significant investment into the markets in terms of systems and people. And of course, that will benefit us going forward. In terms of the other businesses, APEA, again, has reduced its cost growth considerably in the second half from the first half. It's almost half of what it was in the first half. But again, we're continuing to put as much investment as we can afford into APEA and we'll continue to do that. In terms of Australia, Australia is actually, I mean, it's cost-to-income ratio is the lowest of its peers and it's Australia only business. Can it do better? Yes, it can. And I think that the recent changes we've made around the management structure for actually changing the operating model within Australia is going to be quite important, because, I think, we perhaps had a situation where we've had too much cost in the business and too much cost in our hubs, and we really have gotten our work through that much more effectively. And Alistair Carr has been given a very clear mandate on fixing that. I look at him. The other thing is that in New Zealand, we've actually had a reduction in cost. So it's a tale of many parts, but as I said, I think we've got in place now a very clear policy of how to move this one forward. And as I said, we will always manage our costs on what we can afford.

Peter Ralph Marriott
Former Chief Financial Officer

Craig, just to amplify on that as well. If you look at our cost growth this year, 26% of it was actually in the markets business. And there was an expectation at the beginning of the year of much higher rate of revenue growth and particularly, the rebound in revenue growth into the second half, which obviously didn't eventuate. So in the end, they ended up close to 30% short of their original revenue growth targets. And that -- you can't quickly turn your cost off when the revenue falls substantially short, but the business has been responding to that. And you'll see the momentum of that flowing through into 2012.

Craig Anthony Williams
Citigroup Inc, Research Division

Do you need more margin for error but you said market is part of your growth strategy and therefore, and that sort of comes with volatility at times, do you need more margin for error in terms of the way you set the cost in, recognizing the fact that your strategy actually takes on a more volatile income strain through the markets growth here, you're dropping[ph] ?

Michael Roger Pearson Smith
Former Non-Executive Advisor

I think, you would say, if looking at the results, we have that margin for error. I mean the fact that we've actually had close to 30% reduction in income and in the second half and have yet met consensus, I think is a pretty good result. I think that's quite a big margin. And I hope that won't happen in the second -- next year.

Jill Craig
Former Group General Manager, Investor Relations

And I suggest for everybody there. Matt?

Matthew Davison
BofA Merrill Lynch, Research Division

Thanks. it's Matt Davison, Merrill Lynch. Mike, back in '08, '09, you had some success in Asia winning deposits during the process then. I'm just interested with the European situation, if you could expand a bit more on exactly how that's helping you win customers in Asia in the current climate? And when you look at, I guess, the opportunities coming forward, do you view that more as the opportunity to win customers from European banks or to look at whole businesses that might spill out of the crisis?

Michael Roger Pearson Smith
Former Non-Executive Advisor

I think it's both. I think it's both. I think it's a double opportunity here. Quite clearly, if you look at a number of the European banks and actually some of the U.S. banks, when you're trading at 0.3x or 0.4x book, it is extremely difficult to raise capital in that environment. And of course, the easiest way to do with is either reducing your balance sheet or selling assets. And we're already seeing opportunities where portfolios are being offered for sale. So that's one possibility. The second though is that same point around the constraints on the balance sheet. The players will leave the field. They're not playing exactly as what happened in 2008. So this is a huge opportunity. The other thing is that we still have a AA rating. I hope S&P continue to keep it that way. But a number of counterparties who've -- corporate counterparties, are obviously looking to put money with us in terms of deposits in a way that, that was not there 6 month ago because obviously of that concern with the safety issue. The problem has been that in this market, we have had a huge inflow of short-term funds. 48 hours is the new 20 years. So it's been extremely difficult for us. In fact, we've had a huge amount of liquidity coming through, its what to do with it. And I think we've got about $14 billion with the Fed at the moment, which is not earning us a lot. But what we've been trying to do is tender that out a bit and use it for funding, trade finance. And the guys in Asia have done a great job of that.

Jill Craig
Former Group General Manager, Investor Relations

Any more questions in Melbourne? We have Phil Chronican, the CEO of Australian business. He's hosting in Sydney. Phil, do we have questions in the room there please?

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Just a quick question if good following on from the Global Markets comments. I did see that, Page 64, the Global Markets revenue is down 31%, but cost was still up 6% in the second half. So it did have a lot of negative jaws coming through there. So you did elaborate saying that you can't turn costs off quickly. Do you need to be more flexible in that area so that the people in those trading areas have much more flexibility in the expenses and doesn't just flow through the shareholders. And secondly, on the capital generation in the period, noticed that there was no capital generated in that fourth quarter and that credit risk-weighted assets were up sharply especially in the corporate division or corporate area, which is up about 9%. It just seems strange to see such a large increase in credit risk-weighted assets there given what you're talking about the improvement in the institutional book, and why we're not seeing an improvement there in credit risk-weighted assets?

Michael Roger Pearson Smith
Former Non-Executive Advisor

I didn't understand that.

Peter Ralph Marriott
Former Chief Financial Officer

Well, do you want to pick a question on the cost and...

Michael Roger Pearson Smith
Former Non-Executive Advisor

On the cost, I think that the ability to turn on and off cost is always an issue in terms of times when you have a substantial reduction in income. As I say, I think it's more an income story than a cost story. I think overall, the dependence we've had on trading income, as you know, has always been quite high. And we have been moving to change that dependence to a customer sales focus or more customers sales focused in terms of the revenue generation. And we've actually seen a 16% increase in sales volumes this year, which I think is an extremely good result. And that will continue, that will continue to move forward. So it's not that trading will not be important. It means that it will not be as important in terms of the overall mix of business. And that's the way we going to move out of that dependence, Jonathan. In terms of the capital. I didn't understand that?

Peter Ralph Marriott
Former Chief Financial Officer

No, what Jonathan since put on in his question and the few things that happened in terms of Q4, one, if you think about the way this works, Q3 had the accrual of the DRP. We accrue the DRP at 30% and then as you actually see have the DRP take place, you see recognize the difference between the accrual and the actual so they have the benefit of 10% coming into Q3. Q4 didn't have that. Q4 had very strong risk-weighted asset growth. Now that's the good news story and the bad news story. Good news story in the sense that it implies a new volume in there for earnings but it did show into capital. So for the year, risk-weighted assets were consuming 43 basis points but the annualized rate in Q4 was 93 basis points. So double the growth. Now Jonathan you said it was in corporate, but of course that's corporate IRRB, which means its institutional lending, it was fundamentally institutional lending undrawn lines in Australia and Asia, reflecting the growth in that part of the business. And us picking up more market share in those areas. So the good news story, there was actually good risk-weighted asset growth in Q4 that did not of course mean that the capital ratio didn't improve in Q4 because it had to absorb that, that affect.

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. A question on drivers of margin change over the last 12 months. In particular most of APEA has had close to 50 basis points of margin decline over the 12-month period and 30 to 40 basis points in the second half. What were the drivers of that change? And then in light of your comments, Peter, that you think margins will be stable at a group level, and maybe then just throwing into the mix that if there is a potential S&P downgrade coming, what that does to ANZ's attractiveness in Asia in terms of getting deposits and then defending margins?

Peter Ralph Marriott
Former Chief Financial Officer

We might get Alex to make some comments in there as well. But specifically in terms of your question around the APEA margin, a large component of that reduction in the margin is mix because the growth was in the institutional business, so the lower margin parts of the APEA business x institutional. So very big mix component. A very large component just coming through from the competition on for deposits and asset prices. But those trends, that's why it's useful to get Alex to make some comments, we seen actually start to improve post the European situation. So Mike, can you get Alex to make a comment on...

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, but before doing that, what you have to remember what has happened in Asia is that margins actually went up quite significantly during the global financial crisis. They have gradually been reducing and in basically as a result of competition. And what we're now going to see is as competition leaves the market, we're going to start to see an improvement in margin again. Now the numbers that which -- sorry, I mean, you were talking about the overall net interest income as well, was it?

Peter Ralph Marriott
Former Chief Financial Officer

Yes, fully in 2000, particular in the second half of 2011, the APEA margin was a major contributor to the overall margin reduction for the half. My comments on the margin outlook were to say that that is likely to be less of a factor and may been be positive, depending on what the ultimate direction is of margins in that part of the business. We'll be sensitive to mix. If the institutional business grows faster than the retail business, then that'll be different whereas if the retail grows faster than institutional because they have 2 different margin dynamics.

Michael Roger Pearson Smith
Former Non-Executive Advisor

It's likely that the institutional will build up. But as I say -- I mean, Alex, you like to...

Alexander Vincent Thursby
Former CEO of International & Institutional Banking and Member of Management Board

Yes, look not much to add to that, Mike. I think you -- we're starting to see margins on the asset side now flicking up, I think the quarter results from Standard Chartered than from -- certainly from Standard Chartered I said signaling the same thing that we're signaling. We're seeing margins in the trade book starting to motor up in the way. So I would expect margins to improve over the next 3 to 6 months in a gradual basis month-by-month, as it comes through your book.

Michael Roger Pearson Smith
Former Non-Executive Advisor

I'll give you an example of the way pricing has suddenly changed. I mean say you were doing confirmation on an Indian bank, a pretty good Indian bank. 6 months ago, that would've been 70 basis points margin, now it's 140. It's quite a significant change.

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. Just one, it's actually a follow-up on the trading income side. You mentioned quite a big bounce back in October month. Just wanted to get a feel as to how the risk capital has changed in that business. Have you got more risk on or less risk on than you did? Because I understand that the third quarter, you'd indicated you'd reduced the amount of risk being placed into the market when [indiscernible] see that in Q4. And just also the -- you've spoken a fair bit about the institutional cost or direction of cost or trajectory in cost coming down in the -- towards the end of the year? Could we get some quantity around that? So what have they actually done in the fourth quarter to reduce the inside costs and where the run rate on the cost growth for institutional is moving into the 2012 year?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Okay. Yes, I'll ask Shayne to comment on the cost initiatives because there's quite lot actually going on. In terms of the trading book, yes, you're right. We had a strategy which was basically risk off and you can see basically that, that was, I think -- as a result of the market dynamics being so difficult to read, so difficult to predict, it was extremely difficult to see where the value of taking risk on at that time would have been. I mean I think it was just to -- it would've just opened us up to potential loss. So we were quite conservative, and I think it was the right thing to do. We've moved to a strategy which is now more varied. I think that they can pick the movement a little better now. It's a bit more predictable. And so we're moving to -- we have slightly increased our risk appetite. But our VaR is actually still incredibly low. And for the size of business that we have, our overall VaR is still extremely low. So as Peter mentioned, the results of the last month was not really much of a bounce back, it was just improved positioning. I think the guys are getting used to this new world and reading the signs that much better. So I think it was an overall improvement in the trading area. And of course in customer flow. Shayne?

Shayne Cary Elliott
CEO & Executive Director

Sure. So I'll comment on the cost. So I think there's a chart in the handout on Page 78 that kind of shows that on a quarter-on-quarter basis -- actually, we've kept our cost growth very close to 0 on a run rate basis. And we've actually done quite a bit at the front end in terms of our cost. So we've been focused on removing overlaps that we felt we had between the APEA organization and institutional, so that's made us more streamlined taking out cost at that level. We have done a lot of work around -- as Mike mentioned about spending what we can afford. We've done a lot of re-prioritization work around our investments slate in terms of technology in particular. So that is being just be more selective about timing of those deferring things being, more specific about exactly where we want to invest. We have been very aggressive -- institutional's always been very aggressive on the offshoring program in terms of our operations and to the back office. We're going to lift that to a new level, which we are going through at the moment. Obviously, some of these things incur cost so some of the cost of that restructuring, whether it's redundancy cost, whether it's offshoring cost, are already run rate. And so we're seeing that. And at the moment, we're also undertaking a review and we've already seen changes in terms of what would lose kind of our coverage model. So looking at the number of relationship managers we have covering accounts, looking at the sales support they have, whether it's from markets from trade, from transaction banking and general, et cetera, and streamlining those things as best we can. So I think -- I'm actually very confident about our cost growth. I mean what's not really seen in these numbers is that we have -- we have an increasing cost line in things like amortization because we have invested in the past in things like our Transactive platform, which are critically important, strategically very valuable, which are helping us acquire customers today, there's no doubt about that, and will set us up extremely well for the future. Those things cost money. We do have an increasing amortization charge. We've effectively absorb that within this month-on-month costs by making -- offsetting saves elsewhere and expect that to be the case going forward.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. If I may, could I go back to Slide 19? If we have a look at the APEA, the collapse in the margin, we know that this business is primarily deposit funded. But we also know that risk profile generally have SMEs, corporate businesses in Asia. According to the ratings agencies, is substantially higher than the Australian one. Could you just run through, is there the potential that we're actually seeing a discount margin implied in APEA to gain business? And that the margin outcome doesn't look quite right when you compare it to theoretically the lower risk business in Australia? And also, could we get a feel of how much of the excess deposits in that business have been streamed back to Australia? I think the rating differential is probably on average a BBB in all versus a BBB- in Asia.

Peter Ralph Marriott
Former Chief Financial Officer

I'll take the last question first. I mean, going on the other question. In terms of amounts streamed back into Australia, it's $13 billion as of the 30th of September. So it's essentially unchanged year-on-year. But the deposit growth has been put into liquid assets, so there's potential build up on liquid assets. Perhaps Alex can pick up on that questions around asset quality?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Let me just say something, Brian. This growth is actually very high-quality corporate growth, institutional growth. Most of this growth or most of the credit rating around this business is actually higher than the book in Australia. So I don't really understand the issue, but Alex?

Alexander Vincent Thursby
Former CEO of International & Institutional Banking and Member of Management Board

It might have got -- our credit rating is actually improving by half a point in our internal grades in the last 12 months. Our institutional business is very focused at the top end of the market and will continue to be so. On the retail side, we're actually, Brian, exiting the non-affluent, emerging affluent businesses on the asset side. That's required exiting that portfolio and we've been building actually on the higher quality affluent to emerging affluent. So as you know, we're extraordinarily well-positioned and focused on the higher end of the markets in both our retail, commercial and institutional businesses.

Unknown Analyst

Just a question on the fee income, which is about half of you income and looking at the second half run rate in your fee income growth, it looks like that that was running at about 10% annualized, which you've in the Page 18 of the pack. I'm just keen to get a sense of what's in terms of the sustainability of that growth rate and whether the investment made in transactional banking platform is like in the other things like that, whether that run rate is sustainable or even likely to pick up?

Peter Ralph Marriott
Former Chief Financial Officer

A number of drivers behind that obviously but the fee income, as you can see in the commentaries there, was particularly helped in the second half by the benefits coming through on Transaction Banking. Some of the cost that we've been seeing coming through in the institutional business, some of the capitalized software you see coming through flows to the same business has been putting in the Transactive platform for institutional that's trying to flow through into revenue. Now whether you can simply extrapolate out, I caution against extrapolating at any one half because obviously a couple of larger deals can impact the numbers. But we expect to see that the Transaction Banking business being an area of above average growth for us.

Unknown Analyst

This is something that's just starting to pick up growth or is that [indiscernible] something that was usual in that particular half? I'm just trying to get a sense here, you spent a lot of money on these platforms. I'm just trying to get a sense of the future growth run rate?

Peter Ralph Marriott
Former Chief Financial Officer

So just talking about cash management in particular in the Transactive platform, we would expect the benefits to gather momentum, and we have a very strongly growing business here. And you've seen that in the numbers here. And what's interesting, the real growth -- the story behind it is a customer acquisition story. It is a transaction volume story, and that is coming because we had greater capability. Our capability in the Australian and New Zealand markets today is superior to our competitors. And we are the only Australian bank with a trans-Tasman capability and that puts us in a the league of only 3 banks in that market. The others being Citi and HSBC. That hugely differentiates us, and that's the first leg of building out the regional cash capability. We go live with a few countries in Asia in the coming months and then we progressively roll out around a dozen markets over the next 12 to 18 months. There will be resulting growth from that and you will see cash management increase as a percentage of our business, which has always been part of our strategy. We love that business. We love it from a customer point of view in terms of the stickiness of the relationship. We love it because it's important in terms of determining lead bank relationship and it's the core for ongoing cross-sell. And we like the annuity style -- it's not talked about in here, but we like the dependency annuity style revenue streams that it generates. So it's always been our strategy to have that as the fastest-growing part of institutional and we expect to see the benefits to continue at an increased rate.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. I've got a 3-part question, loosely based on capital. Firstly, just the need for the DRP discount to attract capital given that the payout ratio is already substantially below peers. Secondly, the Basel 2.5 impacts, I couldn't see them in the little waterfall chart of the Basel III impacts. So if you've got any numbers there on that. And thirdly, if that shakeout is building, does that mean that any potential future earnings growth will get offset by that share count so the ROE kind of stalls around current levels?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Can I take the first one? The DRP discount is something that we have done consistently for the last few years. And I think it is now being accepted by the market as a relatively good way to raise capital. Other banks that have done it without the discount have had a much lower takeup. It's almost half the takeup that you would get with a discount. So we do believe that it's a good way to do it. And indeed, that discount is quite minimal. In terms of Basel III, we have provided some numbers in terms of the fully harmonized -- you can't really say those 2 words together, Basel III and then harmonized, yes. But we have provided those numbers in there. What we haven't talked about is the discussion paper that APRA have produced because that still contains a number of things which are outside of Basel III and still need discussing. After all, that's what a discussion paper should be about, I guess. So I don't know if Peter wants to just talk about the harmonized stuff?

Peter Ralph Marriott
Former Chief Financial Officer

Well, I think there's a few aspects in Scott's question, but specifically addressing your 2.5. We think that 2.5 will add about $6.5 billion to the risk-weighted assets, which is about 20 basis points. However, we're expecting that, that will be offset by some of the benefits coming through from the new risk management system that Chris Page has implemented that will give us greater granularity around our risk-weighted asset measurement and will allow us to reduce our risk-weighted assets, and that the benefit of that should neutralize. That's why we haven't specifically called that out because we don't think it's going to net-net a major driver in the capital ratios, but you're right that we didn't specifically single that out.
In terms of the DRP discount, it also building out, Mike was saying, it would seem with the fact that our risk-weighted asset growth is higher than our peers. And the discount allows us to get the natural profit retention of the levels to be able to continue to pay out the fully franked dividend to get the dividend, the franking credits out, but still absorb enough from the earnings of the business to grow -- to fund that risk-weighted asset growth particularly in Asia and the growth in the partnerships within Asia. And obviously, there is the implication on the share count between issuing shares and the focus has to be on making sure we're getting a high-enough ROE on that additional capital.

Michael Roger Pearson Smith
Former Non-Executive Advisor

But the ROE is increasing.

Victor German
Nomura Securities Co. Ltd., Research Division

Victor German from Nomura. Just if I could -- and I think Shayne already touched on that issue around capitalized balances and what does is it mean from amortization high amortization expense. If we look at your capitalized balance as they continue to increase your software balances are something like $1.5

billion now, Westpac suggested that, for them, it creates about 2 percentage point headwind next year. Could you give us an idea what's sort of headwind that creates for you guys? And where does it leave you in terms of cost growth for next year? Are you going to be able to see sort of similar 2% cost growth per half as you have achieved in the last half?

Peter Ralph Marriott
Former Chief Financial Officer

Well, as I've mentioned before, the capitalized software growth is in those areas where we've got the business volume growth as well from particularly being driven by the major components in the current 12 months have been driven by the Ace [ph] project for instance APEA, which is the common platform for that business driven by the likes of Transactive. And so there is a continuing buildup of amortization charges into 2012, but that's just part of the cost we've got to absorb and manage. And to the extent it's focusing in areas like Ace [ph] and Transactive, there's an expectation of higher revenue as well as we make use of those platforms. So it's just part of the broader picture we just got to manage in that cost.

Andrew Lyons
RBS Strategy

Andrew Lyons from RBS. Just a question on the domestic margin. Your commentary suggested that deposit competition was drag on your domestic performance in the second half. However, recent term deposit pricing does suggest that some of the heat has come out of that market. Can you just perhaps discuss what sort of a drag you expect this to have particularly in light of what's happening in wholesale funding markets?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Phil, do you want to pick that one up?

Philip Wayne Chronican
Former Chief Executive Officer of Australia

So deposit pricing is true. But you got to look at the offset to that as that the higher wholesale funding credit spreads obviously are going to impact us going into next year. So I don't think that the deposit side of the business will be a material negative drag in 2012, but we are under quite a lot of pressure in terms of the variable rate funding pool from those term credit spreads and also some primary [ph] things have happened in the hedge markets, particularly in the overnight index swap. So there are going to be some margin headwinds for the domestic business next year, but they're less likely to be this time around from the deposit book because of the point you've already highlighted.

Jill Craig
Former Group General Manager, Investor Relations

We don't have any calls waiting on the phone so Phil, are they any less questions in Sydney?

Philip Wayne Chronican
Former Chief Executive Officer of Australia

Yes, we still got a few hands here. So we'll take the one at the back.

Michael Wiblin

Mike Wiblin from Macquarie. Just a question around New Zealand. Looks like the outcome there has been a little bit more subdued compared to competitors. Maybe just a view on outlook for provisions there going forward, also the margin? And also, any plans on sort of footprint rationalization and further cost out benefits there?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, I mean I think we're actually -- I mean, the big problem with New Zealand was just the lack of growth in terms of the volumes. Now we hope that, that will pick up as the economy gradually looks a little bit more positive. In terms of the provisioning, I suspect that, that will have flattened out a little bit now. We do expect or we have not seen as significant a problem as we originally expected from the Canterbury earthquake or earthquakes. That has not been quite as pronounced as perhaps we'd first thought. But we are beginning to see an improvement in terms of the housing market, in terms of credit cards. That's slightly improved. So that's all positive. In terms of the rationalization, further cost rationalization, yes, I think there's still significant work to be undergone there. The simplification to one system is going to be very, very important. That's going to save us a lot of money in the medium term. The product rationalization that we're doing will also save significant amount of money. And we're working through now channel rationalization and I suspect that there's a fair amount of benefit in that too. There was another point there. What was the other?

Peter Ralph Marriott
Former Chief Financial Officer

Margin.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Oh, yes. Margin, we have seen an increase in margin in New Zealand. I think they'll probably continue to have a little bit more benefit as we reprice particularly in the commercial area. But I guess around at the half, we will probably see that plateau. But I think a little bit of a -- a little bit more improvement.

Jill Craig
Former Group General Manager, Investor Relations

Phil, we'll take 1 more question, please. And then if there are any questions remaining, we can take those offline after we finish.

Philip Wayne Chronican
Former Chief Executive Officer of Australia

Okay, Brett?

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

Brett Le Mesurier from BBY. A couple of questions. On the excess deposits that you've got in Asia, am I right in thinking that the ROE on the associated liquids is around about 5%? And secondly, the ROE on the Asian business is about less than half of that on the Australian business? So I would be right in thinking that the faster you grow, the Asia or the APEA business, the faster your ROE will decline?

Peter Ralph Marriott
Former Chief Financial Officer

Well, Alex, may want to make some comment about the ROE because he's [indiscernible]. But in terms of the -- in terms of the liquids, yes, there's a large block of liquids which we are making a spread on. And we are making a positive spread on the liquids. We have people who have come to us because of our rating and we've in turn classically put them with the likes of the Bank of Japan, the Fed, et cetera. So very highly rated counterparties, obviously. The capital required for those is trivial, and we're making a positive spread and that's allowed us to build up all the liquid assets to give us more flexibility around that funding. [indiscernible] 5% ROE would come from because the ROE on that would be very high because the capital is so low. But then going on to your question about ROE. Clearly, growing a business initially puts some pressure on ROE and then we look to improve the returns over time. So Alex, do you want to make some comments on that?

Alexander Vincent Thursby
Former CEO of International & Institutional Banking and Member of Management Board

Look, just to add to that Peter, the high level is absolutely right and we'll continue to invest in the business that will obviously delay our ROEs, but we're beginning to get into a positive circle in the cost-to-income ratio now. So that will help and we're beginning to continue to generate more noninterest revenue at a pretty explosive pace. And that will continue to improve the ROEs. The ROE differential from 2 years to this year is -- we have had big asset growth that is being delivered and we would expect ROEs also to move as margins move with the market conditions.

Michael Roger Pearson Smith
Former Non-Executive Advisor

I just like to finish that the growth opportunities that are available to us in Asia Pacific are just not available to us in Australia. It's that simple.

Jill Craig
Former Group General Manager, Investor Relations

Okay, we have no calls on the phone. So Mike, with that in mind, do you want to make any finishing remarks?

Michael Roger Pearson Smith
Former Non-Executive Advisor
Well, just thank you for attending today. As I say, I think it's a pretty solid result. I think we are extremely well placed to take the opportunities that will be around in 2012. I think we're making good progress on our strategic agenda and I think 2012 is going to be another critical year for us. Many thanks for attending today. Thank you very much.