Question and Answer

Will Rayner
Former Head of Capital and Investor Relations

So we would like to take questions first here at the venue in Melbourne and then we'll open up to the questions on the line. So if you do have a question here, please wait for the microphones so those on the line can hear the question as well.

Ian Rogers

Ian Rogers from Banking Day. Mike, can you talk a bit about the Bank of Cyprus, and just how you're going to run that business differently if at all? I mean, are there any lending initiatives that you want to change, any aspects of the deposit gathering strategy and anything else?

Michael John Hirst
Former MD, CEO & Director

Sure. The reason that we're attracted to Bank of Cyprus is because, pretty much, it's a community bank. It was banking Greek and Cypriot communities in Australia, as well as other areas of the southern Mediterranean. It's a good business that has branches in South Australia, Victoria and New South Wales, so, again, reasonably in line to what we're doing. What we've looked to do is integrate the back-office areas as we can, and Richard spoke about the synergies that we've achieved in being able to do that. But we very much want it to remain a community bank in its own right for that community. So we have the right to use the Bank of Cyprus name until the end of this year, I think. So we're going through a process at the moment of identifying an appropriate branding to take that forward, and then there'll be a significant effort around re-branding over the next few months. But very much retail-focused community bank, sits very nicely with our strategy.

Will Rayner
Former Head of Capital and Investor Relations

Are there any more questions here in Melbourne? If not, we'll go to the phones for some questions.

Operator

The next question comes from the line of Andrew Triggs from Deutsche Bank.

Andrew Triggs
Deutsche Bank AG, Research Division

Andrew Triggs from Deutsche Bank. Just a question around the margin slide you provided. Because I would've thought you might have had a stronger benefit from recent asset repricing in May and June. But just your thoughts on: a, the average -- what the average length of the deposit book is at the moment; and b, sort of how the dynamic between repricing and deposit spread pressure is playing out, and if you saw flat cash rates into the medium term, what -- would it actually be a tailwind or a headwind?

Richard Fennell
Executive of Customer Banking

Okay, the -- what you see on Slide 13, Andrew, is the fact that we haven't seen the sort of dip that we saw in that December, January, February margin occurring in May. June is a reflection of the fact that asset pricing -- repricing happened at the same time of those cash rate reductions, which happened pretty much across the industry. And as a result, I guess, that shielded the industry from what would've been a more significant margin impact. Going forward, if the cash rate were to stay flat, let's say, for the next 6 months, we would expect margin probably to stay reasonably flat from where it's ended this year. There's a little bit of term deposit repricing still to work its way through the system, as we've got TDs that were written 6 months ago are rolling over onto a lower rate now. Having said that, a lot of the benefit of that is managed through the hedging. So we're not suddenly expecting that to see a significant or material increase in margin. But obviously, if we can maintain -- if the cash rate is maintained flat, we're not going to have the volatility we've seen over the last 12 months, where banks have needed to move on the pricing of their assets to recover the additional cost as we've seen TD price has not dropped as far and certainly not as fast as the cash rate moves.

Operator

Next question comes from the line of Victor German from Nomura.

Victor German
Nomura Securities Co. Ltd., Research Division

Just a couple of questions, if I can. The first one is on capital. All your major bank peers are now guiding to both the harmonized capital number on Basel III basis and also on APRA Basel III basis as well. Are you able to give us an idea where those both numbers are for you and also at least one major bank, provide us some guidance around their future expectations around that number?

Michael John Hirst
Former MD, CEO & Director

Victor, on the harmonized, we don't actually have too much to harmonize. So our numbers are pretty much straightforward from that point of view. In respect of the -- what's required going forward, well, we're still yet to understand fully what those requirements might be. We're running off what we know at the moment. And on that basis, we're in a strong position. The comparison with the margins is obviously difficult, given the difference in terms of the structure of the balance sheet and the standardized versus advanced models. So from that point of view, it's a little difficult. We believe that we're adequately and strongly capitalized. As we move through the consultation with the regulator, I guess we'll know more.

Victor German
Nomura Securities Co. Ltd., Research Division

And sorry, when you say you're -- because major banks are on a harmonized number close to 9 to 10, I'm saying harmonized relative to actual Basel harmonized numbers. When you're saying there are not many adjustments, you're talking about APRA number, Basel III number, or are you talking about harmonized global number?

Michael John Hirst
Former MD, CEO & Director

We're talking about a harmonized Basel III number, so...

Victor German
Nomura Securities Co. Ltd., Research Division

Which is comparable to 9% to 10% for major banks?

Michael John Hirst
Former MD, CEO & Director

Yes.

Victor German
Nomura Securities Co. Ltd., Research Division

All right. Okay. And second question, on provisioning. Given that looking through your commentary, credit conditions are arguably deteriorating at the margins. But your provisioning, collective provisioning is still declining. Are you just able to tell us what's driving that sort of level of declining through your models, because you would have thought in a deteriorating environment, it should actually be going up.

Richard Fennell
Executive of Customer Banking

Yes, Victor, the -- what's driving that in the models is actually the losses that are being incurred on those lines that get -- they get into trouble. So although we are still seeing reasonably flat arrears, those that we are having to take action on, the level of losses is decreasing, and that's what's driving the impact of that reduction in the collective provision. As I've mentioned, that we -- in the presentation, we've made a decision to probably add a degree of conservatism to what the model initially gave us as a result by increasing the collective provision this half to reflect what is in some industries a pretty challenging environment. Having said that, there are some other industries out there that don't seem to be going too badly, and, again, we're not seeing evidence of that coming through in significant increase in arrears.

Victor German
Nomura Securities Co. Ltd., Research Division

Okay. And sorry to be taking a little bit long, but just the last comment on Mike's comment around potential opportunities that may arise in the current environment. Given some of the previous acquisitions were not particularly successful, are you able to just, going forward, give us an idea what sort of benchmarks you would use in potential acquisitions in the future?

Michael John Hirst
Former MD, CEO & Director

Well, we use a benchmark return of 15%, but when you say some of the acquisitions, I'm not quite sure what you're talking about. If you're...

Victor German
Nomura Securities Co. Ltd., Research Division

One of the bigger ones.

Michael John Hirst
Former MD, CEO & Director

So you're talking about one of the acquisitions?

Victor German
Nomura Securities Co. Ltd., Research Division

Yes. In particular...

Michael John Hirst
Former MD, CEO & Director

Well, yes, look...

Victor German
Nomura Securities Co. Ltd., Research Division

Or margin lending, for that matter.

Michael John Hirst
Former MD, CEO & Director

Okay. So both of those acquisitions were really impacted by the market conditions that were unforeseen at the time. The Adelaide Bank merger was announced, I think, the week before the GFC, the first signs of the GFC emerged. And, frankly, I think our ability to merge a wholesale funded bank with a retail funded bank through that period is actually a great success. And you can see the figures there for Adelaide Bank, albeit somewhat impacted by the anomalies of the market and FTP. That's, I would have said, that's coming in not too bad. Margin Lending is the one that I think has been heavily impacted. Again, it's fallen in line with market. Our market shares are only slightly down in terms of that business. But the reality is we achieved a payback on the Macquarie purchase within 9 months of buying that business. So not a lot we can do about margin lending, I think. Hopefully maintaining our market share means that if the market -- if it does turn around, and, Victor, you know that as much as we do, then I think we're in a strong position.

Victor German
Nomura Securities Co. Ltd., Research Division

But in terms of returns, you're looking at 15%-plus?

Michael John Hirst
Former MD, CEO & Director

Yes.

Operator

The next question comes from the line of David Shi from Morgan Stanley.

David F. Shi
Morgan Stanley, Research Division

Just wanted to ask about your Homesafe revaluation contribution to the noninterest-income line. That increased by about $7.5 million in the half. I was just wondering, first of all, what was the underlying increase in asset values there? And secondly, are you able to provide just some sensitivity regarding the potential decline in the house prices in the Homesafe trust and the impact of that on that income line?

Richard Fennell
Executive of Customer Banking

The -- what we saw towards the end of the second half was some improved performance in the housing market in Sydney and Melbourne, which is where the Homesafe trust properties are all based. So the first half of the year, we saw a more significant reduction in housing prices, particularly in Melbourne. And that stabilized, and then actually started to improve towards the end of the second half, which is the key driver of the half-on-half change. As far as the sensitivity is concerned, the good news is the sensitivity, if not just of house prices go down but also if they go up, not that we're necessarily calling the bottom of the market yet, but that sensitivity does -- is increasing as the size of that portfolio has increased. Having said that, it's not -- that portfolio is not growing as fast as it has in the past, as we're looking to manage that business. And the fact that we recognize that it's an asset class, that is not aligned with the rest of the asset classes we have on our balance sheet, and we continue to actively look to identify others who are interested in co-investing with us in directing -- in direct investment in residential property.

Michael John Hirst
Former MD, CEO & Director

I think the comment around the asset class is more about the cash flow or lack of cash flow associated with the asset.

Operator

Next question comes from the line of Michael Wiblin from Macquarie.

Michael Wiblin
Macquarie Research

My question just really centers around cost. Can you just give us a bit of a description of that long service leave item there, and potentially, whether that's an ongoing headwind? And then I just got a question around the Community Bank NII share and the renegotiation there. I mean, it appears to sort of be reasonably flat. I mean, is there any upside from a Bendigo perspective?

Richard Fennell
Executive of Customer Banking

Yes, Mike, on the long service leave, the Commonwealth bond rate has dropped significantly over the last 12 months, and there's an accounting calculation that we need to do, which discounts those future liabilities based on that rate. So the value in today's dollars has increased significantly, simply based on that reduction in the Commonwealth bond rate. That's about, as I say, I think, it's a bit over $4 million of the $6.1 million increase. Traditionally, each year, we've got a couple of million dollar increase in our long service leave provision as -- or a number of drivers of that including wage rates increasing, workforce, and also a high retention rate in our workforce. But the reason we've called it out this year is because of that impact of that change in the Commonwealth bond rate. If that was to increase from where it sat at 30 June, then we would actually see it swing back the other way. So unless we expect that rate to go significantly further down, I'm not sure too many people are predicting that, then we wouldn't expect to see this impact on an ongoing basis.

Michael Wiblin
Macquarie Research

Okay. And then just on the NII share?

Michael John Hirst
Former MD, CEO & Director

Yes. On the NII share, Mike, as you know, we went out to our community partners last year and said that because of the way the market had moved, we needed to address part of that margin share. What we did was reduce the trial on some of the fixed rate products by 12.5 basis points. And at the time we said there would be a 2-year transition period to a 50-50 margin share based on funds transferred pricing. Now, the implicit understanding in that was that the market would have returned to some sort of normality and that funds transfer pricing would actually be working in its -- on its theoretical basis. Now with TDs being where they are, that hasn't happened. The second move in respect of margin adjustment was timetabled for April next year, and we still intend to go ahead with that. I think the question now is do we do it by again reducing the trial, or do we do it by moving to a 50-50 margin share, and that will very much depend on the external market factors and where they sit at the time. But either way, there will be a further adjustment to that margin share in April.

Operator

Next question comes from the line of John Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Guys, just had a couple of quick questions. Just on a pending score, if I could, put you out of there -- the results. Just on Page 25, which goes through the lending book. This called my attention, business lending has picked up quite substantially. I presume this is SME, but 8% growth in the second half. And looking at one line in particular, the rental hiring and real estate has grown by almost 30% over the last year, it's quite a substantial amount of number, at $3.1 billion. Can you just run through what's going on there and why such big growth in that category, security and anything else you can give us? And also just flipping over to Page 26 on asset quality, the 90 days past due, while secured, has jumped up a lot in the second half, from 371 to 539, a big change. Is that just a different treatment of hardship or why the big jump in 90 days past due?

Richard Fennell
Executive of Customer Banking

Yes, John, the answer to the first question is the Bank of Cyprus Australia acquisition, they're a business that is more heavily focused on business lending than our existing business. So that's been that the absolute key driver of that change. The move in the 90 day arrears, there's a number of contributors to that. And one of those, again, is the Bank of Cyprus acquisition. And as you point out, they are arrears that are well secured. That also does incorporate the Great Southern book. We've also seen a number of other well secured but significant loans move into arrears over the last little while, and that's having an impact on that measure. Obviously, the key thing is that security there, but we're working with those borrowers to see if we can structure their obligations in a way that it allows them to work through some of the challenges they're facing. But as I've mentioned before, the -- we're feeling reasonably comfortable about that, given the security position we've got there.

Michael John Hirst
Former MD, CEO & Director

I think, John, just to provide a little more color on the Bank of Cyprus things, it's predominantly 2- and 3-unit dwellings in small unit developments that make up the most of that side. More of the Mom and dad. And I have a big block and if I cut it into 3, live in 1, rent the other 2 out, et cetera.

Jonathan Mott
UBS Investment Bank, Research Division

Okay. And then just following on to Richard's comment there, on the couple of well secured lines that have gone to arrears, I presume, again, that will be easing on property lines or something like that, which are well secured and not residential?

Richard Fennell
Executive of Customer Banking

Yes, there's a variety there. In fact, one since balance day has been refinanced and another one is actually due for refinancing in the next day or so of those more significant loans. And so as much as anything, it's a bit of a timing issue in relation to those. I mean, these come and go through the cycle and at various times. We're working with different business lending customers who are facing challenges and then, hopefully, helping them to work through those challenges. So, again, it's not anything systemic that we're seeing coming through the portfolio.

Michael John Hirst
Former MD, CEO & Director

And it is in arrears or out of order, because they haven't been reviewed or whatever. So, for instance, there's an either a $1 million one there that's serviced by Commonwealth government receipts but the review hasn't been completed as it should have been and it sits in that bucket.

Operator

Next question comes from the line of Elizabeth Rogers from Goldman Sachs.

Elizabeth Burn Rogers
Goldman Sachs JBWere Pty Ltd, Research Division

I just have a quick question with regards to your cost position and sort of the rightsizing of that going forward. So if we look at it from your revenue line from an underlying perspective and take out from that Homesafe and BOCAL issues, is it like revenue is pretty much flat year-on-year, and from a half-on-half perspective, it came back about 5%? So when we look at that plus your cautionary comments in terms of outlook, is there any scope to sort of better rightsize your cost base at these levels, or will strategic initiatives sort of eat up that cost, any cost-benefit going forward?

Michael John Hirst
Former MD, CEO & Director

Yes, look, I think the significant investment there is in the Basel II. The numbers there are sort of somewhere between $40 million and $50 million. About 70% of that is on staff costs. About 50% of that is able to be capitalized. The payoff for the business in making it more robust, et cetera, from undertaking that Basel II is significant. So on that basis, we will continue to undertake that investment. The other major investment we're making is in our front-end systems, and making sure that their customer-led systems. That's predominantly been addressed by the redeployment of staff, and so there hasn't been a lot of additional staff cost in that. There is some additional systems cost in that. It's important that both of those things get done. They both have pretty quick payoffs. So once they're done, we'd expect to reap the benefit of that pretty quickly.

Operator

The next question comes from the line of Matthew Davison from Merrill Lynch.

Matthew Davison
BofA Merrill Lynch, Research Division

Just a question following on from your comment on the margin outlook to be fairly flat from the end of the year level. I was just wondering within that, what are your assumptions around margin lending from here? And also, do you have any assumptions that major banks will increase extended variable rates outside the RBA cycle within that?

Richard Fennell
Executive of Customer Banking

On the margin lending outlook, we tend to go into each year with an expectation that following the prepaid campaign, that the rest of the business will stay reasonably flat. As has been shown over the last couple of years, that expectation has been pretty way off. Now we again go in with, probably, similar expectation that maybe risk appetite will steady. And -- but we'll see how that plays out. Having said that, now with a portfolio that's less than $3.5 billion, if we were to see it at 10% or 20% runoff in that portfolio, that hurts us a lot less than that 10% to 20% runoff hurt us when we had a $5 billion or $6 billion portfolio. And it really is very hard to make a call on how things are going to play out. And it literally varies day-to-day, week-to-week, with the flows in and out of that portfolio, depending on sentiment out there in the equity market. The -- as far as anything we expect others to do, I think you'd have to ask them on that point.

Michael John Hirst
Former MD, CEO & Director

But the question was about the assumptions. We have no assumptions built in around any asset repricing. As Richard said earlier, Matt, the 2 big issues there are really the absolute direction of interest rates. And I think we've got a couple of cuts built in and, clearly, competition around term deposits. And the reality is that from September until March, there was significant competition for term deposits, not only between banks but between branches within banks. And that abated a little bit in May and June. But I think it's fair to say it seems to have tested the bottom, and I think the elastic band has gone as far as it's going to go for the foreseeable future, given the pricing we're seeing.

Operator

Your next question comes from the line of Wes Nason from Citigroup.

Wes Nason
Citigroup Inc, Research Division

Just, I guess, a broad question around, I guess, some opportunity you might have ahead of you given the initiatives on capital that have improved your position there, and also the -- obviously, the credit-rating upgrade, you could sort of, I guess, arrived at a view that you're better positioned for growth than you would've otherwise been previously. How are you guys seeing things going forward? Is -- do you see a start to you guys to, I guess, push things a bit harder certainly on the wholesale funding front?

Michael John Hirst
Former MD, CEO & Director

Look, there's no idea, we're -- as you say, we're in a much stronger position to be able to access wholesale markets, be they domestically -- domestic or offshore. I think the -- it's bit of a conundrum now in that one of the reasons that we've got the ratings that we have is because of the strong domestic -- the strong retail funding base that we have. So there's a limit as to how much wholesale funding we'd be able to do and still maintain that balance sheet strength that allows us to have those ratings. This definitely --

$2 billion or $3 billion here or there I would've thought that we could access if we had to. Right now, we have no need to do that, even though our book's growing at system, our ability to access deposits is still very good.

Operator

The next question comes from the line of James Ellis from Credit Suisse.

James Ellis
Crédit Suisse AG, Research Division

I'm just wondering if you can elaborate a bit more on the Basel III initiatives, particularly -- and that's a little bit like us, how long is a piece of string, but what sort of time frame might you be able to get accreditation? And if you could put some numbers around the quantity of the benefits, given cumulatively there is a big cost associated with the investments here.

Michael John Hirst
Former MD, CEO & Director

It's Mike, James. On the Basel II stuff, it is a bit like how long is a piece of string. We certainly got a project team together. They're working through that timetable and process. I think, and I've got to be careful because 2 very erudite gentlemen from APRA are sitting in the front row here, but I would've thought sort of 2 to 3 years would be the time frame that we're looking at. We do have a number of the models, et cetera, that are required, already operating within the business that we need to tweak a bit. But that's not the hard bit. The hard bit is getting all the processes right through the business, and that includes a branch network and everything else. So there's a very big people and process component to it, which needs to be undertaken.

Operator

The next question comes from Ed Henning from CLSA.

Brian D. Johnson
CLSA Limited, Research Division

It's Brian Johnson. I have 4 quick questions, if I may. One thing, Mike, I don't forget is that even though Bendigo bid for Adelaide before the GFC, the due diligence was actually undertaken during the period. And Bendigo certainly could have opted out of the deal. Credit markets changed during the period. But that being said, Homesafe, can I just get a clarification that -- and this is not a base scenario, it's just the what if, if house prices were to fall, is there a moral hazard that Bendigo would have to put more capital into the Homesafe trust?

Michael John Hirst
Former MD, CEO & Director

Not into the trust, no.

Brian D. Johnson
CLSA Limited, Research Division

So there is a finite amount of capital that you've got invested in that, that wouldn't go up?

Michael John Hirst
Former MD, CEO & Director

Correct.

Brian D. Johnson
CLSA Limited, Research Division

Right, second one. Mike, just going back to, I think, one of James's question, just about advanced accreditation. Every bank result we see coming out, there's either an increased charge for operational risk or market risk or some type of risk. Can I just clarify that you're still convinced that advanced accreditation is actually worth all the time and effort, given that one of your peers has recapitalized its balance sheet quite strongly on either a -- on either an advanced or a standardized basis. Can you be certain that it's still worth it?

Michael John Hirst
Former MD, CEO & Director

Well, certainly from a point of view of how robust it makes the business in terms of understanding how it behaves and getting consistency of behavior across the business, yes, it is absolutely worth it. I mean, Basel II has never been about being more capital-efficient. That's just an outcome. It's actually about having a more robust business and running it in a much stronger way. So even if we were to get no capital benefit, it would still be worth it. Having said that, I think the majors, if you have a look at the amount of capital they hold to gross assets over time since accreditation have also been able to prove up some capital efficiency.

Brian D. Johnson
CLSA Limited, Research Division

Although the gearing is coming down at the moment. Mike, when I look at the Page 5 of the profit release, you talk about the fact that you've sold the subordinated notes, $90 million, but you talk about a loss in there of $12.4 million. Can we just clarify the $12.4 million loss, is it going to be treated as an operating item or a non-cash item? Will it be normalized away or will it be included in the cash earnings going forward?

Michael John Hirst
Former MD, CEO & Director

Look, I'm not sure we've come to a view on that, because it's only just happened last week. But I guess, it was held in an available-for-sale portfolio. But the only reason -- or one of the major reason we sold it is because of the change in the prudential standards and the impact that, that had on the capital. So from that point of view, it falls outside our normal running of the business. A little bit like IOOF does as well. I think both of those things are probably noncash, but we haven't had that discussion.

Brian D. Johnson
CLSA Limited, Research Division

Can you give us a feel on what was the running yield those subordinated notes were sold on?

Michael John Hirst
Former MD, CEO & Director

About $400 million.

Brian D. Johnson
CLSA Limited, Research Division

Okay, $400 million? Just the final one. When we have a look at every measure of your balance sheet strength, there's a continual reference that includes the general reserve for credit losses that has never gone through the P&L. Isn't to some extent, the fact that the GRCO building up, isn't that creating a future risk that it will go through the P&L?

Richard Fennell
Executive of Customer Banking

The GRCO is -- I mean, we are required to have a total of the collective and GRCO that's above 50 basis points. That's a prudential requirement. Now, you're right, if suddenly, I guess, we think of it a little differently, if suddenly loss rates went through the roof, then our collective provision would increase. Now what the GRCO does is provide a reserve against that. Having said that, if it manifested itself in that way, that the majority of that was going through the collective provision rather than GRCO, that would have an impact on the bottom line, you're absolutely right.

Brian D. Johnson
CLSA Limited, Research Division

Do you agree that what it does is it makes capital more stable but it makes the earnings more volatile?

Richard Fennell
Executive of Customer Banking

Well, it certainly makes capital more stable. If it was all going through the P&L and it was just balancing out the 50 basis points or thereabouts every half, then earnings would be more stable. I guess I just haven't questioned the regulations around that, and we just accept it.

Operator

The next question comes from the line of Jeff Cai from CBA.

Jeff Cai
Commonwealth Bank of Australia, Research Division

A quick question on Slide 15, which shows historically that Bendigo was not a price leader to attract 6 months TDs. But if I have a look at your current rates, that's about 20 bps higher than your major bank peers. I was just wondering if can you give us more color on whether this reflects the pricing premium that you have to pay to track future deposit flows. And in terms of your margin comments, whether you're factoring in a new level of TD rates going forward?

Michael John Hirst
Former MD, CEO & Director

Look, I think it depends on what you call our major bank peers. If you want to call our major bank peers the major banks' key brands, then that's right. But if you want to look at Bankwest, UBank, Bank of Melbourne, St. George, whoever, we're probably 10 basis points to 30 basis points underneath their major bank peers. So from that point of view, we're positioned significantly better than a lot of the pseudo-original bank brands. And yes, we're slightly higher than some of the majors, but we -- I'd say we sit in a position that reflects our value proposition.

Richard Fennell
Executive of Customer Banking

The other element, Jeff, to look at there, which you can't see in published rates, is the amount of discretion being applied. And we get very clear feedback from our network about what all brands are out there offering on a negotiated basis. And you might see a headline rate for a particular bank at 4.50%. However, it is interesting when you see what they're prepared to pay for a particular term deposit which vary materially from that rate. So that's the other factor that you do need to take into account.

Michael John Hirst
Former MD, CEO & Director

Well, I think the proof of the pudding is in the published margins that have come out over the last few weeks. We clearly had the best margin performance through that period.

Operator

The next question comes from the line of Scott Manning from JPMorgan.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

The thing is, Brian could sneak in 4 questions, I might do the same. Firstly, on the capitalized software, it was flat year-on-year, but other banks have noted that even though it is flat year-on-year, the capitalized expense portion would be up nearly 50% next year. What's the run rate on that capitalized software over the next couple of years in terms of the uplift in dollars through the P&L?

Richard Fennell
Executive of Customer Banking

Scott, I think what you saw from an amortization perspective in the last year, we've -- I'm not aware of any expectation that, that's going to change in the 2013 financial year. I must admit, I haven't got that number to hand. But certainly, there's nothing that stood out, when I was -- when we're working through the forecast for next year that showed a material increase.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Well, I'm just looking on the capitalized software on the balance sheet. It went from $25 million to $65 million between 2010 and 2011. But the subsequent uplift in the amortization between 2011 and 2012 only went up by $3 million from $13 million to $16 million. So is there another leg up as more systems get switched on?

Michael John Hirst
Former MD, CEO & Director

All the -- pretty much all the existing systems are switched on. So what you're probably seeing there is end-of-life around some others that have dropped off, overtaken by that customer's management system or relationship management system which came on last year.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

I got it. Sorry, that was a very long first one. I'll try and be quicker with the rest of them. There's a slide that mentioned that the short-term bonus pool wasn't evident this year. Are you able to quantify that, or indeed, what are the metrics around whether it will come back next year?

Michael John Hirst
Former MD, CEO & Director

Richard will know what the amount was, but it will come back next year if we perform to a level that enables us to pay it. So it is performance bonus, and it relates to our performance.

Richard Fennell
Executive of Customer Banking

As far as the amount is concerned, it's at low single digits. So it's arguably not material from a --- well, it's certainly not material from a financial perspective, but I think it's more indicative of the decisions we're making around cost management.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And the next 2 are really around the capital. So the return on tangible equity hurdle is 15%, but the ROTE for the group is now down at 14%. Are you trying to get the overall group return on tangible equity back to the hurdle? Just some thoughts around how you're driving the profitability of the business to make sure that the existing book is achieving that hurdle not only in the new business.

Michael John Hirst
Former MD, CEO & Director

Yes, the answer to that's yes. So that is our target for our ROTE. We are trying to manage towards that. The existing book is a big part of that consideration and it goes back to the impact of a declining rate environment and TDs on the margin.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

I got it. And the final one, just in terms of the capital. What are the reasons behind the 2.5% discount being retained on the DRP? And can you share some thoughts on the preference shares that are converting in whether they will get redeemed or converted?

Richard Fennell
Executive of Customer Banking

The 2.5% discount is something that right now we think is a reasonable and conservative strategy to maintain. Whether we need it into the medium term is something that we'll probably decide once we got more clarity on the requirements on the Basel III. But right now, whilst there's still is a question mark about where those hurdle rates will sit from a capital perspective, we think it's the prudent thing to do to maintain that.

Michael John Hirst
Former MD, CEO & Director

And it doesn't preclude us from taking undertaking other capital management initiatives to neutralize that.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And on the pref shares?

Richard Fennell
Executive of Customer Banking

Yes, look, we'll announce -- I think we're due to announce our intention in the next couple of days to the holders. So it's not public information, but it probably will be by the time we meet you in Sydney.

Operator

The next question comes from the line of John Buonaccorsi from Royal Bank of Scotland.

John Buonaccorsi
RBS Strategy

I just got a question on the other, other income. So it's probably to Richard. Just seeing on second half versus first half big rises in the insurance comp and the other, other income at the bottom. So I just wondered how much of that was sustainable, or if there is one-off in the second half.

Richard Fennell
Executive of Customer Banking

Yes, John, a number of those contracts we have with third-party providers are products, such as insurance, have end-of-year volume bonuses. And we were fortunate this year with a few of those that we hit those targets, which ended up with an additional earning coming through right at the end of the financial year. We would expect -- well, we'd hope to achieve those sorts of targets again next year, and therefore, get the same level of additional -- it's particularly a bonus commission we get through those.

John Buonaccorsi
RBS Strategy

Right. And the other, other income, just picking up a bit as well?

Richard Fennell
Executive of Customer Banking

Yes. And that picks up things like foreign exchange, factoring has been pretty strong this year through our Oxford lending business -- Oxford funding business, sorry. So again, we'd hope that is maintained going forward.

Operator

The next question comes from the line of Mr. TS Lim from Bell Potter Securities.

T.S. Lim
Bell Potter Securities Limited, Research Division

When I look at the weather chart, it looks as if it's going to be dry until the end of the year. What was the outlook for your agribusiness segment? Do you think -- are you seeing signs that farmers are getting a bit distressed?

Michael John Hirst
Former MD, CEO & Director

TS, we're not seeing any signs of that be. There's been pretty good rain right across Australia, really. So -- and, in fact, in some areas there's been too much. But the outlook, the medium-term outlook is pretty strong for the farmers. If you couple that moisture with commodity prices and the transfer to the U.S., things are looking pretty positive for the agriculture sector. We've maintained our balance sheet in respect of agricultural banking through the year. There's been a pleasing increase in activity there over the last few months, and we'd hope to see more of that going forward, of course. One of the difficulties with agricultural banking is when the farmers are very successful, they repay a lot of debt. So it's a very long cycle business on an individual loan basis, but that's the nature of it.

Operator

Your final question comes from the line of Eric Johnston from Fairfax Media.

Eric Johnston

Just 2 quick questions. First of all, just wanted to clarify on the community banking talks. So my read from that earlier was that you're going into another round of negotiations with, say, Community Banks. Is that right?

Michael John Hirst
Former MD, CEO & Director

No, it's -- all the negotiation was handled early last year. We're just continuing to implement on what we discussed with them at the time, albeit with a slight change to the way that, that might be done.

Eric Johnston

Okay, so it's -- the terms of implementation have changed, not the actual detail?

Michael John Hirst
Former MD, CEO & Director

Correct.

Eric Johnston

Okay. And then just otherwise, the -- seems to have been a bit of a cooling about IOFM support for securitization. Is that a market that's still open to you?

Richard Fennell
Executive of Customer Banking

Yes. It's a good question, actually. The market is open over the last few weeks, Eric. There've been a number of issues to that market, some with, some without IOFM support. Now that's not a bottomless pit. I think, they're probably down to about $4 billion or less that's still available to invest. What we have seen, though, is the prices of those recent issues being higher than they were, let's say, 12 months ago. So although the IOFM is continuing to invest, the price out there in the market is a bit higher than it was a while ago. And for that reason, it makes more sense for us to focus our funding strategy at this point in time on the deposit market rather than the securitization market. Having said that, I'm sure we'll all be surprised if we're sitting here in 12 months and we won't have utilized that market at some stage over that period.

Eric Johnston

Okay. And then just on deposits, I know a great deal has been said this morning. But how sticky are your deposits? So if there is a bit of a breakout in this deposit war against the bigger players, do you necessarily see a big outflow of your deposits, or a slowing of your deposits?

Michael John Hirst
Former MD, CEO & Director

Look, our retention rates are above 80%, and have been for -- have been for all the years. So I don't think there's a lot of stake there. The reality is that when we sit down and look at our pricing, we make sure that we're always competitive. That's one of the key considerations for us, along with the fact that it needs to reflect our value proposition and that there needs to be equity in it for all our stakeholders. So I'm not concerned about a further break on the deposit side. That will play its way through as it has for the last 9 months.

Will Rayner
Former Head of Capital and Investor Relations
Okay. Thanks, everyone, for your attention, and we will bring things to a close there. And we look forward to catching up with many of you during the week. Thanks for your attention.