Question and Answer

Warwick Bryan
Former Investor Relations Contact

Thank you, Ian. Thank you, David. Just a couple of quick rules just to confirm. I don't want -- please identify yourself and wait for the microphone. Two questions in the first instance. I understand there are media on the line again today, could they please hold their questions until the media conference this afternoon. And I'll start in the room and then go to the phones, and I'll start with Craig Williams.

Craig Anthony Williams
Citigroup Inc, Research Division

Today, your bank's delivered 7% revenue growth, 8% cash EPS growth, 9% on dividend growth on a result we described as close to perfect 10. For some reason, people still have concerns at the sector's x [ph] growth though. So I'm interested in what you can achieve with a bit more balance sheet momentum and if you're seeing any signs of a pickup in credit growth in terms of approvals, what your runoff rates on your mortgage book are doing and things like that because I'm sure your economists are also eager [ph] to hear what your forecasts are for the credit outlook.

Ian Mark Narev
Former Executive

Well, I might hand to Matt in a minute and then he can just let you know what he's observing in terms of responses on the recent interest rate environment. To the extent people think the sector's x [ph] growth, it really comes back to what I'd say about the outlook is that no matter what we do as management, we can only be so good compete in the economy that we're in. And I guess to the extent that people have got concerns about headwinds in the economy, those play through in the concerns about the stock, that's dependent on the economy, we don't control it. Thus, if somebody's bearish on the Australian economy, it's going to be difficult for me to sell to them the story that they should be positive about the Commonwealth Bank group's growth. Subject to that, when we look business by business, customer segment by customer segment, we look the opportunity we obviously got through 1 CommBank and deepening the relationship with the customers and progress we've had on that. What we've seen is that we still got ongoing momentum in the Retail Bank and we, by no means, tapped down on that. We've got ongoing opportunity in the Business Bank and the Institutional Bank and Markets. We've shown we're not tapped out in that. We're seeing ongoing positive flows in retail and positive performances in the Global Asset Management business and insurance. So there's no part of the business that I look at subject to the macroeconomic conditions and say the top line growth is as good as it gets. And that's only the top line growth. I, then, put underneath that the fact that through our technology investment and the focus on productivity, I just think there's still more operating leverage in the institution. So that to me, subject to the environment, still creates a pretty good growth picture. Matt, you might want to talk for a moment about what you've seen over the last few months after the last couple of interest rate cuts.

Matthew Comyn
CEO, MD & Executive Director

Thanks, Ian. Yes, so, look, we're just short of 5% system growth for the full year, certainly, above that for the last quarter of the year. But what we're -- and we're calling sort of 4% to 6% for the credit growth in housing for the next financial year, and I think that's about right. In terms of what we've seen in the back of the interest rate reductions, I mean, across the board, but certainly in the home loan portfolios, people are using that extra cash they have to repay debt faster. So I think repayments, certainly refinance levels are at low levels. But I think -- actually, in terms of runoff, I think we'll see that sort of hold if anything slightly accelerate and a system growth somewhere around sort of 5% to 6% going forward. So not that dissimilar to the -- you have just seen.

Warwick Bryan
Former Investor Relations Contact

Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. Question on expenses, and particularly Slide 41. David, I appreciate some of your candidness in calling out some headwinds going forward. I just wanted a clarification that the way to look at that across software amortization, defined benefit, investment spend being 2.5% and then the employee costs with super being about 4%, which is half your, effectively, your expense base, so putting those 2 together, you're looking around about 4.5% baked in expense growth going into next year before volume, any volume growth. To what extent, then, can productivity benefits begin to offset that type of expense growth? And how much flexibility do you have around variable expenses to try and contain that more?

David Paul Craig

Well, that's -- it's clear. There's not a lot of -- I don't need a lot of fat in [ph] variable expenses per se. But clearly, the challenge for us is partly continuing productivity. I mean, faced with these sort of headwinds, which obviously most of our competitors would have as well, but faced with these headwinds, we need to continue to deliver on productivity as we have this year.

Jarrod Martin
Crédit Suisse AG, Research Division

Is there -- is the 4.5% sort of starting point that's baked in is the way to look at it and then you'll...

David Paul Craig

Yes, I think that's -- I mean, I'm not going to give you an exact expense forecast. But certainly, there's nothing wrong with your math.

Ian Mark Narev
Former Executive

I mean, a different way of saying this, if you ever look at the $220 million in productivity, which is offset, set in the expense growth for this year. We're not sort of saying the management team, "Well done. You've done enough on it. As long as you -- we keep doing this, we're fine."

Warwick Bryan
Former Investor Relations Contact

James Freeman?

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. Just quickly on the costs as well, you mentioned obviously the core systems dropping out this year. Just what your intentions are in spend on that? Will you replace that with something else? Or would that actually be one of the benefits that could help to offset that $220 million and...

David Paul Craig

[indiscernible] continue to invest. I mean, we really see this is an age of technology. We have so many great ideas and things that we want to do, so many innovative ideas that we just want to continue to bring those out for our customers.

Ian Mark Narev
Former Executive

I think the key point, James, is we -- exactly as David as outlined, I mean, from the point of view of the transformation that will go on at the edge of this business for the benefit of the customer, we're just at the start of it. It's just that we've now got an Internet enabling us to do things that others, we don't think, can do as effectively. The one thing I will say about the core banking investment in that 16% is that 6 years ago, we made a multiyear commitment and pretty much come hell, shine or whatever it was going to be, we were going to keep doing that because you don't to pull out of a project like that in midstream. While we do have obviously now is a bit of flexibility, it's not a single project anywhere near the scale of core that is going to take a big chunk of the investment spend every year for sort of 5 or 6 years. So to that extent, there's a bit more flexibility in the investment number. But exactly as David outlined, I think we're only just at the start of things. We can usefully deploy shareholders' money and investing it.

James Freeman
Deutsche Bank AG, Research Division

All right. And just -- the other question was just on personal credit growth. You've done very well in the last 12 months on that. You did say you are still a little bit worried about the economy, which is why the overlay is remaining high. Just your expectations for personal credit growth, is that going to be continued to be a focus for you over the next 12? Or you're going to pull back a little bit on that?

Ian Mark Narev
Former Executive

Yes, I mean, we've got an appetite for it. David has mentioned that part of what we've done is look carefully at the margin opportunities, and personal lending for some time has been in area where it's been good to do profitable lending. We're very cognizant of the fact that when you are doing personal lending in a particular way, you've got the price [ph] personal lending is through your credit experience through a cycle, not the credit experience today. We've seen some seasonal lifts in arrears in personal lending in the last little while that don't particularly bother us. To the extent that you saw a significant downturn in the economy, that's something that you'd probably look at very carefully. But we're very comfortable with our position there and certainly, continue to have appetite for it. [indiscernible] , do you want to add anything to that? All right.

Warwick Bryan
Former Investor Relations Contact

Richard Wiles?

Richard E. Wiles
Morgan Stanley, Research Division

It's Richard Wiles from Morgan Stanley. Can I ask you about the outlook for the corporate revenue growth? In 2013 you had no revenue growth in the Institutional Banking x markets. You had no growth in corporate financial services revenue. You had just a little bit of growth in local business banking. The margins were down. Obviously, the impact of lower interest rates will continue to flow through. You've also said that you expect competition to remain tough. Is there any tailwind for revenue growth in your corporate division?

David Paul Craig

Well, I might see whether Ian and Grahame want to add anything to this in a minute. But my fundamental view is the system is what it is, but it's not exactly thriving. So the #1 thing you look at is the extent there's an uplift just in general corporate activity is going to be some flow-through into both Corporate Financial Services and the Institutional Banking and Markets business. That's a macro independent issue. We have seen continued strength in our ability to gain share of lending in those businesses and effect of margins. The major impact of the revenue difficulty that you've seen here is on the deposit margin story. How is that going to continue to play out? We've obviously got to all be a little bit careful of what we say here, but the trends that we've seen are probably not short-term trends. I mean, there's some aspect of that, which is going to continue. We're going to continue to carefully balance between the volume and the margin when we're in that part of the business. Do you guys want to add anything to that outlook?

Grahame Anthony Petersen

Former Group Executive of Business & Private Banking

Thanks, David. Look, in particularly, the corporate side, much alike our Business Banking, there's good momentum in our business at least on the asset side. We've grown sort of 4% to 6% across those businesses on the asset side and it held or grown margin on the asset side, so there's good momentum there. All the impact, as Ian said, is actually on the deposit side largely due to cash rate reductions and that'll just be a matter of how that actually plays out, I think, going forward. But there's still reasonable momentum. We're certainly growing above system in that part of the business.

Ian Mark Narev
Former Executive

Yes. And I'd add to that, Richard, on the institutional side, if you look into the profit announcement, you'll see that half on half, the momentum on volumes was quite strong. Margin has been a big story obviously. That's driven a lot by the deposit cash rates generally. So as long as you have a picture around what cash rates are going to be, we could probably answer the story on margin. But there is an encouraging story on the Transaction Banking momentum and market share and that will continue to drive through that Institutional Banking line as well.

Richard E. Wiles
Morgan Stanley, Research Division

Can I just follow up that up? There's been some comments by the others banks recently about competition on the lending side. You mentioned that in this result, most of the margin decline was from deposits. Are you saying competition for loans pick up?

Grahame Anthony Petersen
Former Group Executive of Business & Private Banking

It's also intense on the lending side. I'd say in Institutional Bank and Markets, there's been clearly margin impact on lending and deposits. It's probably been more noticeable on deposits for reasons that we all understand around funding imperatives and so on. Relative to what I'll say from the other banks, I think we're managing margin on lending reasonably well. And as far as looking forward, it remains competitive. The institutional space is a space that other global players can compete in an uninhibited way. But we manage that to some extent through the sectors we play in and so on, so we try not to play in the most competitive space.

Warwick Bryan
Former Investor Relations Contact

Jon Mott?

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. A couple of quick questions. One is just following on from John's [ph] before, just talking about the consumer arrears, and you can see on Slide 42, it's actually quite a big jump in personal loan. 90-day arrears has come through and pretty much have been every -- up every single month this year. How much of that -- it's not just seasonal because it's been pretty steady. Just how much of that is a result of a decision to take on more share over the last year or 2? Or is this just something we should be considering as a lead indicator that consumers are really starting to come under pressure? And it also looks like it's coming through on credit cards but more of that personal and secured and also a follow-up question in the second on credit portfolio.

Alden Louis Toevs
Former Group Chief Risk Officer

Sure. On personal loans, we are, in arrears, below the industry average, and the change year-over-year is actually down. You get a seasonal uplift. So there's a number of forces that were mostly benign. We did tighten some credit standards around some of the sectors of the portfolio in April. It made a modest difference. But we feel very comfortable with the margin versus risk tradeoffs on that product. On credit cards, again, we're -- in credit cards, we're again at the lower end of the range that you see in terms of arrears. There's a seasonal pattern to it. We're seeing a lot of paydowns on card, so that people are actually paying attention to their leverage in that particular product and they're actually protecting that product because they want to have access to line. So I think we're -- on both products, we feel pretty comfortable in terms of the risk settings.

Jonathan Mott
UBS Investment Bank, Research Division

Just a follow-up question on the replicating portfolio. As you mentioned, it is there to protect you when you do see a very sharp fall in interest rates and has done that. And a long way back in the presentation with Slide 129, you can see that there's quite a substantial embedded profit in that replicating portfolio now. If you're making assumption that we're probably going to be in a low-rate environment potentially for an extended period of time, which I think is what the market is expecting, what does the runoff of that replicating portfolio look like? How long does that actually help you out for and what's the embedded profit at the moment that you've got sitting in that hedged portfolio?

David Paul Craig

Well, it's sitting in -- the answer is it's not so much embedded as it flows through. It's a 5-year cycle. So there's 5 years of protection at any point in time as it rolls forward. Obviously, we don't think interest rates will be quite this low for 5 years running forward. But as you can see from that chart that you refer to, the hatched area shows our forecast of the current rate and interest rate of what would that would deliver next year, which would seem, just from an area point of view, to be a slight uptick again. It protects roughly half of the downturn -- of the downward impact of cash rates.

Jonathan Mott
UBS Investment Bank, Research Division

So if rates are flat through 2014, you're still going to get the impact from falling rates on deposit spreads and a few items [ph] ?

David Paul Craig

Yes, it -- as I said, it protects about half of the downturn.

Warwick Bryan
Former Investor Relations Contact

Andrew?

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman Sachs. Just another question on the margin. Your deposit funding ratio at 63% was flat half on half, having been ticking up for a couple of years now. Just wondering, just given the differential that now exists between wholesale funding cost and deposit costs, would you you're sufficiently comfortable with your funding profile, such that you actually might see that ratio fall? Or would you sort of expect it to be broadly flat from here?

David Paul Craig

No. I think that you're spot on. This is something we've got to look at all the time. The tradeoff in markets of what's happening between deposit pricing and wholesale pricing at the moment, as you say well, certainly at June, there was quite a gap. It's actually closed up a bit in more recent weeks. But that's something we just got to keep optimizing. We've said quite clearly that at some stage in the cycle, we will actually see customers wanting to take money out of their bank accounts and invest in other things and that's fine. We don't have a particular target to reach in terms of that retail deposit funding ratio.

Warwick Bryan

Former Investor Relations Contact

And I might just take one more from the room from Victor, and then I'll go to the phones. And I'll come back to Scott and Mike and [indiscernible] , or Brett.

Victor German
Nomura Securities Co. Ltd., Research Division

Victor German from Nomura. Question on dividends. Obviously, your capital position is well above board's minimum as per Basel III numbers on APRA numbers at around 8.2%. I appreciate that you wanted to level the dividends within the first and second half but there's obviously opportunity to do a special dividends at some point as well. At current level of capital ratio, should we assume that, that's where you're comfort level is? And if you continue to generate capital, we should expect a special dividend going forward?

Ian Mark Narev
Former Executive

Look, the -- we keep saying this every time, and I know it's a bit frustrating, the capital level tells you we're very comfortable with the level of capital as it is today and the environment that we're in today. We've got a number of factors that go into that number. One, we've got an investor base that likes a dividend. We're not unique in that, but some aspects of our retail were just to make our investors particularly keen on that. So we're cognizant of that. But we've got -- well, the capital position in terms of Basel III is largely under the [indiscernible] aspect. That still got a little bit of uncertainty around it. And there is still quite wide variations in terms of risk-weighted asset growth and credit quality, both to the upside and the downside, in terms of our ability to efficiently deploy capital in a growing economy or our need for more capital if things turn downward. So it's something we've got to manage quite dynamically. What we're very committed to as a management team and the board is that we're going to manage dividend policy for the long term. So a lot of the language has been around the opportunity to surprise investors, give a little placebo in the market for a few weeks by surprising people with a nice little dividend on a one-off. If it was the right thing to do, because of all the things that I've spoken about before, we'd do it. It clearly wasn't at the moment. We've got a capital level that's right. We ran off for the DRP. We've neutralized it. Again, we're pretty comfortable with that level. It's something we just need to keep looking at on a dynamic basis.

Warwick Bryan
Former Investor Relations Contact

I'll go to the phones now. Matt Wilson [ph] from Melbourne. Matt [ph], are you there?

Unknown Analyst

Sort of longer term, how do you strategize or think about the potential for the superannuation sector to directly into the mortgage space? Obviously, that'd be a very differently structured competitor from a funding perspective and attracted [ph] to a very compelling investment space, given the low risk, higher turn and in their case, a longer duration, which should match their liabilities.

Ian Mark Narev
Former Executive

Yes, I'll see if Annabel wants to add anything, but she may or may not want to. But I think there's a lot of discussions generally about what the super sector is going do, and I think everybody understands the logic, given the demands on the super sector about why a market-like mortgage is might be interesting. A couple of things. A, if there's more competition in the mortgage market in some other areas, we're pretty confident in our franchise and we'll compete with it. What we have increasingly seen in the mortgage market and we continue to believe is it is just about more than people having money and deploying it in the mortgage market. You've got to invest behind the customer proposition. There's distribution. There's processes behind, et cetera, which makes us feel pretty good about our competitive position. So I can understand the logic behind that. It's something which we will be ready for if we see more activity from that part of the sector.

Annabel Fitzgerald Spring
Former Group Executive of Wealth Management

I think it's an interesting question. One of the things to remember is that the super sector is made up of individuals. And individuals who contribute in a mandatory way to their super should be given the choice as to what they continue to invest in. So suggesting that the super is the answer for everything on any sort of compulsory allocation basis is something that we would be very uncomfortable with. That being said, as we look forward at the demographics of Australia and we look at the requirements of people, particularly as they go into retirement for longer-dated, more secure returns, it's inevitable that you would look towards the opportunities for mortgage securitization as part of super or that you would look at infrastructure as that long-dated as corporate [ph] asset class for people as they stretch into retirement or indeed products such as the ones we're launching, which is CPI plus products, which just track CPI plus. It's something that's a little bit more outcome-orientated than something that goes up and down as much with market. So we think there are opportunities there, and it's something we should continue to explore, but nothing should be on a compulsory allocation basis.

Warwick Bryan
Former Investor Relations Contact

Thanks, Matt [ph] . I'll go to the phones, Brian Johnson.

Brian D. Johnson
CLSA Limited, Research Division

I had 2 questions, if I may. The first one is just on the capital. The core equity Tier 1 reported 8.2% under APRA. But the dividend isn't taken out, which, I'm guessing, would bring it down to something like about 7.7%, which seems to me to be pretty well in line with the peers. You've got Westpac saying that their x dividend core equity Tier 1 target is about 8%; and on a come [ph] dividend basis, it would be about 8.5%, which would suggest, based on the Westpac parameters, you probably -- you're well on track to get to where you need to be but you still need to reduce you're gearing a little. Is the math roughly right?

Ian Mark Narev
Former Executive

No. We don't think about it that way, Brian. As you know, we manage our capital broadly around the Basel III harmonized capital, and we're very happy with the capital at 11. We've always said, as you point out, that the Basel III measure is more volatile in the sense of the timing of dividends coming up. So your math obviously is correct. But from our point of view, the capital levels where they are, are fine.

Brian D. Johnson
CLSA Limited, Research Division

So should we be thinking that the harmonized number at the moment, above 11, but if you were to take the dividend out, it's below, is that the way to kind of think about it, David?

David Paul Craig

Well, mathematically, it is below 11 once the dividend comes out, and then as we -- but of course, we'll continue to earn new profits in July, August and September before the dividend is actually paid.

Brian D. Johnson
CLSA Limited, Research Division

The second one is just on Slide 92. You've got the average long-term funding costs and you've got there that there's the expectation now that it would peak in December 2013, but when we have a look at the same chart on the left-hand side, we see the duration of debt. You're sitting at about 3.8 years. Could you just run us through all the mechanics about where you think you need to get that duration of debt to be as you apply, for example, for the committed liquidity facility? And once we get a feel on where ultimately that needs to be, is that the number that you forecast in the wholesale funding cost peak in December 2013?

Ian Mark Narev
Former Executive

We'll get -- we'll hand it over to Lyn, Brian, to answer that for you.

Lynette Elizabeth Cobley
Former Executive General Manager of Retail Products and Customers

Brian, I think that we might be mixing a couple of concepts here. So yes, we do have 3.8 years of weighted average maturity of the outstanding wholesale funding. And what we do have is it should be peaking by December this year. We still have about $6 billion that was originated prior to 2007, and that will be rolling off. I think when you look at the committed liquidity facility, that's quite a different kettle of fish because that's really all about what is the proportion of our liquid runoff in a stress scenario and that is calculated on a different basis. I mean, we will continue to have term funding out there and longer-term funding obviously helps with reducing the runoff assumptions. But I look at them really as 2 different concepts. And perhaps, I haven't quite understood your question if that's...

Brian D. Johnson
CLSA Limited, Research Division

Well, it, Lyn, basically, is the blue line saying it peaks in December 2013, is that premised on its staying at 3.8? Or do you need to get it a bit longer, given the LCR, the CLF and [indiscernible] ?

Lynette Elizabeth Cobley
Former Executive General Manager of Retail Products and Customers

Yes, no, that's [ph] still sort of staying at about 3.8. No, no, same premises that we have now.

Brian D. Johnson
CLSA Limited, Research Division

Okay, so that's not premised on any expectation that you'll link on it further.

Lynette Elizabeth Cobley
Former Executive General Manager of Retail Products and Customers

No, that's correct. We've just kept it as conservative as possible. It's just using the same premises as now.

Brian D. Johnson
CLSA Limited, Research Division

And Lyn, to put thoughts on that [ph] then is, do you feel that 3.8 is ultimately where you'll settle? Or do you need probably to lengthen it further, given this myriad of initials coming out as far as reforms go?

Lynette Elizabeth Cobley
Former Executive General Manager of Retail Products and Customers

Look, Brian, I think that we'd take a look at it on an ongoing basis depending on market conditions, depending on where the reforms land. As you know, having read what's coming out of that, probably, that trial assessment for the committed liquidity facility application's only gone in the last couple of weeks. And we still have months to go to get feedback from APRA on that. So I think that's a moving piece really. We'll have more clarity as the months go.

Ian Mark Narev
Former Executive

I think we need to think about in the medium to long term, this goes hand in hand with the question of are you comfortable with 63% deposit setting. These things have got to be looked at as a portfolio, and the key thing for us is to manage obviously the cost of fund efficiency, but obviously for liquidity risk as well. And the decisions that we make on terming out our funding beyond 3.8 years, we've added a bit this time. We'll bring it back, et cetera, will be made hand in hand with what we've seen in the rest of the portfolio. Right now, we're very comfortable with that weighted average maturity, wouldn't need -- much need to move it at all.

Brian D. Johnson
CLSA Limited, Research Division

And Ian, it's just sort of if you go back to the...

David Paul Craig

Brian, I'll just add one other point. Clearly, what we're looking at is the maturity match of the liabilities and the assets. So you look at the behavioral maturity of retail deposits in particular and the maturity profile of our debt portfolio, our household debt portfolio, and then you look at that against the maturity portfolio -- the maturity profile, again, on a behavioral basis of the assets. And that's what's really setting, whether it's 3.8, rather than the liquidity side of it.

Brian D. Johnson
CLSA Limited, Research Division

Yes. And just to divert -- if you go back to...

Warwick Bryan
Former Investor Relations Contact

I think, Brian, that's been your 2 or 3 or 4 or 5 questions. So call back, and if we got some time, we can take the rest. Scott?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. Firstly, just on what's happening in New Zealand with the macro-prudential rules. Where's that at? And reports [ph] on translating across the Tasman given here and any impact that might have on potential for housing recovery that everyone seems to be hoping on to get GDP growth coming back up? And secondly, just a technical one, why did the interest rate risk in the banking book go up so much? Typically as rates fall, you get a massive embedded gain that normally offsets that or overrides it.

Ian Mark Narev
Former Executive

Well, let me answer New Zealand and I'll hand over to David on the RRBB [ph]. Clearly, the Reserve Bank in New Zealand has made clear it's got a concern about the sustained rise of asset prices in New Zealand, and it's taking fairly significant macro-prudential steps to address that, including capital impacts on banks and restrictions on the high-LVR lending. That's something which they've made quite clear over a period of time. They've communicated very well on it. We've absorbed that thing [ph] into the business, and I think that is a reality of this markup [ph] . I think there was some news on it as recently as yesterday. I think the markets are in quite different situations. One of the major challenges in New Zealand has been the combination of the Christchurch earthquake and ongoing demand for property in Auckland, and that has led to certain heated parts of the market, which have pretty done pretty fast. I think those circumstances don't necessarily translate here. We haven't yet heard of any discussions relating to the transfer of that kind of policy across the Tasman. What I will say is quite understandably, with all our discussions with APRA around home lending, they want to be very clear about our policy on higher loan-to-value ratio lending and that's something they make regular inquiry about. They -- I think they're comfortable with what we're doing. But we understand we should have an ongoing dialogue with them on that subject.

David Paul Craig

On interest rate risk in the banking book, Scott, there's a chart on that on Page 117 of the pack. Basically, the primary move this period was that we -- as interest rates started to drop, we shifted our average duration of our equity out to what we regard as a conservative balance point of 2.5 years. And so that actually increased the capital we have to hold because APRA's view is anything beyond 1 year is -- I think it's 6 months on average, but 1 year in total, is a risk and therefore, as you, in effect, invest your capital for a longer period, you have to hold more capital against that. But from our point of view, that's a more conservative setting in a low-interest rate environment. It sort of plays to the earlier question about replicating portfolio on how you manage in a low interest rate environment.

Warwick Bryan
Former Investor Relations Contact

Mike Wilbin at the back and then down to Brett over in the farside by the window.

Michael Wiblin
Macquarie Research

Mike Wiblin from Macquarie. Just on Page 47, if you look at the retail margin doing well, we're at the highest in 5 years. Deposit costs, it's pretty clear that they're continuing to still bite [ph] . What's the view on sort of claw back from here? And I'm sorry to flip it, I mean, how sustainable is that going forward, given competition both in deposits but also from sort of marginal place [ph] as you pointed out, Ian, coming into the market?

Ian Mark Narev
Former Executive

Look, one aspect is obviously on the margin is the cost of funds environment. So all the questions that had been answered on that will go into that. In terms of the competitive environment, I mean, I think when you are running a business like this and you've got the view that we have that you're always making sure that you want to optimize volume and margin, your base case scenario is always got to be there's going to be margin pressure. We've had a question about super [indiscernible]. We've got other players in the mortgage market. We've got very well-resourced good competitors. And so your base case scenario is always got to be there's going to be a little bit of home loan margin pressure. So I think that if we were to be running the home loan business on the basis that we can just continue to grow margin, that would be really having our head in the sand. So the base case scenario will probably be that margins continue to be a little bit pressured on the asset side, on the funding side of that equation, you can draw your own conclusions from everything that we've said. What's the right response to that? Well there are 3 critical aspects to it from our perspective. Number one is just to continue what we've done over recent years and just keep managing that volume business margin, something David's talked about for years. Matt is very much on the very same page as far as that's concerned. Number two is make sure we're really investing heavily on productivity and the processes to make sure that even if there's margin pressure on the top line, the bottom line productivity is still flowing through. And finally, not to get stupid and change credit standards and maintain credit discipline that's something we're very focused on.

Michael Wiblin
Macquarie Research

And just a follow-up question, the Basel Committee has done a bit of a paper around RWA consistency, so with inputs into models. Now Australia is sort of -- has quite low risk-weighted asset percentages. Is there any update there? Can you talk about that -- a little bit about your view on that piece?

Ian Mark Narev
Former Executive

I'll ask Alden in a minute. One thing I can tell you on that subject is that as we have all gotten used to traveling around the world, talking about 4 different versions of capital ratios, there's no doubt that with leverage ratio, as if you're being talked about in different views on risk-weighted assets, we're now having to talk in a whole lot of different numbers about different ways of leverage in the balance sheet as well. So Alden can talk about the updates. And that -- I mean, there's no doubt that regulators around the world, as a result of individual circumstances in different markets, have taken slightly different views of it. Our regulators made its view pretty clear, and we're managing the business according to that.

Alden Louis Toevs
Former Group Chief Risk Officer

There is a wide variety of outcomes in these tests that the outcomes, as best I can understand for Australia, is that we look to be on the conservative side of those ranges that come up from those requirements. There will be probably a movement towards more standard calculations as a result of this wide variety that they're finding around the world. But we would see that more kind of coming towards our levels rather than forcing us into something that's vastly different than what we do right now.

Warwick Bryan
Former Investor Relations Contact

Brett?

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

Brett Le Mesurier from BBY. In the Business and Private Bank, there was 10% income growth for retail products against 2% growth in home loan sitting in the Retail Bank. It was 8% growth in income against 5% growth in asset. So it seems like Grahame got a lot more out of less than what happened in the Retail Bank. Can you comment on the factors that created that outcome?

Ian Mark Narev
Former Executive

Well, you might want to comment in a minute, Grahame. I mean, in the -- first of all, as you know, probably from the last time, we've reconfigured the P&Ls in the business slightly to make them more customer-driven versus product driven, so there's some distortions that come in as a matter of that. In terms of some of the other factors that go into it, we are always pricing to a competitive market and we're always pricing to different products, et cetera. So these things were a function of these businesses as being in slightly different markets and having different products for different needs and a different product mix and some of those things, and that would inevitably mean that when you're comparing what looks like similar outcomes in the Business Bank with the Retail Bank, you're going to be seeing slightly different volume and margin outcomes. But I don't know whether you want to add anything to that, Grahame?

Grahame Anthony Petersen
Former Group Executive of Business & Private Banking

[indiscernible] experiencing. No, I think the Private Bank has probably a stronger margin of growth than some of the other parts of the group, will be part of it and the rest will just come down to differences in segmentation and pricing approach in those segments.

Warwick Bryan
Former Investor Relations Contact

Okay. If that's all the questions, we might call it a day. Thank you very much, everybody.

Ian Mark Narev
Former Executive
Thank you very much.