Question and Answer

Operator

[Operator Instructions] Your first question today comes from the line of Andrew Lyons from Goldman Sachs.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

Marnie, just a question, firstly, on your capital performance. Despite strong first half volume growth, you've delivered a solid capital result in the half, which was above or is above APRA's unquestionably strong benchmark. Despite this, you've elected to underwrite the first half dividend. Can you just maybe talk about what the Board's thinking is on this front, particularly what it might signal in relation to the thinking on APRA's review of the capital adequacy framework? I've then got a second question.

Marnie A. Baker
CEO, MD & Director

Yes. Look, the dividend and the underwriting of it, I think it is -- supports our strong capital position. It does support our business outlook, including above-system growth in lending. The dividend itself did take into account APRA's guidance on capital management. So by way of -- as you know, with these things, Andrew, APRA is a part of the consultative process. And we are very comfortable and have not heard from APRA that they have any concerns around the underwritten DRP or the dividends that have been paid or declared, sorry.

Travis Crouch
Chief Financial Officer

Andrew -- sorry, Marnie. Andrew, it's Travis here. Just to the second part of your question around what it says about the new standards, it says nothing about the new standards. We're still working through the assessment of what they -- what the impact will be based on the new risk weight.

So the -- underwriting the DRP really reflects our strong growth, our outlook and the Board's decision to actually support that level of capital and the level of growth. It certainly doesn't reflect the new APRA standards.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

That's helpful. And then just a second question around the growth in the third-party banking. There's a slide in the pack that highlights, as far as the approvals are concerned, at least a bias in the third-party banking to fixed rate lending versus the proprietary business. Can you just maybe explain why this might be the case? And what does it mean for the profitability of your third-party banking channel versus the proprietary channel?

Travis Crouch
Chief Financial Officer

Yes. Andrew, I think historically, the third-party business had some products around the fixed space that actually have always resonated well with customers and the brokers. So I actually think that, that mix reflects customer's appetite at the moment for fixed lending and really the success that we have in that market through the third-party business around fixed lending.

So from a pricing, from a return, we certainly haven't changed anything the way we thought about that. You would have heard a lot around the competitive market, cashback is on offer through our third-party business. So we're very comfortable with the level of returns and that sustainable return through the third party. It is a lower-cost model around the third-party business. So certainly feel comfortable with the returns both through the increased growth through third party and through retail.

Operator

Okay. Your next question comes from the line of Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

I just wanted to follow up on the question around the decision to underwrite the DRP. If you look at Slide 28, it shows the capital generation in the half. And even without a dividend, your capital ratio went up only 10 basis points. This dividend is about 30-odd basis points, close to 40. So what this is telling us is that in a half where you've had the margin expand, you've had costs go down, your capital generation isn't sufficient to sustain the dividend that you've declared even though the payout ratio is below your target range.

So my question is, if you want to achieve above-system growth and have a payout ratio in the 60% to 80% range going forward, do you think that you can do that without having to underwrite the DRP or raise capital on an ongoing basis? Because Slide 28 would suggest that you don't have the capital generation to do it without raising capital.

Travis Crouch
Chief Financial Officer

Yes. So Richard, I think from my perspective, the growth we've achieved, that is -- as you said, that's starting to come through now in the sense of revenue growth. We have made inroads into the OpEx, into the cost base to actually improve the overall financial performance and return for the business.

In my view, that's why the Board has made the decision to underwrite this DRP. We are returning returns on our business each half. This first half shows that. And the outlook, we're really positive on the outlook.

So from my perspective, the decision to underwrite the DRP is appropriate for this half. We are certainly comfortable with the way we think about our forecast both on an asset growth and from a profitability. So that's where that decision is made in this half. But I think moving forward, as we increase those returns, that's certainly going to support the asset growth.

Richard E. Wiles
Morgan Stanley, Research Division

So does that mean you think you can achieve above-system growth, 60% to 80% payout ratio but not have to keep raising capital? Is that how you think you can manage the business?

Travis Crouch
Chief Financial Officer

That's how we're thinking about it, Richard.

Operator

Okay. Your next question comes from the line of Brian Johnson from Jefferies.

Brian D. Johnson
Jefferies LLC, Research Division

Back in October, the 21st of October, APRA issued a pretty scathing review on you guys on the calculation of the liquidity coverage ratio. And they actually said that they await the result of the review before determining whether further action is required. I think I just wouldn't mind an update on that and potentially what that might mean for the capital. And is that part of the thinking of the DRP underwrite? And then I have another question after that one if I may.

Travis Crouch
Chief Financial Officer

Thanks, Brian -- sorry, Marnie.

Marnie A. Baker
CEO, MD & Director

So I think we're waiting for each other, aren't we? Travis, did you want to take that? Or do you want me to take that?

Travis Crouch
Chief Financial Officer

I'll jump in first, Marnie. So Brian, that was the findings from APRA. We are working through the review as required by APRA. The decision around the DRP underwrite has nothing to do with that work that's underway. We are working through that from an LCR point of view, but it certainly has nothing to do with the underwriting of the DRP or future changes in capital levels.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. The second one if I may, Trav, is that when we have a look at the major banks at the moment, they're somewhat reticent to actually draw down on the TFF given that they've basically -- they incur the deposit -- the bank levy on it, which you guys don't. But they've already kind of running excessive amounts of balance sheet liquidity anyway. They also seem to be quite concerned about the 3-year maturity hump that it basically creates. Can you just run us through your thinking on the TFF and what it means for that future maturity profile?

Travis Crouch
Chief Financial Officer

Yes. Brian, I think it's a fair question. So that access to the TFF obviously certainly provides a cheap form of funding. But I think that's why we haven't touched any of the supplementary allowance at this point. We think about access to the TFF just through replacing funding when needed, just using really in a quite even manner over the half. But I think that's the issue we're facing at the moment with strong liquidity and strong at-call and customer deposit flows. We are just balancing that and that maturity profile in 3 years' time.

As I said, up to the end of December, we accessed in total up to $1.8 billion. But from a maturity profile, we're very comfortable with that out 3 years. But that's the challenge, I think, that all banks have got at the moment. It is good funding, and it's there with the intent for the industry, but we've certainly got strong customer deposit flows. So that's the balance.

Brian D. Johnson
Jefferies LLC, Research Division

And Trav, are you parking in that money in exchange settlement accounts, which earn 0 but are riskless? Or is that going into financial securities where there is some risk because bond rates basically rise?

Travis Crouch
Chief Financial Officer

Yes. No, we're not parking in the ESA. It is there to support the asset growth. And really, if I think about a normal half, we would do a number of small sort of wholesale transactions. So that's actually replacing those as well as any maturities that we have coming up. So it's a combination.

Operator

Your next question comes from the line of Jonathan Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

A question for Marnie on Slide 47. So I'll give you a second to flip over there. But what this shows is a very strong pickup in lending on the retail lending flows through May through to August. So it slowed down since then. And if you look at the table just above it, it shows there's been a big slowdown in the proportion coming through the third party, if anything, in that mix. Now that's come through on a monthly basis. At the same time that if you look at the ABS statistics on housing commitments that have really taken off towards the end of the year, I think it was up very, very sharply every month from about September.

So just kind of a bit confused as to why you've seen a slowdown in lending applications coming through at the same time the system's taken off just in recent months. Is this a deliberate decision to slow down the broker loans? I think you mentioned it's not being price-driven. What's happened? And why has your lending activity slowed down at a time that the system has really taken off?

Marnie A. Baker
CEO, MD & Director

Yes. I think there's a combination of factors there, Jonathan, partially around -- and we had this discussion, I remember, at the last half around others potentially getting their house in order especially when it comes to the broker market. So the share of the broker market there, albeit that we're very comfortable with the level of applications that we're receiving but also the additional focus that we had on our retail network over that period as well. And we are looking to manage the balance there. We are very mindful of the balance on our balance sheet and having -- and making sure that we sit within our appetite. So there's probably a combination of things.

Jonathan Mott
UBS Investment Bank, Research Division

So does that imply that the system pricing has continued to go down especially through the broker network, and you're not comfortable with the pricing at the moment where the third-party CEOs have backed off to some extent?

Marnie A. Baker
CEO, MD & Director

Look, we're -- from a system perspective, we're very comfortable in the -- and we are still getting record levels of applications through from that channel. And Michael said before, we don't offer cashback through that channel, and it is a highly competitive channel. So we're comfortable with the pricing that we have there. From a system perspective, it jumps a little bit all over the place through that channel. So...

Operator

Your next question comes from Ed Henning from CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just the first one, can you just confirm, if you go back to Slide 18, the change in the community sector revenue sharing agreements and just the outlook for that going forward as the first one?

Travis Crouch
Chief Financial Officer

Yes. So Ed, thanks for the question. So there was that the impact did reduce over from a revenue share arrangement. So that category of revenue share arrangements includes our Community Bank network, our alliance bank network and, as we called out there, previously included the community sector banking business that we're part of.

So we actually bought that back into the bank. So we changed the structure of that during second half '20, which meant the revenue share arrangements are no longer. So that obviously affected income and expense, but in the sense of the pure revenue share, that's no longer payable. So we did see that impact the first half '21 because there was no payments to community sector banking as part of the new structure. That was probably about 1/3 of that impact. The other impact is reflected, like I said, around the lower rates.

The strength of our Community Bank network is through customer deposits and raising customer deposits. At the moment, given the lower margins on those customer deposits meant that there was less revenue share payable to our Community Bank network given the current environment. So that reflects the outcome of the half.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

So the outlook for that, you wouldn't imagine it would jump around too much given the low rate environment is likely to continue?

Travis Crouch
Chief Financial Officer

Yes, that's right, Ed.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Nice. And then just the second one, going to expenses, you've talked about including your accelerated investment spend. Looking forward, I'd imagine this continues to drop off in the future years. So beyond '21, I imagine you're anticipating cost to absolutely decline, notwithstanding continued growth on lending you're actually forecasting?

Travis Crouch
Chief Financial Officer

Yes. So Ed, what -- we spoke about this accelerated investment program, our digital transformation over the last couple of halves. We actually see that program as a number of year program, a multiyear program. So no, I don't expect that investment to drop off in '22. I'd expect it to be at similar levels as we go through '22. And then once we get to '23, we'll continue. I mean we've got the flexibility with that spend. But with where we sit at the moment, I would have thought we'd have an elevated spend for the next couple of years. But equally, at the same time, that's the work that we're doing around sustainable reductions in our cost base.

So that is, as I said, for this full year, we'll increase the investment in the second half, but we'll look to manage the underlying costs, so we'd come with a flat outcome or a slightly lower outcome of FY '20.

Operator

Okay. Your next question comes from the line of Josh Freiman from Macquarie.

Joshua Freiman
Macquarie Research

Just one question -- actually, 2 questions here for me. So first one is favorable term deposits and wholesale funding repricing kind of more than offset the impact of lower rates on deposits hitting the 0 cost down. We were actually quite surprised with the speed of the reduction in that deposit margin.

So just want to check, how do you see the benefit of the reducing term deposit margins looking forward? And do you kind of see it as enough to offset the impact of lower rates on the capital hedge and on 0 rate deposits from the November cut? And I'll ask my second one shortly after.

Travis Crouch
Chief Financial Officer

Yes. Thanks, Josh. Look, I think 6 months ago, it was hard to see that growth in that core continuing. And then as a result, the ability to reprice TDs, that has obviously continued across the industry over the last 6 months. So from a funding cost point of view, that certainly provided a benefit.

Look, I guess the outlook for NIM, as I said before, is really hard to call. There's so many moving parts, notwithstanding customer choice as far as how they may look to respond to the environment or where they want to put their cash. What I will say, though, is as recent as, I think, last week, we actually reduced our TD rates again across all our key deposit channels. So we continue to work hard on that funding cost side where possible.

So it is a hard one to call. But I do expect that we will continue to drive some benefit through that customer deposit and wholesale deposit pricing and, as you said, hopefully look to more than offset the low rates on the capital side of it.

Joshua Freiman
Macquarie Research

Okay. And I guess second question is just in respect of Homesafe. I just want to check how you guys see that looking forward and if there's been any more or renewed interest in the book given improved excitement in the housing market.

Travis Crouch
Chief Financial Officer

Yes. Look, we continue to see that business as a really good one. It's such a great product for customers. As you said, with the low rate environment, strong house price outlook, it's actually a really good product. So we continue to work with external partners. We've been very public about that, that we think it is a great product, a great portfolio. And I think given the environment, we've certainly got more interest than we probably had previously, which is great.

Operator

Okay. Your next question comes from Andrew Triggs from JPMorgan.

Andrew Triggs
JPMorgan Chase & Co, Research Division

Look, a follow-up question on really just managing the growth capital balance. You noted during the period that agri was a negative growth contributor in the half but will return to growth in the second half partly on seasonality. And that is alongside a return to system in business lending growth in the second half. Just your thoughts on whether that is necessary to throttle housing growth just to manage that capital impact as you -- I guess you don't see repeat of the benefiting of an improvement in the capital mix, please.

Travis Crouch
Chief Financial Officer

Thanks for the question, Andrew. So I mean obviously, whenever the Board makes a decision around the dividend, they certainly go through the capital forecast. And as you're right, that includes a pickup in agri in the second half. So they would -- they declare that dividend knowing the outlook as best we can around an asset forecast, which includes that pickup in the agri portfolio.

Just to be clear, when I spoke about the business lending, SME, particularly being in line with the system, we don't see a whole lot of positive growth in that, but we are hoping to be somewhere around flat to either side. So certainly, the agri -- the growth in agri book has been taken into account when you think of capital forecast moving forward and impact of dividend.

Andrew Triggs
JPMorgan Chase & Co, Research Division

And maybe just to follow up on the agri book. CBA, this is one area that CBA is now prioritizing growth within its broader small business bank. Just some thoughts on that and also just the broader competitive environment in the rural bank.

Travis Crouch
Chief Financial Officer

Look, I think that the feedback I've received through the agri team, particularly over the last few months, is that it seems to be as competitive as ever. And I'd actually say some of the rates that are being thrown around by other banks are really hard to understand. So we've got no doubt that competitors are going hard for this book and this portfolio. For the same reason, we think it's a really good portfolio of assets for us to have.

So competition, I would agree, is certainly stronger than 6 months ago and probably stronger than 3 or 4 months ago. But we think given our customer base, given our model and given our -- the strength of the relationship with our customers, we are comfortable with that outlook for an improvement in the second half.

Operator

Okay. Your next question comes from the line of Brendan Sproules from Citigroup.

Brendan Sproules
Citigroup Inc., Research Division

I just had a question on the capital position also on Slide 28. Just following to Richard's question about managing the business where the dividend target payout ratio is between 60% and 80%, are you envisaging getting sustainable to that level based on slowing risk-weighted asset growth? Or are you expecting that the earnings that you're able to generate from this recent growth will be the bigger contributor to the capital position going forward?

Travis Crouch
Chief Financial Officer

Yes. Thanks, Brendan. As I said, when the Board looks at dividends, they certainly look at the outlook from a capital, from an asset, from an earnings point of view. And there is no plan -- there's nothing in there to slow the asset growth to maintain that capital. So it is certainly around the expectation of earnings and the mix of asset growth that we're comfortable with. It's not around slowing asset growth.

Brendan Sproules
Citigroup Inc., Research Division

And just a second question if I could. You had 9 basis points drag from capitalized expenses. Obviously, you've got an investment program running at the moment. What's the outlook for that capital drag looking forward?

Travis Crouch
Chief Financial Officer

Yes. So at the moment, I continue to see part of our accelerated investment we do capitalize. So that will continue to come through each half as we capitalize a portion of some of that investment. You're aware, Brendan, that over the last couple of halves, we made some changes to what we do capitalize particularly around reg and compliance projects there. They are more OpEx now. And I think that sets us up for a good position moving forward. But we will continue to capitalize some of that work where there is tangible benefits that will come over future periods.

So I continue to see an impact from capitalized expenses as we get through this investment program.

Operator

Your next question comes from Brett Le Mesurier from Velocity Trade.

Brett Le Mesurier
Velocity Trade Capital Ltd., Research Division

The cost of your customer deposits were 73 basis points in the half that's just finished. Can you tell me what the cost was at the end of the period?

Travis Crouch
Chief Financial Officer

Brett, I'd have to get back to you on that based on the way the average balance sheet is. But like I said, it certainly continues to come down. And like I said, we actually made reductions to our TD portfolios across the group last week. So funding costs are certainly a positive at the moment in the way we're thinking about it, but we can come back to you on anything like that if appropriate.

Brett Le Mesurier
Velocity Trade Capital Ltd., Research Division

And the -- just getting back to this 60% to 80% payout ratio, is that based on an expectation of a 50% cost-to-income ratio?

Travis Crouch
Chief Financial Officer

So we are -- we have restated both, Brett. So we've restated the progress towards the medium-term cost-to-income target towards 50%, and we've restated the 60% to 80% payout ratio. So they're both considered under the same way we're thinking about future earnings.

Operator

Okay. We have just a follow-up question from Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

I had a question on costs. I think you mentioned that you made some head count reductions in November and December. I'd just like to know, were they reductions of temporary increases in head count in response to COVID? What sort of roles have you reduced? And do you think your ongoing investment plan means that you will further reduce head count in the future?

Travis Crouch
Chief Financial Officer

So Richard, thanks for that question. So the redundancies we called out through the half, particularly in that towards November, December, again, are right across the organization. So part of our cost transformation work around sustainable changes to our cost base include reviewing everything from what I would call our head office or corporate functions to our branch network to our corporate branch network. We've done a lot of work through productivity and data and analytics to actually understand, given the change in customer behavior, what's the right model from the corporate branch network.

So it is certainly come across both from a front-line, customer-facing through the corporate branch network but equally from a back-office corporate support area. So while there would have been some impacts from temporary staff, that's certainly not where we've made the savings. There have been sustainable changes to how we both support our customers and how our corporate offices need to be resourced. So it's not a temporary benefit. We see that moving forward.

Richard E. Wiles
Morgan Stanley, Research Division

And do you think, Travis, that your multiyear investment plan will ultimately allow you to operate the bank with a lower cost base but also a lower head count? Is that one of the drivers of the lower cost base?

Travis Crouch

Chief Financial Officer

Look, I think, Richard, in the sense of the medium term, obviously, automation, simplification, the move to digital for a number of areas will create opportunities from the cost base. Some of that will be staff. A lot of that will be processing systems. So we will continue to look at both where it makes sense from a cost point of view and from a customer and staff point of view. So we certainly haven't got a target for reductions from an FTE point of view. As we work through the initiatives, we understand the impacts and we go that way.

So I see operating savings over the future years coming from the system side as well as the process, and we'll continue to work through any impacts for our people.

Operator

We have a question from Brian Johnson from Jefferies.

Brian D. Johnson
Jefferies LLC, Research Division

Two questions if I may. Just going back to that slide, which showed the excellent volume growth we've seen coming through. If you're not offering cashbacks through the broker channel and you're not discounting, and we all know that you're very nice people and everything, what is driving that above-market share growth?

And the second one if I may, just going on to Slide 18. The margin for this period was 2.3%. You're saying the exit rate is 2.27%. I was wondering if we could get a feel on the bits and pieces that are driving that 3 basis point decline in the exit rate.

Travis Crouch
Chief Financial Officer

I'll start with the second question, Brian. So as we've called out in the table there, the margin was impacted pretty consistently again through that front book/back book. I think if I think about the -- we certainly -- the first quarter was pretty consistent. And then you can see that we actually just started to drop down.

So I don't think that reflects really that continuation of front or back book, the benefits from the variable loan repricing. But then as we get through some of those funding costs, benefits are not coming through quite as strongly. So I think that's what we saw in the last quarter. But like I said, we'll continue to work hard on the deposit side, on the cost of funding side to see what we can do around that margin outlook.

As far as...

Brian D. Johnson
Jefferies LLC, Research Division

Fantastic, and the jolly nice people.

Travis Crouch
Chief Financial Officer

Yes. And as far as the growth in our third-party channel, in my view -- and Marnie, please jump in. But it really is our ability to serve our processing capacity. As you know, Brian, we invested in that upfront over a year ago. So we're actually able to support the broker network and our partner network through our mortgage management services partners.

So they know what they get from us, and we've done a lot of work upfront to invest in that business and that capacity to actually deliver a consistent service. So I really do think it's around that service proposition that we offer. Our third-party partners are very comfortable and know what they get.

Marnie A. Baker

CEO, MD & Director

And they're good people, Brian.

Brian D. Johnson
Jefferies LLC, Research Division

That's obvious, Marnie.

Operator

[Operator Instructions] Okay. We appear to have no further questions. So for now, I might just hand back to -- now to you, Marnie.

Marnie A. Baker
CEO, MD & Director

Thanks, Miles, and thank you, everyone, on the -- for taking the time on the call today. We're very pleased with the results and being able to share that with you. And we thank you very much for your our interest and look forward to speaking with you -- most of you again over the next couple of days. Thanks, everyone.

Operator
Ladies and gentlemen, that does conclude today's conference call. Again, thank you all for participating today, but you may now all disconnect.