Question and Answer

Andrew Bowden

Thanks, Gail. Let's take a question please. And now I should mention that Phil is also with us and to help take questions as well.

And a question first from Craig Williams.

Craig Anthony Williams
Citigroup Inc, Research Division

Gail, your revenue growth has been at the low end of peers from what I can ascertain over past couple of years. So I think I measure revenue growth at sort of around the 1% mark the last couple of years. And you've reported some flat income today. Acknowledging the bank's good cost disciplines, is there a risk that revenue muscle has been trimmed in the past? And that what the bank is now doing is investing to address this and hence, the negative operating jaws which you're experiencing?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Thanks for the question Craig. Look, there's no doubt that we're dealing with a lower growth environment here. So there isn't a revenue wave to ride here. So I know that what we're doing is not focusing on any one source, looking to grow revenue in a number of ways. [indiscernible] our overall position [indiscernible] for the transformation that we're engaged in here. So there's a -- looking through the number of sources in the revenue line and quite separately from that, as you've heard me say, driving a very strong productivity agenda. So the one is not to directly offset the other, but it does recognize that it's a lower revenue environment. But on the revenue front, the kinds of areas that we focus on and where we're growing revenues are certainly growing over a number of customers. That's the source of new growth and that's a very specific focus of ours and obviously, our launch of Bank of Melbourne is a component of that. We're driving really hard in cross sell, especially wealth, insurance, transactional banking and our institutional and business customers first. That takes a longer while for that to flow through into top line growth, but it's a very important longer run approach for us.

And then there's a particular focus on segments that are growing. So we've sort of shifted from this growth of customers in general to particular focus on particular segments. Agri segment is one. It's a growth segment at the moment and we're putting a lot of effort there. We're doing more in the resources area and companies that are connected to the resources sector. Our market banking is another area, a particular focused segment where there's growth occurring. And SME is one where we think we've got more to go. We've got a good underlying position with the SME, but we haven't done enough with it and there's some growth there. So that's a critical focus.

And then of course on pricing. Over time, we expect to cover our costs with pricing changes that we make. And I think I've shown my preparedness to do this, and I will continue to do that to make sure that we price properly for the costs that were incurred. And then lastly, you talked about productivity. Well, certainly on a revenue front, we want to get more out of what we've already got. And so in lots of ways, what we're doing is some Phase II of the merger with St. George in our operational areas as we move towards standardizing and simplifying and streamlining. And there's a pretty clear concept of one kitchen, a multi-dining room, sort of moving towards one set of processes, one set of system to support all of our front end business. So that's a critical element. And then, of course, the new program that we've got with regard to sourcing.

So it's an overall transformation of our Group. We're transforming the balance sheet. On the revenue front, looking to specific areas where we can most optimize our position. And then on the productivity, really adjusting and adapting to run the strategy as well as supporting a new environment.

Andrew Bowden

Okay. Take question from Jarrod Martin, please.

Jarrod Martin
Crédit Suisse AG, Research Division

I have a question on the movement in the markets income, particularly the CBA and the liquids. Phil, is there some sort of metrics that we can sort of track to try and understand that volatility? Because I think the markets they act surprised with the extent of that change in the fourth quarter. And just noting with CBA yesterday, they spoke that in early this year so far, credit spreads have actually come back a bit so there's potentially a positive mark from where they were at the end of December. So now what should we, as a market, be looking at to try and understand and predict that level of market income before you coming out with what is a surprise today?

Phillip Matthew Coffey
Former Chief Financial Officer

Jarrod, I think on the liquids front, it's somewhat easier to track because those liquid assets are really the government, semi-government or prime bank securities. And there's market reference points that you can see in terms of those credit spreads and against benchmarks. And so your comment around those credit spreads having improved post-December 31 is right. And so obviously, that's helped us along a bit. And at the end of the day, I think the best thing I can do is draw your attention to those various indicators that exist in the market today and to track those, bearing in mind that as Gail said, we've got quite a large pool of liquid assets that we look to manage and that we take through the P&L, and so that's always going to have some impact for us. I'd call it out of the full year, but it's hard until you see the kind of shifts that we've seen in these credit spreads to actually understand what the quantum can be.

On CBA, it's much harder because the exposure that's being revalued there, the credit spreads is the net exposure that we have on derivative contracts to counterparties. And it's really all a function of what's the net exposure that they owe us, which moves around a lot and then what's the credit exposure of those counterparts. And so that one, I'm not sure I can indicate to you where you'd look externally to understand that better. I guess in general, I'd say that credit spreads in general move out, you should expect us to have a negative impact. And if credit spreads move in, you should expect us to have a benefit. But it's not as kind of directly related as the liquid asset one.

I think we could -- what we can say is that this quarter saw some pretty extreme credit spread moves. If you think about the risk aversion that took place over the quarter. And therefore, the kind of P&L impact that we've seen is probably at the top end of the scenarios that we would expect to see at any point in time.

Jarrod Martin
Crédit Suisse AG, Research Division

And so is it a -- it's a mark as at the 31 December as opposed to a flow throughout the quarter?

Phillip Matthew Coffey
Former Chief Financial Officer

Yes, it is.

Andrew Bowden

We'll take a question from Richard Wiles, please.

Richard E. Wiles
Morgan Stanley, Research Division

CBA included a slide yesterday in their results presentation, which showed a fall over the last year and Westpac's share of main financial institution customers as measured by Roy Morgan. How do you reconcile that with your comment that customer numbers are up in December? What does it say about your strategy to build whole of customer relationships? And I suppose, more specifically, does it mean you were losing customers in the 9 months to September, but you've turned it around since then? Or does it mean that you're growing customer numbers, but they don't view you as their main financial institution?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Rich, I haven't seen that particular slide. And as you know, there's lots of different industry slides on those sorts of metrics. All I can tell you is that within our business, we are growing our customer numbers. We've got a particular focus on key segments and we're particularly growing our customer numbers in those segments, which is the affluent segment, the SME and the commercial overall segment. We're are also growing the depths of customers with 4 or more products, which is the measure that we track, and we can see that in St. George and we can see that in Westpac. And that's been consistently growing over the period. In fact, every single reporting period, we've grown overall customer numbers and grown a further depth of customer relationships.

And in terms of the wealth cross sell, in the Westpac brand, we have the highest level of penetration of wealth products for our customers. So from our point of view, it's been a steady improvement. Although it does take a long time to actually move this because we've got a lot of customers, something like 13 million. And we are focusing in the value segments. So those segments where there is most opportunity to drive value and to drive revenue and to drive depth of relationship. But from our point of view, we're exactly where we'd expect to be at this time.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. And your steady progress that you referred to in the media release mentions the growth in customer numbers in the 3 months to December. Gail, does that represent an improvement of your momentum? Does it represent just an ongoing trend that you were seeing, say in the 6 to 12 months up until the end of September? Or does it actually represent a turnaround?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

No, it's pretty much the same except for Bank of Melbourne, obviously. I mean Bank of Melbourne, there we're growing new customers. In fact, that's growing really well at the moment, and real pickup just in the last while of new customers coming in with their transaction accounts and the whole of their relationship. I mean, that's the key shift, in launching Bank of Melbourne from the old St. George in Melbourne. Because the old St. George in Melbourne typically had a relationship with a customer, but the main bank relationship was typically somewhere else. And the shift here is with existing St. George customers, now Bank of Melbourne customers, we're getting the whole relationship. And with new customers coming in the door, we're getting the whole relationship. So there's been a pickup, as you'd expect, of growth of new customers in Bank of Melbourne. But for the rest, it's an ongoing trend, similar trends, no big pick up in the trend.

Andrew Bowden

Question from Victor German please.

Victor German
Nomura Securities Co. Ltd., Research Division

I mean, just would like to follow-up on the question that Jarrod asked earlier with respect to your markets' performance, because if I look at probably more comparable with the NAB's performance given they're reporting on the quarter as well. And from what I understand, they also marked-to-market their liquids. And the markets business was the key area of their outperformance, and it seems like it's an area where you guys have underperformed. Either -- would you be able to elaborate on what are you holding in your liquids portfolio, why is your experience so different? And within -- outside of the pure markets business, I saw, generally, banks seem pretty solid institutional performance, which generally offset those markets income issues.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Let me kickoff and then Phil might want to pick up. I'm not going to talk specifically about NAB. I really don't want to do that, but let me just say a bit more about our situation and you asked a little bit about the component of what makes up our liquid assets portfolio. As you heard me say earlier, we hold around 75% of our liquid assets in our trading book, so taking that mark-to-market position each month.

And what are those liquid assets? Well, they are high-quality government, semi-governments and they're the highest quality banks in the world. And obviously, largely skewed to the Australian banks, the Australian major banks right here. Now clearly, there's been a blow out in spreads, and so that's the mark-to-market impact that we actually take. But it really is a timing issue, because we're happy with those overall assets, and so we expect this to come back. Do we expect that it'll be a solvency issue with any one of those assets? No. So we hold those overall assets. We add value to it along the way, that's why we hold it in the trading book rather than in the banking book. But we expect that to come back. So it largely is a timing issue. That's on the liquid assets piece.

Victor German
Nomura Securities Co. Ltd., Research Division

And what about just markets income on the other side? Because I understand it was generally pretty strong quarter for banks?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Yes. So the markets income in the other side. So in this $200 million, we called out 2/3 related to credit spreads and we tried to cover that off with that liquid assets discussion and then that CBA discussion. The other 1/3 goes to treasury rather than markets, and that really was just a poorer quarter. Now, we've got a great treasury team that really outperforms quarter-on-quarter, but this particular quarter was a poorer quarter. So I've got great confidence that, that will come back in time. But that was just a poorer quarter for that particular treasury team.

Overall, actually, the Web business is doing well. So excluding treasury, overall, the Web business is doing great, it's had good customer flows, very good transactional banking in particular, and it is doing well. So good pickup in core earnings performance on about out of our institutional business. The issue that we've had this quarter that is so clear to see is this impact in, largely, treasury but the CBA side of things as well.

Victor German
Nomura Securities Co. Ltd., Research Division

All right. And also, just -- if I can follow-up on costs as well. You're highlighting this $200 million or a number which will not exceed $200 million, has that treatment already started to occur? So in other words, the $1.5 billion that you're reporting, does that include some costs which are taken below the line or is that something that you will revisit at the half-year results?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

No, there's nothing taken in the quarter that we've just reported. But we do have restructuring costs going through the P&L in the quarter, those are our normal restructuring costs that go to our business as usual restructure. So for example, in putting together the AFS division and in dealing with the management changes there, we've taken restructuring charges through the P&L. Those were higher in this quarter than the average of the third and the fourth quarter for the full year 2011. And that's why it's one of the factors that leads to the expense growth that we had in that first quarter. But as it relates to this restructured program, the up to $200 million that's specifically connected to the new sourcing model, is specifically connected to the setup costs associated with that sourcing model and we haven't taken anything of that at this point.

Andrew Bowden

We have a question from Jonathan Mott, please.

Jonathan Mott
UBS Investment Bank, Research Division

Firstly, Gail, you're saying that you add value to some of these securities that you're holding in liquids book and therefore you hold them in the trading book at 75%, where you think that the other banks are holding a larger proportion of it in the banking book and taking it through the reserves. Given regulatory reasons, maybe you have to hold a lot more liquids permanently. Isn't it wiser to keep them in the banking book to avoid the volatility that goes through the P&L? And I've got a second question.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Okay. Look, I think the volatility has been particularly extreme this quarter, and that's because of the external environment and what we've had to deal to over the course of this quarter. But on the whole, through the cycle, this has been a good strategy for us. I mean we've got a great team, we back our team and it gives them the flexibility and the opportunity to add value along the way, because if you put in your banking book, you're going to hold it to maturity and it just sort of stays and forget, and that's it, whereas if you're going to do it the way we do it, you've got an opportunity, not on a day-to-day basis to buy and sell but through the period, to actually adjust the mix of that portfolio and add value along the way. So that has worked for us. We think it is the right approach, but this particular quarter was an unusual quarter from a point of view of volatility.

Jonathan Mott
UBS Investment Bank, Research Division

Okay. And second question, just on...

Andrew Bowden

Hold on. I've got a whole lines of people asking questions, I better just take one from each at the moment, John?

Jonathan Mott
UBS Investment Bank, Research Division

Okay.

Andrew Bowden

Take a question from Mike Wiblin, please.

Michael Wiblin
Macquarie Research

Just a question on costs. Gail, would you be able to maybe elaborate -- you talked about the 2% growth. Could you disaggregate that a little bit more and how much was actually due to the restructuring? And then also as looking forward, what should we expect in terms of that cost growth, please?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Thanks. Well, we called out 3 elements in the first quarter. I really didn't put sort of quantum on it and I'm not going to do that now. But the 3 elements that went to the 2% cost growth for the quarter was firstly, additional restructure charges. And as you've heard me say, we've moved really quickly to put in place our new AFS model and really quickly to actually reduce overall general management levels and management levels. So that carried a restructure charge, and that was higher than we had in the average of the third and the fourth quarter of 2011, so that's one element.

The other is continued pickup of investment in previously called out areas, such as wealth, more advisers that we put on board, of course, Bank of Melbourne and a fuller run rate impact there from the Bank of Melbourne investment. And then the last one was -- in this particular quarter, and this can be a bit volatile quarter-by-quarter, but in this particular quarter, more of our project -- technology project costs was expensed than capitalized. And so that was there as well.

Now, this is largely where I would've expected it to be. So it's largely on plan. From a management point of view, where we've lined it up, from an expense point of view at the end of the first quarter is where I would have expected it to be. So obviously, please don't think that you can take that quarter and extrapolate that for the year because that's obviously not going to be the case. The benefits of the restructuring in the AFS area, for example, we've taken the costs in the first quarter, but we haven't yet got the benefits in the numbers. And so you'll see those benefits flow through in quarter 2, 3 and 4. And as our overall headcount reduces, and that's what's happening, you'll see that flow through in our run rate as well.

Having said that, 2012 was always the year that we flagged would be headwind year from a point of view of costs situation. And we particularly spoke about the 2% additional costs that we expected to flow through from the pickup of amortization. Now, I think we've shown that we know how to manage costs really tightly and will and you saw that in 2010, I think our cost growth was around 3%; 2011, it was 2%. And you can see the energy, the focus, the clarity of the program that we've got here to manage to this. So we're offsetting what we know are headwinds with cost initiatives.

Andrew Bowden

A question from Brian Johnson please.

Brian D. Johnson
CLSA Limited, Research Division

Gail, I had more of a strategic question, if I may. Gail, today you've said that basically the world is a low-growth outlook, and I sense that you think of slightly lower growth than perhaps you thought 3 months ago. Today, you flagged that there's a preference for basically online banking amongst customers. Yesterday, we saw St. George Bank actually move from having one of the more lowly priced kind of variable rates up to one of the higher ones. We've got an environment where the bigger you are, the bigger the gap between loans and deposits, the bigger your funding requirement. To date, we've had Bank of Melbourne actually originating home loans, I think, through the broker channel. Does this all kind of suggest to us that perhaps we should be slowing down that physical distribution footprint objective under Bank of Melbourne perhaps slowing it all down, slowing down the multi-brand distribution a little?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Well, firstly, on your point on St. George with regard to its mortgage rates is just wrong. So I just mentioned that because -- to just get it out there. I mean St. George's mortgage rates are very closely aligned to CBA. So it's not one of the highest, it's very closely aligned to CBA. So it's...

Brian D. Johnson
CLSA Limited, Research Division

I mean, Gail, what was the move? You said there -- probably it'll turn up another result, was it 15 or not?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

12. 12.

Brian D. Johnson
CLSA Limited, Research Division

12, okay.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

But in the overall sense, what I'm actually flagging, Brian, is that we are -- and this is not a new state of comments from me. Actually, we're moving into a completely different world than we were in prior to the GFC in banking. There are some big seismic structural shifts coming through the sector and that we are adapting to those. I mean clearly, the seismic shifts coming through with regard to what's required in capital, what's required in liquidity, what's required in terms of funding and the profile of your funding. There are some very big shifts coming through with regard to regulation that we actually have to deal with. We are in a deleveraging world. I mean, one of the impacts of what's occurring in Europe is even the best case scenario in Europe means they're in for a decade of low growth. There's a compounding factor deleveraging happening at every level in Europe and it leads to low growth. And here in Australia too, we've got cautious consumers and I think we should all expect that we're going to be in a lower growth environment for some period to come.

And then you're right, I pointed to consumers having different patterns of engagement and different needs and preferences into the future. So we are fundamentally reshifting our balance sheet to deal with this environment and our productivity agenda goes specifically to deal with this environment as well. And all new branches will always have a very important role in our business as we'll actually be providing customers choice. And that's essentially what our multi-brand does. And as you see, we're growing our customer numbers in each one of these brands and so growing the overall franchise but doing it in a very cost effective manner by having standardized, simplified, streamlined processes and systems to actually back it up.

But over time, the shape of the branch network will change. No doubt about this. And we'll be working on that between now and the next 5 years to make sure that we get that right. So branches will be smaller. I think we are really a little bit down that path, but -- they will be smaller. People in branches will be different and you can see that in our Westpac Local that we're moving down that path already. Higher-skilled people, bank managers, advisers, less tellers, less of the day-to-day customer service people, and higher-level advice will be in these smaller branches. So I expect there will be fewer branches 5 years from now than there are today in the banking system as a whole, and I expect they'll be smaller and they'll be providing advice to customers. But this is the nature of the work that we're doing. So we are reshaping our business fundamentally to suit the times.

Andrew Bowden

I will take a question from Ben Zucker, please.

Ben Zucker
Commonwealth Bank of Australia, Research Division

Gail, I just wanted to ask you a question around the expense trajectory and outlook. I mean, I appreciate what you're saying about not taking the quarter and just running that through for the year. But I guess I'm also listening to what you're saying about changing the cost base for the new world and the very difficult revenue environment that's out there. And I suppose my question then is really how nimble is the planning around the productivity program and the possibility of higher restructuring charges and the like coming through as you step up more and more on the cost out sort of agenda in reaction to the environment?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Well, the good news, Ben is we haven't just started this. We started this in 2010. So when we called out the SIP program in 2010, we kicked off the first part of our productivity agenda. So we were ahead of the curve there. We knew we could see into the future as we invested in the technology that we absolutely needed to do to actually improve our overall environment and drive for a standard set of systems across our different brands that we needed to drive a productivity agenda. So we've consistently been on this agenda. Now, what we've done is step this up even further. And there's enormous energy and proactivity in this, and you've seen the way in which we move very quickly with the AFS world. So I think we're proving ourselves be quite nimble in this. The restructure charge, up to $200 million that we called out, I mean, that will be it for the foreseeable future and it's specifically dedicated to our sourcing program, not the sort of business-as-usual restructuring in our organization. It's to deal with the sourcing program because that's a fundamentally different style of program.

Ben Zucker
Commonwealth Bank of Australia, Research Division

And in terms of the BAU-type charges, are they fairly set in terms of your plan or would you view those as somewhat flexible too, if need be, in response to the environment in 2012, I guess?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Well, what we've done over the course of the past quarter is we've taken out something like 20% of our general managers, so thus, we've done that, and subsequent layers that actually go with that. So we've moved quickly on that, and we're simplifying processes and systems in order to drive out costs. So there's an urgency and energy. There's a significant agenda of different productivity elements that are being systematically implemented across simple things, like managing our marketing expenses, managing our suppliers from managing our headcount in certain areas, making sure that we've got the right mix of staff to actually deal with the activities and the volumes that are out there. So it's a very orchestrated set of agendas that we've got across this area.

Andrew Bowden

A question from James Freeman, please.

James Freeman
Deutsche Bank AG, Research Division

It's James Freeman here. I just want to ask a quick question about that trading position. Just so we get a bit of a split between what was -- came from liquidity and what came from the CBA? And also, just on the costs. I know there's been a lot of questions on this, but I'm still a bit confused. 2% in the first quarter, you're saying don't annualize this, but yet, there's no sort of indication that some of this is one-off and there's big reductions coming through in the second, third and fourth quarter. Just so we could get a bit of an idea as to how much of these projects are now complete and we can drop that out of the first quarter run rate.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Phil, why don't you pick up the first question?

Phillip Matthew Coffey
Former Chief Financial Officer

Just in terms of the sort of questions, James, so I'm right, it was sort of split between liquidity and CBA. Was that it?

James Freeman
Deutsche Bank AG, Research Division

Yes. Yes, that's it.

Phillip Matthew Coffey
Former Chief Financial Officer

I guess they're about equal, I think, in terms of the total dollar amount for the impact in the quarter. We said that was 2/3 of the total and now we're about 50% each in there.

James Freeman
Deutsche Bank AG, Research Division

Right. And second part was...

Phillip Matthew Coffey
Former Chief Financial Officer

Around?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Why don't you have go with the expense piece and I'll pick up from there?

Phillip Matthew Coffey
Former Chief Financial Officer

Well, I think that the reality is, as Gail said, the sourcing program that we're looking to kick off has yet to commence. So we've been talking about it for a little while now. We wanted to call out sort of order of magnitude. And we wanted to call out that the set up costs were one-off in nature and therefore, will not going to be included in cash earnings. We will have an idea, I think, by the time we get to the half. What's the timing of that? My guess is that the total expenses will be booked mostly in the first half, but there might be some that get carried forward to the second half because of the nature of when we can recognize that cost. But it'll all be done over the course of this financial year as will the entire program have been executed. Now, the benefits will come through over multiple years because the benefits come through in terms of lower sort of cost of the outcome that we are buying from the supplier. And some of those costs dropped straight into the bottom line and some of them come through in terms of lower development cost rather elements of that technology. But we would expect to see those benefits being quite material but over quite a lengthy period of time.

James Freeman
Deutsche Bank AG, Research Division

Great. And so my question was actually about Q1 costs. You're saying don't annualize that because there will be benefits. Is the benefit purely just from the fact that we're now expensing some stuff below the line in the rest of the year?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

No.

Phillip Matthew Coffey
Former Chief Financial Officer

No, the benefit is, as Gail said, it's because we've actually absorbed the cost of reduced management overlay, for example.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

In the first quarter, there'll be benefit here to come.

Phillip Matthew Coffey
Former Chief Financial Officer

Yes. We took the cost through the P&L and we'll get benefits from having a lower run rate on salaries that comes with that over the rest of the year.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

So that's one element, I mean obviously, there were a number of projects that are being completed through our SIPs work. And so as projects complete, we're also -- we now are able to have fewer people in our overall technology area. So there are a range of headcount-related activities that mean that we will have fewer people in our business throughout the second half of the year.

Andrew Bowden

Take a question from TS Lim please.

T.S. Lim
Southern Cross Equities Limited, Research Division

You mentioned there was lending growth of about 1% right across. What are the better performing state contributing to this?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Look, the portfolio as a whole, mortgages was the biggest, I don't have the breakdown [indiscernible] at the moment for that. But the biggest contributor to the lending growth was in mortgages. There were some growth in SME as well and some modest growth in our Institutional Bank, too. There's still deleveraging occurring, as you could expect in the commercial property side.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

LA question from Ben Koo please.

Ben Koo
Goldman Sachs JBWere Pty Ltd, Research Division

I just had a question on just the capital position and also just I noticed probably you were just thinking forward to the first half and beyond that, but just the dividend as well. But when you're looking at the capital position and that adjustments that you've done to risk weighted assets, is that process now complete or is that ongoing? And then when you're looking at your dividend, historically, Westpac's paid a $0.01 or $0.02 increase in the dividend per half and just keen on just getting a sense of given how the capital position is continuing to strengthen, and you've got some tenured St. George benefits, whether you're comfortable with that historical pattern of dividend increases?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Let me answer the dividend question, and Phil, you can pick up on the operational risk piece. I mean on the dividend piece, I think you've heard me say before that we're happy with the pattern of dividends that we have and there's nothing to change that. So very happy with the pattern of dividends that we've had in the past and I see nothing that's occurred or likely to occur to actually change that. Obviously, dividend decisions are made by the board and they're made at the half and full year. But as I said, nothing that I can see that's occurred or likely to occur that will change that pattern.

Phillip Matthew Coffey
Former Chief Financial Officer

And on the risk weighted assets that moved up in the operational risk category. That's as a consequence of introducing a new op risk model. So there's a one-off adjustment, and so the changes in operational risk weighted assets will be from that new higher base going forward.

Ben Koo
Goldman Sachs JBWere Pty Ltd, Research Division

Okay, so no further additional increase in 2Q?

Phillip Matthew Coffey
Former Chief Financial Officer

No. No further additional increase as a consequence of any changes.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

We're happy to have seen our capital go up. I mean it's a good quarter actually for us, so pleased to see the capital position has further improved over the quarter.

Andrew Bowden

We'll take a question from Matthew Davison, please.

Matthew Davison
BofA Merrill Lynch, Research Division

My question was, has your total gross liquid assets gone up during the quarter? And if so, by how much and if it has gone up, is that included in the 2 basis points of underlying NIM drag that you've highlighted today?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

It's pretty much the same, actually. It hasn't moved much over the quarter at all. So where we finish now, it's pretty much where it was at the end of the full year. It's pretty much around $100 billion.

Andrew Bowden

We'll take a question from Brett Le Mesurier, please.

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

The underlying NIM contraction was 2 basis points. You've referred to funding costs. So do I presume from that, that there was no change in loan margins?

Phillip Matthew Coffey
Former Chief Financial Officer

I think if you look at the breakdown of that 2 basis points, effectively, it said that the repricing of loans virtually offset the higher cost of funds. The issue for us, of course is that the cost of funds increase, really accelerated towards the end of the quarter. It accelerated because deposit margins became a bigger source of drag on the cost of funds and because the wholesale cost of funds, particularly as we move into January, picked up as we did more issuance. But the overall impact in the December quarter was only 2. But if you'd look -- if you draw that forward, that would have been larger before the repricing last week.

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

Right. But my question was really has there been any increase in loan margins during the quarter? I presume from what you're saying there has been some modest increases, and I would presume that's in business loans.

Phillip Matthew Coffey
Former Chief Financial Officer

Business and wholesale have had a little -- a small increase in the margins over that year.

Andrew Bowden

We've got time for one more question. I'll take a question from Scott Manning please.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

I just wanted to check on the $100 million swinging the other way. If you can give us a split of the assets sell versus that amortization on institutional side and whether that's -- just trying to get a sense of the one-off impact versus a potential ongoing benefit there.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

I think it was pretty much even, really and we only called it out in order to sort of provide the whole picture. So since we were calling out really clearly, what happened in the markets treasury side, we needed to actually call out the elements that were more of a one-off nature so that you could get the whole picture. I mean the asset sells in and of itself are not material, and we didn't have any in the third and fourth quarter of last year. We did have some in the first quarter and second quarter of last year. So it's a little bit about just giving you a full picture, but not material in the overall scheme of things. And the acceleration of the establishment fees within WIB, well, really 2 drivers there. One, it's a normal pattern. I think if you look back in the last couple of years, you will have seen that there's a pickup in establishment fees over that period, in the December period. And the other is that we've actually had a look at the behavioral pattern of our institutional exposures and actually seen that they tend to be shorter in their duration. And so that's meant that we've adjusted for that too. It's more of a one-off nature, that element.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And to finish off, I'll -- just so I'm sure, Pete won't mind me saying, I find it hard to believe that he wants fewer kitchens.

Andrew Bowden

Well, thank you, everybody. I know there's a couple of more questions on the line and we'll take some calls later this morning. But please, I'm also available today to take callers in need. Thank you very much and good morning.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Thank you, guys.

Phillip Matthew Coffey
Former Chief Financial Officer

Thank you.

Operator
Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.