Question and Answer

Anthony Rose
Executive Officer

We'll take some questions. Sorry...

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. I'm a little bit alarmed by the growth you're getting in the mortgage book. Since 2009, above-system growth hasn't been a particularly rewarding outcome for the shareholders at banks. In fact, the banks that have grown below system have tended to perform better both on margin and revenue outcomes. In particular, it seems strange that you would accelerate the growth to 1.6x system at a time when competition on the front book is getting more intense and when the deposit benefits are coming to an end. So I would like to ask, are you comfortable with that growth rate? Was it more than you expected in the half? Does it reflect your expectation that margins will actually expand on mortgages in the future? And how reliant is your view on the expectation you've stated today that the -- I think, that capital requirements will go up for the major banks and they will have to reprice?

Jon Earle Sutton
Former MD, CEO & Executive Director

The goal -- thanks, Richard, for your 8-part question, so I'll do my very best to answer the issues that you've raised there. Are we happy with the growth that we got? We certainly are happy with that growth. It was a tale of 2 quarters in what we saw. In the first quarter, we did see some green shoots start to emerge as our distribution channels started to open up. In the second quarter, December was basically around plan. January, we did better than what we expected. And in February, February for us was quite a strong month. Traditionally seasonality, the January and February periods are relatively weak for us. We also took the decision that with the macroprudential at 10%, we were well below that and we saw the opportunity to actually take up a little bit of our market share in that area. And when I think about where we are at the moment, yes, we have grown below system for a long, long period of time. I would not expect to see the same amount of growth in the second half, but what's really important for us is how we grow and what those risk metrics are. And I'll draw you back to some of the remarks I made, we validate 100% of all of our mortgages. It wouldn't be too many people that do that. We've actually, in some cases, tightened up some of the serviceability standards that we actually had. For a long while, this business, if you go back 4 years ago, was a single channel point of distribution, heavily focused on pretty much Queensland. And consumers deal with banks in many different ways, and part of our long-term growth strategy is to actually open up those distribution channels. Virgin Money, we're really excited about it, will actually bring a completely different customer set. And also BOQ Specialist, when you look at those mortgages and the performance of those mortgages even before we acquired, BOQ Specialist have always performed well even though they weren't on the previous owner's balance sheet. So we're quite happy with the growth we're getting, but it will moderate in the second half.

Richard E. Wiles
Morgan Stanley, Research Division

Do you expect mortgage margins to expand? Is that why you're comfortable with that level of growth that's getting on the balance sheet at the moment?

Anthony Rose
Executive Officer

I think that's -- I think as we've said today, there's an increasing likelihood of convergence still to play its way out, and our view would be the return on equity on our mortgage portfolio is likely to expand. Now that can come in increased capital requirements for the advanced banks and potentially some repricing to offset that but then favors our relative position or some reduction in our overall capital position based upon where the new standardized framework recalibrates itself or a combination of the 2. That would be our expectation. There was also an element in this that we've got to acknowledge that the new channels that we've opened up here, we have still been relatively new to those channels and we have had to have a reason for, in particular broker channel, for them to do business with us, particularly with the high standards that we set around validation. And it's fair to say that we have been in some segments of the market particularly harder to deal with from a processing perspective through that period. But again, as we digitize, we'll make it easier for them but we weren't prepared to compromise on those standards for the quality of the portfolio. And so I think going forward, as we mature our presence in the various channels and the levers that we've got, the right element that has been an element of this half is one that we would be much less pronounced on going forward.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. I'm just going to follow on from Wiles there. The repricing that came through today, quite substantial, 12 basis points standard variable rate and 25 basis points investment property line. I've never seen a regional bank be a leader on price in mortgage markets, so I'm sure this decision wasn't taken lightly. So do we see this as, oops, we grew too fast, oh no, our margin is getting hit, let's reprice that to stabilize the margin for the second half, because that's what it really looks like? And then when we go forward from that, you just put a huge amount of volume on. You're turning the brokers on again. Isn't there going to be a lack of trust from your customers and to some extent a lot of frustration because you've just put this on and now you've gone and repriced out of cycle. And just to put into perspective, your standard variable rate is now 30 basis points higher than ANZ and your investment property rate is 45 basis points higher than ANZ. So to me, and I know you've got your Clear Path product and you'll probably respond that way, but you're a long way out of the market and there's going to be a lot of frustrated customers.

Jon Earle Sutton
Former MD, CEO & Executive Director

Thanks, Jon, for your question, and you're quite right, these decisions are not made lightly and we thought long and hard about where our position is, and what we are dealing with is what is in front of us. We have seen a significant increase in wholesale funding markets. As Anthony outlined in his waterfall chart, we're also seeing a significant increase in hedging costs. When I think about how we are positioned in the marketplace, we have always been competitive, and we'll continue to remain so. The Clear Path product was introduced a number of years ago and it was a low fee and a low -- a relatively low-rate product. It has got one of the cheapest, lowest comparison rates of any product in the marketplace. So our go-to new customer rate is about 4.19% and our standard Clear Path owner occupier is at 4.72%. And again, they are still very competitive rates in the market. There is probably less reliance across the industry on the standard variable mortgage rates. And as you would all know, in the acquisition of customers there is substantial discounting that goes on under the counter in that marketplace, and our Clear Path product is quite transparent in that. And look, sure, we always take into consideration where our customers are. What I will say is that we've grown our customer numbers by 25,000 over the last 6 months. If you look at Virgin, for example, it has 200,000 customers at the moment. And the ability for us not only to actually attract new customers to the bank is significant but also new deposit customers as well. So decision not taken lightly. We're comfortable where we sit at the moment.

Jonathan Mott
UBS Investment Bank, Research Division

So this is really just reprice the back book and compete aggressively on the front book and hope the book doesn't change too quickly?

Jon Earle Sutton
Former MD, CEO & Executive Director

No, that's not the case at all. I think, Anthony, I think all of you would understand that in the industry as a whole, particularly in subdued credit environments and then when you actually overlay the macroprudential that all the banks are competing out there and it has been a facet over many years of where that front book, back book pricing dynamic is. Clear Path, for us, is a product that actually looks to break that dynamic because it's quite transparent in pricing. It doesn't have a lot of fees attached to it. But again, we're part of the industry. We are competing in the industry, and we've got to do what we can see is what's in front of us.

Anthony Rose
Executive Officer

I'll just add a little bit to that. In relation to the step that we took on investor pricing, it's fair to say that we went from an annualized growth rate of our investor book in the 3% range to finish at 7.8%. And as Jon said, we had a very large February with still some solid momentum. So part of the step that we've taken there reflects making sure that we do manage within our 10% cap in the coming months. We'll obviously continue to monitor how we're going in that part of the market going forward, and we'll continue to monitor our position in that space going -- but it's fair to say that, that 10% cap does create some issues when you're managing your portfolio and making sure you maintain and operate underneath it.

Andrew Triggs
Deutsche Bank AG, Research Division

It's Andrew Triggs from Deutsche Bank. Just a question on how you manage the growth in the various channels, clearly, part of the strategy has been that the low or the quite aggressive pricing has been to get growth back in that OMB network as you reduce the branch network. Is there a better way to manage that through targeted discounts in that channel relative to the broker channel? That's the first question. And the second question is, do you have specific targets and expectations for the Virgin Money broker mortgage product?

Jon Earle Sutton
Former MD, CEO & Executive Director

Look, from my long experience at previous institutions where you actually have differential pricing between, say, branches versus brokers, that doesn't work very well. And when you think about our owner manager network, it is based on a commission model as well and as is the broker channel. So the returns that we actually get on those mortgages are very similar through those channels. What I will say, too, is that a lot of customers who actually go to brokers would choose not to go into a branch. So it's -- we are channel agnostic and I think that if you went down the path of very, very differential pricing, that may -- that's not going to work very well and I've experienced that firsthand. We're quite comfortable with where we sit in terms of our channel distribution. Virgin mortgages will be a materially different product. We'll be launching that in May, but again it will be appropriately priced. I'm not actually going to put out the expectations around the growth numbers for Virgin mortgage. I don't need to alert all of our competitors around what we're going to be doing there, but we're very comfortable with the product that we'll be releasing, which will be different, different to what we actually have in BOQ and BOQ Specialist. And when I think about the Virgin brand, we've had it for a period of time, it's done exceptionally well, particularly in the credit card market, particularly in its insurance markets. It's got over 200,000 customers, grew 11,000 customers in the last 6 months and it gives us a wonderful opportunity to continue to grow in a materially different way than what we would've done 3 or 4 years ago when we're just in line on line distribution channel.

Andrew Triggs
Deutsche Bank AG, Research Division

Just on that pricing dynamic, did you think you're a little bit slow to react to a lot of those 3.99% mortgage rates that are out there that were pulled probably a couple of months before you have? Is that -- and I would say the February growth was a bit of a lagged reaction to that. Perhaps you need to -- in the past, you've said that the pricing committee that you run is more able to meet quicker responding to factors like that.

Jon Earle Sutton
Former MD, CEO & Executive Director

Again, if I just go back to those early comments I made to Jon, for the first 3 months of the year, we just saw some green shoots. And obviously, January and February were months where we saw materially different growth than what we'd experienced over the last few years. And there was a confluence of events obviously, with the macroprudential, I can't speak for where other institutions are but everybody's looking and managing to the 10%. We took deliberate decisions to keep where our prices were for the long term, given where our views and Anthony's put out there around where we can see convergence coming on or not in accreditation. But we were surprised in February. There was no doubt about the size, and then we took some steps around it. And of course, we're ever vigilant. And as I've said in the past, we'll continue to fight for every basis point that's out there in terms of both sides of the balance sheet.

James Ellis
Crédit Suisse AG, Research Division

James Ellis here from Crédit Suisse. Just a question around the noninterest income, at the AGM you gave full year guidance for noninterest income and in the first half there was a sequential pullback, which was attributed to both structural and cyclical factors. Now acknowledging you've have made some statements about the second half, how do you feel about the AGM guidance now because it would appear that it's probably a little bit more under pressure, that guidance from the AGM than today, than what it was then? So just whether you could comment on noninterest income.

Jon Earle Sutton
Former MD, CEO & Executive Director

Yes, look, we gave that guidance as what we could see in front of us. And obviously, Anthony outlined in his charts the number of moving parts there. There was also -- during that period, there was a resolution around the interchange fees. There was a fall in our trading income. And look, we are a small bank with a good strategy, a sound strategy. We're not a bank that actually sits there and takes punts on markets and does those sorts of things. So we're obviously disappointed with what the operating environment is in terms of the noninterest income loan. Again, when you think about the industry as a whole, the industry is looking for much transparency. And if you go back to where our products sit, such as Clear Path, it is a product that doesn't have a lot of fees. And it's been our go-to product for a considerable period of time. And consumers want that transparency. So that's also impacted as well. But I'm quite comfortable the guidance that I've provided at the AGM is what we were seeing in front of us at that time.

Anthony Rose
Executive Officer

I think the other point to highlight there is that the numbers in the market from the analyst community in a noninterest income line had factored in a material level of noninterest income growth that at the point in time we gave that guidance that it's flat. It was well below where the range of expectations were. Clearly, we've had things like the interchange fees, which weren't on our radar at that point in time, that have further pulled back on the actual outcome.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Ed Henning from CLSA. Just back on housing for a second. In AFG, in March commented, they experienced difficulty in processing loans and their volumes fell. Does this concern you that you've pushed the volume through the broker channel before the systems are ready? Obviously, you still see there's growth going forward despite pulling back your prices.

Jon Earle Sutton
Former MD, CEO & Executive Director

That's a good question, Ed, and I just want to come back to a couple of points earlier that I made that's very, very important to understand, is that the whole industry is under considerable pressure around its responsible lending and that's rightly so. And we have been very conservative. We literally check 100% of our mortgages to ensure compliance with what we do. And yes, that did slow things down. But it's incumbent upon all of us, particularly in this heightened scrutiny and also with where the housing market is to ensure the borrowers are able to repay their loans, not only just at the current interest rates but if interest rates moved higher. So we took a deliberate step to validate all of their mortgages including what we did through BOQ Specialist, the broker channel and the owner manager network. Our lending program is on track. Our time to years has materially improved for PAYG mortgages. About 30% of simple mortgages are going through there. So we've gone from -- Anthony used to talk about it, we couldn't even work out when a mortgage hit the desk of our branches, to -- for simple mortgages, be able to give the answer in a day. But we're not making any apologies for the validation that we're going through at the moment.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

So you don't see it as an issue if brokers might be a bit shy to go back to BOQ because they can't process their loans?

Jon Earle Sutton
Former MD, CEO & Executive Director

Look, we've worked very closely with the broker aggregated groups that we actually have, and we're very upfront with the way we've been. And of course, we're always looking for a path of continuous improvement and we're still investing in our systems and process to actually streamline that. But again, we haven't opened up ourselves to the very, very large aggregated groups at all because we just wouldn't cope. And we're being smart about how we go about that over until we get all of our processes and systems up into place.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just a second one on the new impaired assets, you talked about they're all uncorrelated industries. Can you just run through what industries they come [ph] through?

Anthony Rose
Executive Officer

Sure. So one was a real estate agency business in Western Australia. Another was an electrical contractor in Metropolitan Perth and the other is a quarry in northern Queensland.

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

Brett Le Mesurier from APP. A question on how your OMBs are traveling, I gather from the settlements information that you've provided that the loans outstanding provided by the OMBs haven't increased very much for a while. And so I was wondering, particularly in light of the increase in rates that you've announced today, how they're traveling and also what pushback they've given you today on your announcement.

Jon Earle Sutton
Former MD, CEO & Executive Director

Yes, Thanks very much, Brett. We actually saw some good growth through the OMB network on the last couple of months, and we've worked really hard over the last 24 months to get a balanced scorecard. And that balanced scorecard really reflects not just timelines but also deposits and also risk outcomes and we've seen a significant improvement across the board in deposit gathering and also a significant improvement in risk outcomes. And in fact, we've seen a material lift in branch audits to satisfactory over the last few months. We work very closely with our owner manager network. And in fact, I've spent the last couple of months traveling around, visiting a lot of the OMBs. It's not just mortgages. They're also looking at commercial loans as well and we're pleased with what they're doing, and they are custodians of their deposit base. They are hard-working people in their communities. And under Matt's leadership in the retail bank, we've done a lot of work to be able to improve their business prospects as well, and we're comfortable with where we sit at the moment. The issue around raising our rates, again, it's not something that we do just lightly, and we considered all stakeholders in this. And again, we are dealing with what we are seeing in front of us in the industry, particularly around hedging cost and increased wholesale funding costs.

Anthony Rose
Executive Officer

And if you -- just to further that comment, Jon, if you look at the elements that are called out in the margin walk, the vast majority of those impacts were not related to the pricing position that we had in the market over this period. They would have been there, emerged and existed irrespective of whatever position we took. So again, we see that as an important consideration. And just more broadly, Brett, the other thing to consider obviously is the work that we've been doing around the transformation of the branch network. We are down in the order of 40 owner managers over this journey in branch numbers, and that obviously, in absolute terms, creates its own degree of noise. The quality of the owner managers that we have amongst that group at the moment is obviously lifted as a consequence of a lot of those steps and actions that we've taken and they're successful in delivering. And we're comfortable with how that's tracking.

Jon Earle Sutton
Former MD, CEO & Executive Director

Why don't we see if there any questions online or on the telephone.

Operator

The first question comes from Craig Williams from Citigroup.

Craig Anthony Williams
Citigroup Inc, Research Division

Good morning, everyone. Given the industry doesn't appear to be having much luck deriving net benefit from a typically priced lending as far as observed in recently reported net interest margins, is your announced repricing move today a function of your bias perhaps towards assuring profitability over volume from here on in? And what percentage of your expense base is variable with volumes and activity levels, please?

Jon Earle Sutton
Former MD, CEO & Executive Director

I'll just talk to the -- around the repricing question that you've done, Craig. Again, when we look at this, we're always looking at what -- how we're executing against our strategy, particularly against the segments that we want to be involved in and the actual business units that we actually have. And again, repricing decisions are not taken lightly. But again, it's all about the long-term profitability of the bank and our aspiration to continue to grow back to our EPS target that we talked about at our recent strategy day and what we spoke about today. These are -- there's no doubt these are choppy markets at the moment and we are responding to what we see in front of us, particularly in those external markets. I'll draw you back to where mortgage rates as a whole are across the industry. They are at very low levels, historically low levels. And also the ability for consumers with those lower rates to actually service those mortgages. But again, we're also being very judicious around where our risk settings are for the inevitable change in rates. Who knows when that will be, but we want to make sure that our customers can pay their loans and we're lending responsibly and it's about us executing on our strategy over the longer run, and that's how we think about our pricing decisions.

Anthony Rose
Executive Officer

And the answer, Craig, in relation to the variable expense base, clearly, the largest element of our expense base is our staff costs and employee costs. So really the volumes and the support and fulfillment services that are required to support our activity really relates to the staff complement that we've got. So that would be the largest variable mover in the dynamic of our expense base.

Jon Earle Sutton
Former MD, CEO & Executive Director

Is there any other questions online or on the telephone?

Operator

The next question comes from Victor German from Macquarie Bank.

Victor German
Macquarie Research

I had a couple of questions. The first one or first just a point of clarification maybe from Anthony. If I look at Slide 13, going through that net interest margins, you've highlighted that capital and low-cost deposits had a 3 basis point negative impact, and as you highlighted given where the rates tied to permanent impact. I just wanted to understand, are you saying that there is ongoing impact on margin in the second half from this issue? Or is it just a permanent kind of 3 basis point reduction that should moderate in the second half?

Anthony Rose
Executive Officer

That was 3 basis points in the prior half as well. Where we would expect 3 basis points in the second half. Over time, it will amortize down, but what it reflects is we have a 2.5-year weighted average duration investment profile on our capital and low-cost deposits, which effectively means that we -- 1/60 rolls over every month over a 5-year basis, so you're effectively investing at the 5-year part of the yield curve. So if you think about where the yield curve was 5 years ago and at the 5-year level, that is rolling off at 1/60 and coming on at the new 5-year rate today. So that is the profile of that dynamic. It will slowly, assuming a constant yield curve, it will -- the rate of degradation will slow, but we don't expect that to be much different in the second half.

Victor German
Macquarie Research

Right. So just kind of aggregating what you've said, you're expecting 3 basis point or around 3 basis point reduction and that you're expecting around 3 basis points reduction margins from hedging, funding and hedging costs. And obviously, you're getting that repricing benefit come through. So if I take your comment that year-on-year, you're expecting broadly flat margin outcome, given that first half '15 was -- had a higher margin than in second half '15, does that -- should that be an indication that you are expecting slight uplift in margins in the second half?

Anthony Rose
Executive Officer

No, we have -- the 2 items you've called out aggregate to 6 basis points. If you -- there's a flow-on benefit from the repricing that was undertaken in November because there's a full year impact of that, which is about 3 basis points of impact and then the pricing steps that we've announced today equate to about 6 basis points. Again, that's a spot view. And then, the other factors around the repricing elements we see as a further continuation absent any changed either competitive dynamic or wholesale market or hedging cost dynamic that would play out. Our view highlights an expectation of persistence of current dynamics.

Victor German
Macquarie Research

Right. Sorry, so just so I understand, so are you saying that you're expecting kind of flattish margins half-on-half or flattish margins in '16 versus '15?

Anthony Rose
Executive Officer

No, half-on-half.

Victor German
Macquarie Research

Half-on-half, right, okay. And then just the last point of clarification, earlier question from James on net interest income, so do we take your comments as given all the information that we know today, it's probably going to be difficult for you to meet your earlier guidance? Is that the right way of thinking about it?

Anthony Rose
Executive Officer

I'm struggling to remember us providing...

Victor German
Macquarie Research

The guidance was for flat to slightly increasing noninterest income line.

Anthony Rose
Executive Officer

Sorry, noninterest income. Yes, correct. Yes. So consider this revised guidance. Yes.

Victor German
Macquarie Research

Right. Okay. And so the last question is a little bit more forward-looking in a sense from -- and we sort of touched a little bit on that on volume growth, and I accept that this question might be a little bit redundant if the industry reprices in the next couple of months. But given that a lot of your growth is coming from Clear Path product, which doesn't really have embedded discounts, are you comfortable that you can still maintain, sort of, around system to slightly above system volume growth if industry doesn't reprice?

Jon Earle Sutton
Former MD, CEO & Executive Director

Look, the way I'm looking at that is not over the short term but over the longer term. If you think about but we've discussed today, you've got our broker channel. You've got our owner managers doing better than what they've done in the past. You've got Virgin mortgages coming up. We're not going to put a specific system target out there, but it needs to be -- for a long period time, we were criticized for not actually growing at system, but the way we're looking at our growth is to make sure that our distribution channels are growing the right way and growing profitably. This is a materially different bank from where it was 4 years ago, where it was only an owner manager network. We've got BOQ Specialist that has performed excellent since we've made that acquisition, and we always saw the strategic benefit in that acquisition of bank putting the mortgages on to our balance sheet. We've got a world-class brand in Virgin and we'll look to bring Virgin to market. But with each of those businesses, they've also got targets around their deposits as well. So it's not just -- we're not just talking about mortgages. And I'll point you back towards what I said earlier, the expectation would be that the second half growth in terms of mortgages will be moderated.

Victor German
Macquarie Research

It sounds like if, for example, you're suddenly not growing at system, that wouldn't concern you in the short term.

Jon Earle Sutton
Former MD, CEO & Executive Director

Correct, yes. Is there any more questions on line?

Operator

Yes. The next question comes from Ms. Ashley Dalziell.

Ashley Dalziell
Goldman Sachs Group Inc., Research Division

Just a question on advanced accreditation. You've reiterated again today that you're pretty happy to wait on what the next wave of regulation might look like before making any decision on advance. Just hoping you might be able to help us reconcile that position against, firstly, accreditation comments that we're unlikely to have any clarity on what domestic application of that next phase might look like until 2017, 2018. And then secondly, the fact the 2 of your regional bank peers are now formally going through that accreditation process. Just thinking, is it the case that we might not hear anything definitive on this for another 1 to 2 years?

Jon Earle Sutton
Former MD, CEO & Executive Director

I think the way we look at that, and I am going to defer to the Chief Risk Officer as well, is that we've been on a significant journey to improve our risk systems and process. There's no way that we are going back to what -- where this bank has been in the past where you've seen significant loan impairments. Everything we do is around ensuring that we have the most robust system so that we can get through the inevitable cycles that the Australian economy has. Having been through 2 advanced accreditations, they are very, very expensive, but also it's incumbent upon us to actually see where the Basel committee lands. Our understanding is that there will be pretty much more -- we'll pretty much know towards the end of the year where Basel will stand and then we'll have to wait for our own regulator to see how they want to apply that in a local jurisdiction. But again, everything we're doing in our risk culture, our risk systems and process is with one eye to accreditation. Peter, do you want to add to that?

Peter Deans
Former Chief Risk Officer & Group Executive

Yes, I probably can't actually add much more to that. I think by the end of this calendar year, notwithstanding some of the comments our peers have made, I think it will be quite clear to standardized banks on what the future looks like. And whilst I think the gap or the benefit there as historically will substantially narrow, I think we'll be in a position to, I think, make a formal decision perhaps early 2017. And as we've said previously, we have done a lot of the foundational work so we wouldn't be starting from scratch.

Jon Earle Sutton
Former MD, CEO & Executive Director

I think there's one more question on line.

Operator

And the final question comes from Mr. Scott Manning.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Two questions please. Firstly on Slide 10, you're referring to the housing settlements by channel, and there's quite a strong proportion there from BOQ Specialist. I'm just hoping you can confirm what that's actually referring to. Is that the off balance sheet component coming on balance sheet? Or is it genuinely new to bank customers that means that it's ongoing growth over a sustained period?

Jon Earle Sutton
Former MD, CEO & Executive Director

Yes, Scott, you're correct. What we've seen, again I'm going to go back to that previous comment, when we acquired BOQ Specialist, their mortgages were going through to third parties. And again, we could see there's considerable upsell when we made that acquisition to be able to put those mortgages on to our balance sheet. Just to give you an idea, BOQ Specialist has grown 6,000 customers over the last 6 months. And we've actually been through a leadership change and it's now led by Dr. Brett Robinson. That business is performing as we expect. The arrears are as we expect. And also, we don't talk about it a lot, but on its Commercial business, it's growing at 14%. This is a business that banks, medical students, all the way through to practitioners, clinicians, specialists through their life cycle. It's got very, very, very deep customer relationships. It's a very customer-centric model with deep understanding of the industry. In fact, they do over 800 functions a year to be with their customers. It's been a wonderful acquisition for the bank, particularly when you think in light of our strategy around pursuing those niche commercial markets, and the added incentive for us has been to bring those mortgages on to the balance sheet.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And secondly, on the capital on Slide 20, basically implying that your underlying capital generation is broadly neutral and it was the impact of absence of securitization, capitalized software and the like that drew the core Tier 1 ratio down. Do you think you'll have sufficient profitability to actually look to grow the dividend in the second half after keeping it flat half-on-half this period?

Anthony Rose
Executive Officer

I think the guidance that we've given previously around if you look at our cash EPS growth to prior corresponding period is the type of growth rate that you would expect to see in the dividend and that's really what should constrain over the long term your profile of dividend appreciation. That guidance remains. And obviously, we'll need to see how the second half plays out and that will be determination for the board as to the extent of where that dividend lands.

Jon Earle Sutton
Former MD, CEO & Executive Director
Are there any more questions online? If not, we'll leave it there and we'd invite you all to have some morning tea with us as well. So thank you very much for your attendance. It's much appreciated.