Question and Answer

Will Rayner
Former Head of Capital and Investor Relations

Thanks, Mark. We'll now open to questions both here in Melbourne and over the phone, ask if you're asking questions here in Melbourne, please do use the microphone so that all can hear as well. So we'll start here in Melbourne.

Analyst

Michael Glen [ph] from Macquarie. Just a couple of questions. Just on the securitization asset disposal that you've normalized at, can you just talk a little bit about what that is and whether it relates to the recent sort of APRA? You had a note that was put out earlier this year, and then I've got a follow-up question.

Michael John Hirst
Former MD, CEO & Director

What we did is we had a warehouse which is a much expensive warehouse we chose to pay that back during the half. It was for economic reasons as much as anything. We had the ability to fund that more cheaply through either term securitization or deposits. Now at the time of merger, there was value put on through -- a merger accounting value put on that as a funding vehicle, as an intangible asset. At the time we shut that down, we had to write down that value to zero. Again, it's one of those lovely accounting anomalies so that's why you see a negative when it comes to our statutory earnings in relation to that so...

Analyst

So it's not sales, the first loss piece, on the yields?

Michael John Hirst
Former MD, CEO & Director

No.

Analyst

Just one more question around the non-interest income line. So the Homesafe Solutions property portfolio, can you just give us some description of what that is? It was a fairly large rider. Is it one-off? And can you give sort of the quantity there?

Michael John Hirst
Former MD, CEO & Director

I think just for everybody who may not know, the Homesafe product is an equity release product for seniors so there's a lot of people who are asset-rich particularly through their home ownership but cash flow poor, and so they may want, for lifestyle reasons or for other reasons, to realize some of the equity in their homes. So what we do through Homesafe is purchase a percentage of the home. We don't have any control over the home during the period. It's entirely up to the resident to decide when they deal with that property. And when that property is dealt with, we get our percentage share of the sale of that property. That business is probably been going for five or six years. I think it's up to $195 million, $200 million, around that amount. And the value for us as the sole investor in that business is in the value of those properties. So over the year, we've revalued those properties to their current value now. It only happens once a year, because it would be silly to be valuing house prices every day or even every month. So a lot of that is just that coming through. And these properties are in the better postcards in Sydney and Melbourne, and both of those area over that period of time have experienced good growth in property prices.

Richard Fennell

Executive of Customer Banking

Because of the delay in actually getting that valuation work done as of 30 June last year, we don't get any information in time for our end-of-year accounts. So that's why you see the jump coming through in this half, and that's the result of the revaluation of that portfolio, reflecting the last one actual year.

Analyst

And is the majority being [indiscernible] over that low line, is that from the revaluation?

Michael John Hirst
Former MD, CEO & Director

Yes, it is.

Johan Vanderlugt
Daiwa Securities Co. Ltd., Research Division

It's Johan Vanderlugt from Daiwa Capital Markets. A question about your EBITDA in terms of personal unsecured and lending. We've got the slides which shows on Page 8 that you're achieving growth at 5.7%, well ahead of system. In terms of gross loans, I'm seeing a bigger half-and-half rate of 7.9%. Given that delinquencies are slightly ticking upwards in terms of credit cards, can you give us a bit more background around your appetite in terms of taking more risks in the personal unsecured space, please? And then, I've got a second question.

Michael John Hirst
Former MD, CEO & Director

Sure. That is non-mortgage personal lending, so it doesn't mean that it's unsecured. And in fact, about 97% of our book, I think, is secured in one way or another. So there hasn't been a huge increase in terms of our appetite for unsecured lending. I think the other thing that I'll bring to your attention is in the REITs slide there, which shows the consumer line of REITS other than nonresidential loan or REITs, they're actually falling. And I think that's happening probably right across the industry as people seek to pay back debt and get their individual balance sheets in order. So it's not an appetite for more unsecured lending per se, it's an appetite for non-house lending.

Johan Vanderlugt
Daiwa Securities Co. Ltd., Research Division

Then my second question is, Richard, you mentioned that the targets again, the ROE tracking up above 15% is what you have in mind in cost to income ratio of 55%. Could you remind us when you expect to achieve those targets, please? And I wouldn't assume that you expect to achieve them at the same point in time because from an ROE point of view, there's a bigger gap realistically than in terms of the cost to income?

Richard Fennell
Executive of Customer Banking

Yes, from an ROE perspective, we actually don't have a target of achieving an outcome of cash ROE of 15%. We haven't stated that. What we do have is a target for acquisitions or new business to exceed 15%. So obviously, that will drag up the ROE from where it sits today. But with that goodwill drag that we have on our balance sheet, it will take us a long time if we are to get to 15% from an ROE perspective. But again as you see from the ROTE figure, the margin and the movement in that, the marginal business we're writing, the new business we're writing, the marginal ROE on that is above 15%. So we're achieving that objective of not writing business at an aggregate level under 15%. In relation to cost of income, look again, we haven't set a timeframe on that. It's probably, again, to being driven more by the income line. But we have -- we're very pleased to be out to move back to a position where we are, giving pay raises and bonuses appropriately to staff that achieves certain targets. So we do expect costs to continue to rise. We don't expect costs to rise as fast or faster than the income side of the business. So I would expect sometime over the next few years, we will get to that 55% level. Once we get there, we'll have to think about how the business is at that point in time and whether we want to change the target or we think that is a sustainable level.

Wes Nason

It's Wess Nason from Citi. Mark, Richard, just a question, I guess, on the ROE and I guess ultimate level of dividend. I mean, you run the Tier 1 down from about 8.6% to 8.1%. I think in the half, the more error of net [ph] to common equity's just ticked under the 7%, which is a Basel III minimum. And I think you paid out 70% last year, for FY '10 and now, you're about high 60s in the first half. How are you thinking about that? Is that something that's sustainable you think going forward? Or do you need to sort out re-tweak your settings on the dividend?

Michael John Hirst
Former MD, CEO & Director

We've done a reasonable bit of analysis on this to have a look at the organic capital growth, because it is something that we realize is importance as we intend to continue to grow the balance sheet. There are a number of opportunities we believe is still available to us in relation to capital that don't involve going out to the market to raise capital. And we'll look at those over the next sort of six to 12 months. And we saw an example of one of those late in the half when we got a favorable outcome from a tax ruling, which obviously helped us from a capital perspective. We've also looked at under normal growth circumstances, so organic growth at around system or just above system, it depends where you put that or what you assume system growth will be going forward. But when we look at that, we probably think it's mid- to high-single-digits. When we look at that and the organic capital growth that we think we can generate, then we're quite comfortable to the [indiscernible] will be in that 65% to 70% pay-out ratio. The thing that actually has more impact potentially is DRP participation. But really, from what we can see going forward, we're very comfortable that we're not going to be netting to go back to the market, asking for capital, assuming organic growth.

Richard Fennell
Executive of Customer Banking

I think the only exception to that would be if there was an acquisition or if our growth significantly adds through the system.

Will Rayner
Former Head of Capital and Investor Relations

We'll go now to the phones for some questions.

Operator

Your first question comes from Victor German from Nomura.

Victor German
Nomura

Firstly on that other income and relating to the revals [re-evaluation], are you able to -- well, first of all, provide us with an idea of what the absolute number in terms of reval is? So I understand the increase was around $18 million but I'm assuming there has been some base number in there as well. So just being interested what the absolute reval number is.

Michael John Hirst
Former MD, CEO & Director

Yes. We can get back to you on that but from memory, it was around $10 million, was the reval. There was also -- contributing to that other income is a fee line from that business as well. There is a quite significant contribution from the fees that are charged through that product as well.

Victor German
Nomura

So just looking at it on a total basis, it looks like it's a reasonable contributor. Can you maybe give us your thoughts on why that weren't included in your cash number? And secondly, if for whatever period, the property prices were to decline, would you look to be revaluing it, I'm assuming, down as well, if it goes both ways, right?

Michael John Hirst
Former MD, CEO & Director

It does go both ways and if they property market was to go down over a period, then we'd complete the valuations as we did in the last 12 months. And based on that value, within value the trust and that was a negative impact, we'd bring that to account through our cash earnings. The reasons in cash earnings is this is part of our business that's an ongoing part of our business and the model that underpins the Homesafe property investments has been contributing positively over the life of us owning the property. Otherwise, the business doesn't work. Having said that, in some years, it will be higher. Some years, it will be lower. Some years, it may be negative. We recognized that as a risk of investing in this particular product and taking the position we do in the trust that holds those properties.

Victor German
Nomura

And given the properties are not necessarily most liquid asset, who does the valuation for you?

Michael John Hirst
Former MD, CEO & Director

We use, initially or primarily, I think, it's Residex by postcode and then also, there are certain number of specific property valuations done on a sample of properties to test that against those Residex indexes. So if you like, we ordered a certain number of valuations to make sure that individual property-by-property valuations are aligning with what we're getting from the postcode-by-postcode Residex index.

Richard Fennell
Executive of Customer Banking

And just to give you some comfort around the conservatism that's supplied to those valuations, in every instance where a property's being realized over that period, the amount that's been realized is exceeded what we've had in terms of that asset.

Michael John Hirst
Former MD, CEO & Director

And that also reflects -- we apply in the valuations, we undertake a discount to the increase in the valuation to make sure that we are not overvaluing this portfolio.

Victor German
Nomura

It's just, I guess, historically, analysts like to have the ability to adjust for these revals. So it would, I guess, would be useful for us if you were able to separate the reval line in your income going forward just so we know exactly how it moves around. The second question that I have was just in relation to your capital position. I understand you're saying that you're reasonably comfortable but on a core Tier 1 basis, you're now below 7%. And as you've highlighted, you had 13 basis points benefit from that tax ruling in this half. So on organic basis, we're not necessarily still seeing any strong capital generating from the business. Do you think your dividend is at sustainable level so at where it is now? Or should we be looking for a potentially lower payout ratios going forward?

Michael John Hirst
Former MD, CEO & Director

I think I answered that earlier, Victor. We've done the analysis. We're comfortable with the payout ratio where we are. And we've done quite a bit of work on this organic capital generation.

Victor German
Nomura

And when you say you're growing broadly in line with system, can you give us an idea what sort of system growth you're looking for?

Michael John Hirst
Former MD, CEO & Director

Again, as I mentioned earlier, middle- to high-single-digits.

Victor German
Nomura

Sorry, I meant more by product, given that obviously, it has different capital impacts, so in terms of business versus housing?

Richard Fennell
Executive of Customer Banking

Well, I think the majority of it is obviously going to be through housing when you think about our retail network and our Adelaide Bank business. Our business banking area is really quite new in the scheme of things. It's probably only about 10 years old. And once we continue to build on that, it has some way to go until it overtakes the asset generation of those other two businesses. And then I think probably the fourth business that we'd like to see significantly grow is that Margin Lending business. And of course, that's at a reasonably or on a comparative basis, a very low risk weighting.

Operator

Your next question comes from James Freeman from Deutsche Bank.

James Freeman
Deutsche Bank AG, Research Division

I was just hoping you could give us a bit more detail on the margin. I was looking at the chart that you provided in the pack on the movement of the margin month by month. It's just a piece at the end of the half, the margins seem deepened at the -- by the end of the half, the margins seems to increase in the beginning of the new half, the margins seems to dip. Just wondering if that's an experience we should be getting this year, this half? Or whether that was just an anomaly over the last two halves?

Michael John Hirst
Former MD, CEO & Director

We certainly don't hope that becomes a regular feature of this chart. And we are not expecting that in six months' time to be seeing that, repeating what it did, moving from January to February in the chart. I think what that does reflect is when we look back over the last 12 months, there have been periods of very intense competition in the TD market. And that tends to impact our margin quite directly, given our very significant exposure to deposits, when you look at our funding mix.

James Freeman
Deutsche Bank AG, Research Division

But that's a slightly different way then. Is the spot margin today higher or lower than the December number?

Michael John Hirst
Former MD, CEO & Director

It's tracking pretty similar to December.

James Freeman
Deutsche Bank AG, Research Division

And that's at the end of January?

Michael John Hirst
Former MD, CEO & Director

Yes.

Operator

Your next question comes from Ben Vigor [ph] from CBA [ph].

Analyst

One on the margin, just to understand, you talked about in the outlook as your forecast for margin is solid. And previously, you've had guidance of around 1.91, the run rate at June hopefully being the level in FY '11. Can you just clarify what that forecast is now?

Michael John Hirst
Former MD, CEO & Director

Well, given that forecast I gave six months ago was so bad, I'm not going to give a forecast this time. Once bitten, twice shy. But look, there are a number of factors that contribute to that margin result. The mix of assets and cost of deposits are probably the one thing that has the biggest impact on a month-to-month basis. And when we talk about that asset mix, margin lending, given it's such a high margin business, if you do start to see that business turn around from a portfolio perspective and start to grow again, that will have a positive contribution. And we continue to live in hope that we'll start to see a sustained more normal pricing in TD markets although today, it's certainly better than it has been at various times over the last 12 to 18 months.

Analyst

So just when you're thinking about funding mix spend and the position you're at, at the moment with over 90% retail funded on balance sheet, and it's starting to seem pretty stable on the retail side, how do you balance securitization versus retail funding as a priority now in trying to manage that margin outcome?

Richard Fennell
Executive of Customer Banking

Well, I think one of the things that we will be looking at is, what other opportunities might open up for us. And we've mentioned in the release today that we're looking at domestic retail bond issue as another revenue for funding. I think if we continue on with these sort of results, we'd be hopeful of an upgrade in our rating in the not-too-distant future, which of course, would open up more wholesale opportunities for us. So ideally, we'd like to be a bit 80-20 retail, wholesale. And of course, the ability to do that is really going to rely on what opportunities there are to access wholesale.

Operator

Your next question comes from John Mott from UBS.

Jonathan Mott

Two quick questions, if I could. The first one on asset quality and on updated slides that you showed saying that's it's improving a bit. When we looked Page 19 of the 4D of the result [ph], it's still actually saying a material increase in the impaired assets than the 90 days past due. Yet when you look at the collective provision, it fell by sort of about $4 million during the half. So can you sort of explain why the collective provision's coming down while impaired and 90 days past due are still rising and no slide overlay which a lot of the other banks are already taking? I can understand [indiscernible] strange. And the second one on the RMBS market, if you can just comment on it. Potentially with the liquidity coverage ratio, banks will be able to hold each other's RMBS and put that into the reserves, if it's retail-eligible. Do you expect that to have a material impact on the pricing for securitization going forward? And will that change your mix of funding if that is the case so there'll potentially more RMBS as a new source of funding, increased source of funding?

Michael John Hirst
Former MD, CEO & Director

I'll deal with the second one, Jonathan, and then Richard will deal with the first one. In respect to the second one, I think that is a positive move for the market that RMBS can be held in liquidity portfolios. And I think it's appropriate that they should be because they've proven to be very high quality assets over a long period of time. I think what it will do is increase the demand for RMBS relative to where it sits today. And given the lack of other assets in Australia that are available to qualify for that, you would expect that the demand will be greater than what it is today. Now whether or not that translates into lower prices, who knows? I mean, theoretically, more demand, the price goes down. However, I think it will need to be considered relative to what other asset opportunities there are out there and what are the other funding opportunities there are. But bottom line, I think most people would see it as a positive for a market that's being very important in Australia for a long period of time.

Richard Fennell
Executive of Customer Banking

John, in relation to the asset quality and in our provisions, three key contributors to the impaired lines and past 90 days. Rural Bank, there are a number of impaired facilities there. We have had situations with a number of properties, where farmers who struggled to get stock to market because of flooding up in North Queensland and the like. And as a result of that, we've got some exposures there that are impaired. And also, there's been a tick-up in the 90-days past due for Great Southern of about $20 million as people that were in arrears there had that arrears have gone to the 90-days past due bucket. We haven't seen a significant pickup in the total arrears for Great Southern but just that moving through to the 90-days then that Page 19 of the 4D, that contributes to that pickup overall in impairments and past due 90 days. In relation to the provisions and the collective, we continue to believe we've got very appropriate provisioning in place from a collective perspective. Again, the one area that's picked up there has been Rural Bank with our provisions. And as far as the flood overlays is concerned, we continue to maintain an overlay in our provisions, which we've had for the last couple of years. We believe that there's no need for additional flood overlay on top of that. As I mentioned earlier, we don't expect there to be any material credit issues coming out of it. There will be no doubt some individual credit issues with particular exposures. But all the information we have today indicates that there is no need for us at a portfolio level to be increasing our provisions at this point in time. If that changes and it's material, we'll clearly disclose that to the market.

Michael John Hirst
Former MD, CEO & Director

Jonathan, just to -- sorry, I didn't answer the second part of your question about whether or not we'd have more securitization as a result of that increasing. I think the answer to that is that we'll run a very prudent funding mix as we always do. And I think the proof of our ability to do that is in the fact that we were the only bank in Australia not to use the government guarantee for wholesale funding. So given that we've always been able to get through under any loan financial resources, I expect that we'll run an appropriate funding mix to ensure that happens in the future.

Jonathan Mott

So just following up on that question, the rating agency is saying to get a little bit concerned when RMBS exceeds more than 20% of total funding. So is that the cap that you look to? Or do you potentially exceed 20% RMBS?

Michael John Hirst
Former MD, CEO & Director

Well, given that we're focused on getting our rating up, then I think the discussions with rating agencies around that sort of mix would have an influence.

Operator

Your next question comes from David Gee [ph] from Morgan Stanley.

Analyst

I've just got a quick question regarding margins. In the second half of 2010, you were paying about 29 bips of NIM to third party and being this high, it was 32 bips. Just wondering, do you expect that you'll be paying a high proportion of group margin for third-party businesses going forward?

Richard Fennell
Executive of Customer Banking

Look, Doug, one of the key drivers of that has been the community bank model and the amount that's being paid across in margin share there. And over time, that model, I think it's being out at 10 years now, has really stood up well in terms of how that margin gets shared. However, as a result of the GFC and the changes in the pricing for retail deposits, there's been some pressure put on how that model operates. And over the next few weeks, we'll actually be talking to some of our partners about how we address that going forward. And this isn't going to be anything new to them, it's something that we've signaled to them over the last couple of years. And I think once we work our way through that, we'll be able to arrest that change.

Operator

Your next question comes from TS Lim from Southern Cross Equities.

TS Lim
Southern Cross Equities

Just a quick question, ROE. Are you still looking for improvement of 1% per annum going forward?

Michael John Hirst
Former MD, CEO & Director

I think we're going to try and hit that this year, TS. I think there is still some issues to be worked out especially around APS 120 and securitization, so we'll need to see how that plays itself out before we commit to anything beyond this year.

Operator

Your next question comes from Matthew Davison from Merrill Lynch.

Matthew Davison
BofA Merrill Lynch, Research Division

My question was on the commitment to grow revenues faster than expenses. Just looking at the December half versus June, both revenue and expenses were up about 5.5%. There'd been a lot of questions on the large one-off gain on the Homesafe. So just wanted to focus on the expense side. In particular, can you highlight any amount in terms of the one-off jump that was incurred relating to moving back to full time? Was that a factor at all in this half? And then when you look more broadly going forward, can you just talk a bit more, Mike, around whether you view margin, volumes or costs as the major driver of getting that cost to income down further?

Michael John Hirst
Former MD, CEO & Director

Matt, certainly, the normalization of those working conditions has contributed, I think, Richard, what's the...

Richard Fennell
Executive of Customer Banking

It's a couple of million is related to that.

Michael John Hirst
Former MD, CEO & Director

There's a couple million in that. There's some money that's being put aside as a result of first half result for bonuses, et cetera, going forward. And there is also some increase in costs related to the completion of that customer relationship management system and some staff coming off a capitalized basis onto a pay-as-you-go basis. So if you have a look at our costs, we've pretty much held all other costs except staff costs even, and we don't expect to see a big increase in staff, cost in the second half. The issue around how we see the jaws [ph] being driven going forward, certainly revenue will be a big driver for us. We think we've maintained our costs and can continue to maintain them. But to the extent that we have opportunities around efficiency, et cetera, we will drive those but that result is creating more capacity rather than getting rid of capacity. So as we maintain capacity and capability going through the GFC, anything we pick out through efficiency and we have got a big driver on that, will really be about growing the business going forward rather than making it small.

Matthew Davison
BofA Merrill Lynch, Research Division

And just on the revenues, Mike, you're confident this time in terms of the, I guess, the upward trend in margin. Obviously, overall, you've chosen not to peg a forecast in this time, which is probably wise, but just as you see market conditions versus the past two, six monthly periods, when we've had this sort of call for higher margins going forward?

Michael John Hirst
Former MD, CEO & Director

Yes. Look, really all, not all but a lot of it will depend on what happens in the TD market. And there's a few things working in our favor there. One is the recovery of fixed interest markets generally. Two is RMBS. And three, I think, is covered bonds because we were originally against covered bonds. We felt that it would give the major banks an advantage similar to what they had with the government guarantee, whereby they could hoover [ph] up a lot of funding and then use that to grab market share. However, over time, I think we've come to the view that the ability of the margins to access other funding opportunities should see some normalization around retail turn deposits. And as a result of that, we'd hope that we've seen the worst in that market and that going forward that will underpin the continued strength of the margin.

Operator

You next question comes from Ed Henning from CLSA.

Brian Johnson
Lehman Brothers

It's Brian Johnson. Just two very quick questions. The first one is, I'd be interested if you could explain to us the dynamic between the write-back of the collective provision but the fact that the general reserve for credit losses seems to keep on going up, and it seems to equate pretty well exactly with the double decline in the collective provision?

Michael John Hirst
Former MD, CEO & Director

Yes. Brian, the general reserve and the collective in total need to be in excess of 50 basis points. That's an after requirement. So you're right, if you see that collective provision go down, you're going to see the general reserve go up. So the total of those remain in excess of that 50%. The moment we're around 54, 50 basis points, 50% will be a little excessive. At the moment, we're around 54, 55, and that is due to the way that the Great Southern collective provision is treated from APRA's perspective versus an accounting perspective. And so again, that collective provision where we're seeing shift around half-to-half, sometimes up a little, sometimes down a little depending on the performance of the underlying portfolios. But you will continue to see somewhere in that low 50 basis points the total of the collective in the GSC.

Brian Johnson
Lehman Brothers

So when you think about your sustainable capital generation that's having a dividend payout ratio, there is an implicit assumption on this going forward?

Michael John Hirst
Former MD, CEO & Director

Yes, there is.

Brian Johnson
Lehman Brothers

So although, I mean, I just find that a little bit puzzling that we've talked about a cash payout ratio relative to the declared cash earnings but we have this quite big adjustment that isn't reflected in the cash earnings?

Michael John Hirst
Former MD, CEO & Director

Yes. And when we model our capital, we take it into account. But the way the Board chooses to assist dividend payout and set its target is around cash earnings.

Richard Fennell
Executive of Customer Banking

That's true of a couple of things. The tax benefit that's come through these places and including in the cash earnings, you hit a full strike to the bottom line capital. So we bear a lot of things that happen the way accounting rules are that mean it's not black and white.

Brian Johnson
Lehman Brothers

Yes, but Mike, the implication is, at some point, it could actually is the cost of capital shock or a dividend shock, and you've got a lot of questions kind of hinting at that today.

Michael John Hirst
Former MD, CEO & Director

We don't have that fee.

Brian Johnson
Lehman Brothers

The next one is just on the Slide 14, where and you've been asked today about the community branch commissions going from 29% to 32%. Given that, that is -- banks have so incredibly finely levered, that even your one basis point move in that can have a substantial impact on the profitability. Could you give us a feeling about the quantum of what you're trying to claw back from the communities? How that -- if you could quantify the change for us that you're trying to get?

Michael John Hirst
Former MD, CEO & Director

Sure. The principle of the model is really around 50-50 revenue share, and it's deviated away from that over time, at first, so it started to happen prior to the GFC. But the changes around that turn deposit market cemented that in post the GFC. We've done a very thorough review over a long period of time around this particular aspect. And we'll be talking to our partners over the next couple of weeks about how that plays out. But I can confidently say that there won't be any individual community banks at a disadvantage to the point where it's not going to be a viable proposition for them. For those that have just started out and certainly, in the early days as they draw down on their working capital that they raise to open the business, there can be a greater stress. As they put the business on, we'll be assisting some of those, perhaps more than some of those who are returning 100% and 150% of their capital every year.

Brian Johnson
Lehman Brothers

Mike, is it a good way to think of it that just the commission share was based well but the fact is that turn deposits perhaps aren't as lucrative as they used to be?

Michael John Hirst
Former MD, CEO & Director

I think that's pretty much underpins the whole story.

Operator

Your next question comes from Brett Le Mesurier from BBY.

Brett Le Mesurier
Axiome Equities

Are you still investing in your securitization issues that you make?

Michael John Hirst
Former MD, CEO & Director

Last issue we did in December, we retained the bottom tranche of notes, which was 1% of the overall deal. So it's a $1 billion deal. And we ended up with a $10 million investment. And you may be aware there's quite a -- the schools of thought that's important that issuers retain some skin in the game. Obviously, going forward, that has capital implications and that 1% we retain on that most recent one will be a deduction from our Tier 1 capital from the first of January.

Brett Le Mesurier
Axiome Equities

And the financial assets increased by a bit over $800 million from June to December, and that was a 17% increase. Could you give us your thoughts as to why you did that?

Michael John Hirst
Former MD, CEO & Director

I think what you're probably looking at there is the movement now, our liquidity position. And obviously, as we grow the overall book, our liquids need to grow. But also from memory at June, we were running, I think around the high 11s when it came to liquidity. Given the timing of that most recent securitization being December, we've ended up at December 31 with a slightly higher liquidity position at just over 13%. So without going through the numbers, I would expect that's the main driver of that.

Brett Le Mesurier
Axiome Equities

And so, you therefore expect that to fall back a bit to June?

Michael John Hirst
Former MD, CEO & Director

Well, it depends. What tends to happen is we trimmed our liquidity down towards our target of 11% to 11.5%. And then as we -- because we expect to continue to grow the asset base, we will then generally increase that on the back of a securitization deal. And because they're lumpy deals, we bring in somewhere between generally $1 billion to $1.5 billion in funding, a proportion of that goes into excess liquidity, which we then draw down again over time until we feel that it's appropriate to take the next funding action.

Operator

Your next question comes from James Ellis from Crédit Suisse.

James Ellis
Crédit Suisse AG, Research Division

Just coming back to the equity Tier 1 ratio requirements on the Basel III and your confidence that you can do that without an ordinary equity raising, what sort of assumptions do you make on securitizations going forward in terms of your confidence there? And related to that, the fact that you didn't do that DRP buyback in the last period and you're not going to do one this period, to what extent -- the commentary does mention a rising share price, to what extent do you not doing the DRP buyback to replenish equity Tier 1 at a faster rate than otherwise?

Michael John Hirst
Former MD, CEO & Director

Not doing the buyback was simply a matter of economics. So we weren't going ahead and buy back at high prices. And a couple of loss on that. That's just straightforward.

Richard Fennell
Executive of Customer Banking

In relation to the RMBS transactions, looking forward, we'd expect to probably continue to issue at a similar run rate we had to that, in which we've been issuing in the last 12 months. So probably two or three calendar year depending on the size of those. And in relation to the capital treatment, we'd expect to structure those in a similar way to the most recent view. And so we recognize that if we were to hold some capital but there still is a better capital outcome for us in doing that, then holding those assets on the balance sheet generally average risk weighting of those assets that we securitize is usually around 40%. So you can do the math on how much capital you're going to need to hold against that. That most recent deal where we ended up with effectively a 1% deduction from Tier 1.

Operator

Your next question comes from Scott Manning from JPMorgan.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Firstly, on the Homesafe portfolio. Are you able to tell us the size of the portfolio that you're exposed to, and therefore, the decline of percentage, capital appreciation that you experienced during the period?

Michael John Hirst
Former MD, CEO & Director

I think from memory, it's about $183 million is the current size of the portfolio. And it would mean less than that. At June 30, as I said around $10 million increase. So again, you're probably talking about high-single-digits that were brought to account, which would reflect less than the actual property value increase because we do discount that to keep some conservatism in the calculation. And if you think back to the last financial year, Sydney and Melbourne house prices, in particular, Melbourne, saw very strong increases. That product is limited to Sydney and Melbourne and also limited to postcodes within Sydney and Melbourne. So it tends to be -- our experience today is that we haven't had issues with value when it comes to any properties that have been sold as people exit that program.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Secondly, just on the $250 million subordinated debt that you raised during the period to fund that remaining 40% of the Rural acquisition, what spread did that end up going at?

Michael John Hirst
Former MD, CEO & Director

$400 million over.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And finally, just on the capital position, you were talking about not going to market, these other leaders that you were looking at. What are your thoughts in terms of the timing of implementation of Basel III versus a push towards advanced accreditation? Is that within your thinking of meeting those minimum requirements or is that a nice to have?

Michael John Hirst
Former MD, CEO & Director

I think that falls more in the nice to have. And we continue to move our systems and processes to more align with the requirements of advanced accreditation. But we are very conscious to go down that path as a long and expensive path, and we haven't kicked any program off focused on that at this point in time.

Richard Fennell
Executive of Customer Banking

And I think we won't until we see some finality around how capital is going to be required and regulated going forward. Once we do that, we're in a better position to make a fully informed decision.

Operator

Your last question comes from Eric Johnson [ph] From BA [ph].

Analyst

Firstly, in terms of the deposit market, you mentioned potentially passing a peak in pricing there. Are you now seeing some of that competition now translate to the non-interest income side so that being the fees and how's that going to play out on the earnings going forward?

Richard Fennell
Executive of Customer Banking

Look, from our point of view, we've always had a philosophy around fees that is about equity for everybody involved. And we've seen very little pressure from our customers around the fee structures that we have now. One of the reasons for that is because we've always had a lower fee structure than everybody else. And for instance, on designer fees, we didn't charge until someone overdrew $50 or $100, whereas everyone else was charging from the first cent. So we really don't see a lot of pressure around that side of it. Certainly, some of the regulated things that come in around exit fees will have an impact but again, in the retail side, the standard charge on a majority of that book was about $35 for an exit fee. So the impact for us isn't going to be anywhere near as great as it might be for some others.

Analyst

And that's on home loans as well?

Richard Fennell
Executive of Customer Banking

Yes.

Analyst

And just from also, again, about that potentially passing the peak in TD pricing. Would you also say the peak is passing on securitization as well?

Richard Fennell
Executive of Customer Banking

Well, I think there's a bit to play up there yet. We'd like to see issues getting away without AOFM support. But the inclusion of them in liquidity ratios or portfolios will certainly help with that. And securitization in Australia was really, it was really a contagion issue from offshore. And there still hasn't been anyone to lose a dollar in RMBS secure transaction in Australia. And I think it's just a matter of the market getting its head around that to some degree. I think the overhang from offshore investors selling portfolios because the investors were in a distressed situation, has probably evaporated. And so I think that market going forward can return to its former days of providing good amounts of funding for housing in Australia. Will it ever get back to 10 and 12 and 14 basis points over bills? Well, let's hope not.

Analyst

In terms of the overall business mix, which one is likely to give you the most earnings momentum going forward? Is that some of the broker business or is that some of the more traditional homelands or commercial lending?

Richard Fennell
Executive of Customer Banking

Look, I think the retail business continues to be the major driver of our earnings. Certainly, the third-party mortgage business provides a good opportunity for us going forward as well. And then depending on where equity markets end up, the earnings momentum that could be generated ahead of that margin lending portfolio's reasonably significant. If you do the sums, it's pretty straightforward. There was $8 billion in that portfolio prior to the GFC. There's $3.5 billion in it today. So if you say $4 billion times, 2%, and it's slightly better than that, the margin, there's $80 million.

Michael John Hirst
Former MD, CEO & Director

Any question here in Melbourne?

Analyst

[indiscernible] Mackenzie, Australian Shareholders Association. My question is about organic growth in retail banking, particularly the branches in South Australia that were incorporated at the merger. Where is this growth coming from in particular within the retail banking area geographically?

Michael John Hirst
Former MD, CEO & Director

Look, I'm not 100% sure on that. I know Victoria's been very strong for us. Western Australia continues to do well, and South Australia, I think there's been -- a very much a change in the way that network's been managed away from a pricing-based approach to a value-based approach. And that's taken a little while to work its way through.

Wes Nason

Wess Nason from Citi again. Just a couple more quickly on regulatory change guys. Firstly, I think you mentioned the APS 120, the securitization changes. Did you put out, from January, did you put out a number on the basis point impact of that?

Michael John Hirst
Former MD, CEO & Director

No, we haven't. But we expect that, that will have an overall impact in the order of 60 basis points from a capital perspective. Over time then, that will then amortize as we move from what were historically us taking larger positions in those to more along the lines of that most recent RMBS deal we did.

Wes Nason

Just on liquidity coverage ratio, just a little bit of confusion about or maybe it's just me, but you guys run a different regime for the majors in the past. And now the Central Bank have come out and say they're going to run this facility phase structure and a 30-day rule. Is this going to apply to Bendigo Bank?

Michael John Hirst
Former MD, CEO & Director

Yes, it does.

Wes Nason

So you'll be holding liquid assets and whatever that facility fees, you'll be paying that in line with the Big Bang competitors?

Michael John Hirst
Former MD, CEO & Director

Assuming we can't get enough sovereign assets to fill our liquidity book and I think the consensus is no and we'll...

Wes Nason

I might be pushing that up. Do you have any sense of the impact of actually, I guess, converting under that regime?

Michael John Hirst
Former MD, CEO & Director

Look, it's a bit early to tell but I mean, the impact to us, we expect, will be pretty similar to most banks. One thing that we've -- when we're done the math around the liquidity coverage ratio and we're comfortable that we will be able to meet that going forward.

Wes Nason

So your number, I think your current ratio is still 8%. Does it -- do you foresee that getting higher under this 30-day test or would it...

Michael John Hirst
Former MD, CEO & Director

It's more likely to be a change in mix, both from a funding perspective and also the assets we hold.

Wes Nason

So the actual quantum won't vary materially. It's more about what assets and how you fund them?

Michael John Hirst
Former MD, CEO & Director

That's our current view.

Richard Fennell
Executive of Customer Banking
With no other questions here in Melbourne, I'd like to thank everyone for their attention. And we really look forward to seeing you again soon. Thank you.