Question and Answer

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. I just want to ask on the ROE, it's dropped a fair bit obviously due to the increase in capital. If we look at capital, you look very good on a harmonized basis. But on a -- APRA fully adjusted basis, you're a bit lower than the peers. Just wondering what the expectation is for the ROE. I mean if we -- if that 7.5% moves up to sort of 8% where the other peers are saying that's obviously going to drag a bit further on the ROE, just if you could sort of give us your view as to where CBA's ROE will ultimately end up?

Ian Mark Narev
Former Executive

Well, let me give you a couple of general comments, then David, you can see whether you want to add anything. James, as you know we don't give forecast. So to the extent of what's the numerator going to do, you'll have your own models to predict that. I would emphasize here the point that we've made, though, which is the impact of markets business on the overall profit and that is critical. We're talking about the numerator. Because although we've signaled that there's -- system growth is okay. We've got margin pressure. We're seeing a significant impact on the markets businesses. And your assumptions on matters like CVA, what the ASX is going to do, volumes, et cetera, are becoming more important to determining long-run ROE than they used to be. And I think it's important to see this result in the context of that. In terms of the denominator, look, there are a couple of effects here. A, as David has mentioned, the story is not yet over in terms of the impact of Basel III. And we talked just about -- David mentioned 2 of the aspects, which is APRA still having discussions with all the Australian major banks on operational risk capital, that we're only at stage 1 really of the domestic, strategically important banks and what that's going to mean. And so making a prediction as to what the ultimate capital level is going to be is quite difficult. What we do have a reasonably high degree of confidence on, given our business mix and our execution capability, is our ability to outperform our peers, because the facts that I've talked about are pretty much common across all the major banks in Australia. Where that ends up in terms of the long-run ROE, there's quite a bit of variability in that at the moment.

David Paul Craig
Former Group Executive, Financial Services & CFO

Can I just add to that 1 point, which is I think there's this misunderstanding that all banks are equal. Each bank has to look at, and I'm sure APRA looks at this as well, its composition of where it operates, what sort of business it operates in, what its risk history is and so on. So each bank will have different volatility of capital and therefore will have different capital targets. Not all banks are equal.

Warwick Bryan
Former Investor Relations Contact

Jon Mott?

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. I have a follow-up on that point. And if you do look at the slide, Slide 45, where you've come out with a harmonized target of 9%, if you compare that to some of the comments in NAB bank yesterday, which is their APRA-based target is for Basel III, 8% to 8.25%, which equates to roughly a harmonized of about 10%. All banks aren't created equal, but that's the whole purpose of Basel III harmonize is to try and get around that to take into account risk weights and other factors there. So 2 parts of the question, firstly, are you comfortable having a target for Basel III harmonized core Tier 1 which is roughly 100 basis points lower than one of your domestic peers? And secondly, if you are running at 9.8% currently, which is well above that new target you've just provided, does that imply that the board will now be comfortable increasing the payout ratio on the dividend towards the top of the 70% to 80% dividend payout band going forward?

Ian Mark Narev
Former Executive

So let me again comment first, then David, you can add. Yes, we are comfortable. Why are we comfortable? Number one, I mean APRA's capital level is not the binding constraint on the business. As all of you will be aware at the moment, the binding constraint really on the business is making sure that we're happy on all 5 levels of capital -- ways of looking at capital, of which probably the most significant at the moment is the way -- is the market's expectations of us. APRA, as a prudential regulator, has individual discussions with all of us about our prudential capital ratio. We know ours. We don't know the others. In light of what we know about our own prudential capital ratio, we are very comfortable with where we stand on the APRA target. Now that's subject to the unknowns, which I've talked about particularly on operational risk capital and domestic subs. In terms of the globally harmonized basis, look, it's a very fair question and we've talked about this. We've got a target of 9%. We're sitting at 9.8%. Why? And the answer is because there is still a degree of uncertainty about where this is all going to end up. We've got a capital policy here which we've made quite clear. But they are bits of the moving targets, which we're not entirely sure about yet. And so we just need to be careful, and we're always going to be careful by overweighting at the moment, which is what we are doing relative to that target. The impact on the dividend is always going to need to be talked about at the time. I mean, it's a balance between the desires of the shareholders, which David has talked about. We've made a real effort to understand our expectations for growth and the need to have more capital to support credit risk-weighted assets, the changes in what the Basel III regulations might be, et cetera. So we are going to need to look at the dividends period-by-period. I think the range that David talked about is the range we're committed to, and you can see that the circumstance at the moment, it's appropriate to be bang in the middle of that range, which is at 75%.

Warwick Bryan
Former Investor Relations Contact

Jon, can you just pass back to Andrew Lyons, please?

Andrew Lyons
RBS Strategy

Andrew Lyons, RBS. Just a further question on the ROE, particularly around the denominator. What was particularly evident was the growth in your net assets in the second half was 7%, which is clearly a pretty significant drag on the ROE. And then you compare that to the growth in your Tier 1 regulatory capital at only 3%. Can you perhaps just detail just exactly what nuances was driving the gap between the growth in those 2?

David Paul Craig
Former Group Executive, Financial Services & CFO

Well, I mean, obviously credit quality. It's all to do with mix. I mean, credit quality is improving. So risk-weighted assets are not growing as fast as the others. When you -- you've got to look at -- and I think some analysts have been caught a little bit by surprise by generation second half versus the first half. Of course, you've got to look at the relative size of the dividend, so the final dividend. Under Basel III, dividends are accounted for on a cash basis. So the interim dividend and the final dividend are different. The final dividend is paid in the first half, the interim dividend in the second half. So there's sort of a degree of volatility there. But we're happy to take you through each of the detailed components. And in fact, it's in the PA, if you want to go through it.

Warwick Bryan
Former Investor Relations Contact

Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. A question for you, Ian. Look, a lot of the results today focused on a full Y '12 versus FY '11 comparison. You've used the terms of solid and momentum continuing. But in reality, the new information released today is the second half result. And if you look at second half numbers on the first half, we have 1% drop in revenue growth. We have 1% drop in underlying profit growth. ROE on a cash basis, your basis of 18.1%. So I wanted to reconcile your comments of solid and momentum continuing versus some of those metrics that really in all reality look like momentum slowing.

Ian Mark Narev
Former Executive

Jarrod, I think the response to that is along the themes I've mentioned. So for example, the credit valuation adjustment, I think 2/3 of that was in the second half. That's a really big swing factor on IB&M. The markets businesses all had poorer second halfs. So we're seeing that, the same story as I've told generally coming through, explaining exactly the half-on-half performance. In fact, I think if you look in the profit announcement, you'll see that overall for the group, home lending volumes, particularly for the Retail Bank, picked up a bit in the second half relative to the overall year growth rate at 2% half-on-half, 3% year-on-year. So it is a bit of swings and roundabouts. The other fact that's obviously important here on margin is when you're going to see the effects of the repricing that was done on the standard variable rate, and that the full effect of that obviously isn't in these results because a couple of the movements happened during the period that we're talking about. So I'm definitely not here to tell you that the second half of the year was a gangbuster's return to great revenue. But I think the performance in the second half still shows that the momentum there is in the business. I'm always seeing that relative to the environment, and the environment's remained pretty much as it is.

David Paul Craig
Former Group Executive, Financial Services & CFO

Can I just add to that? Now don't forget, there's 3 fewer working days in the second half to the first. So we always on the net interest income line always have a hit in the second half versus the first. It's just timing of when we report. So I think you've got to bear that in mind as well. And as Ian said, the timing. So clearly, this particular half year was characterized by a fairly prolonged period of cost of funding going up quite dramatically, but that wasn't recouped in home loans till May and June. So most of the impact of the home loan repricing will be in the next financial year. So there's timing differences.

Warwick Bryan
Former Investor Relations Contact

Can you just pass along to Craig, please? Thanks, Jarrod.

Craig Anthony Williams
Citigroup Inc, Research Division

It's Craig Williams from Citi. I suppose along the similar lines to what Jarrod was noting. You've got more capital than you need. Your funding mix is improving, and your cost performance was, I suppose, a question mark coming into this result for people and you've, I think, are going to take [ph] for that. You talked about 3 extra business days in the second half and all that sort of stuff. But reality is your revenue growth has been below your cost growth for 2 years now. So how much confidence can you have in the technology edge that you proclaimed, the customer satisfaction now, which is very competitive, actually converting into revenue growth from here to reverse that situation on jaws?

Ian Mark Narev
Former Executive

We've got a lot of confidence in it. Again, I don't want to sort of harp on about this because you're quite right. One day things like CVA will turnaround and then we'll be talking about it as if it's the most wonderful thing in the world. But let me just give you this as an example because it's a live example.

When you've got a $200 million turnaround on credit valuation adjustment, that is equivalent to 2% expense growth. And you can make a management decision to pursue jaws above everything else and say let's hack the 2% out in order to compensate for the credit valuation adjustment. As long-term stewards of the business, we just think that's a dumb decision. So I think David's made clear for a long period of time, and I certainly agree with it, that we've really got to manage jaws carefully. But what we won't do is try and adjust the expense base short term in order to reflect short-term cyclical markets businesses. That said, I have a view, my management team has a view, that the business of our core banking is changing, that the volumes that we're seeing at the moment are different from the days when the recipe for growing was just open the doors and 12% credit growth will come in. And we need to be prepared to transform the cost base to achieve it, and that's why we've got this long-term view of productivity.

David Paul Craig
Former Group Executive, Financial Services & CFO

Can I just also add, just for the sake of factual accuracy. We haven't had 2 years of negative jaws. They're positive last year. They were flat in the first half of the year, but certainly down in the second half. So you're right. Clearly, we're addressing the jaws and there are timing differences on that and the rest of Ian's points.

Warwick Bryan
Former Investor Relations Contact

Craig, will you mind passing to Ben. And then Ben, after you finished, back to Victor behind you.

Ben Koo
Goldman Sachs JBWere Pty Ltd, Research Division

Ben Koo from Goldman Sachs. Just on Slide 30, I think there was some -- you just showed the PD upgrades, downgrades slide on that. And it looks like there's been net downgrades in the last half. But then Craig -- sorry, David Craig, has also mentioned that you had the credit risk-weighted assets, the improving quality there. So I just wanted to, firstly, marry those items together, about the risk-weighted asset growth not being as much as what the downgrades would suggest. And secondly, can you give us a bit more color around where those downgrades are happening, and any concerns around that or any further pockets of risks or whether it's just still the usual suspects just working their way through?

Ian Mark Narev
Former Executive

I'm going to ask Alden in a minute just to give a bit of an overview of sort of overall credit quality. While he's clearing his throat, the PD ratings migration, which is something we look at very closely, the fact that you've got to bear in mind here is that a downgrade from what we call a D to D1 to a D2, which is a really decent credit, down to a pretty decent credit is captured in this, with equal weighting to something going from performing to nonperforming. And those are obviously very different from the point of view of what's happening with the client and very different from the impact they have on credit risk-weighted assets and provisioning. So this is a number that we look at, but it's a very blunt instrument and it's best seen in the context of all the other things we've talked just in terms of the overall credit quality and the provisioning. But you might want to talk about what's happening on the economy.

Alden Louis Toevs
Former Group Chief Risk Officer

It's more of a nuance, expanding upon what Ian just said. The big drivers of credit risk-weighted assets are the lower pass grade credits. And those have, historically over this last year, been more upgrades than downgrades. So it's the higher-graded credits slipping a little bit that is factored into this ratio, disproportionately influencing this ratio relative to the risk-weighted assets, which have been benefited in the converse direction by the low pass grade credits actually have more upgrades than downgrades.

Ian Mark Narev
Former Executive

Thanks, Alden.

Ben Koo
Goldman Sachs JBWere Pty Ltd, Research Division

[indiscernible]

Alden Louis Toevs
Former Group Chief Risk Officer

There would be things that would be in the BBB category going down, just a little bit of a notch, S&P equivalent. So it's -- sorry?

Ben Koo
Goldman Sachs JBWere Pty Ltd, Research Division

[indiscernible]

Alden Louis Toevs
Former Group Chief Risk Officer

Yes, it's a mix in the industries. So things that we've talked about in the past in terms of retailing and that sort of thing. But importantly, the low-grade credits are more improving than downgrading.

Ian Mark Narev
Former Executive

I think, and the other thing I'd just add overall is the story that we've been talking about for the last couple of years, particularly in respect of businesses that are on the wrong side of the high dollar just remains. And you all know this and a lot of you are writing about it, but the interesting thing we're doing a lot of thinking about at the moment is that as terms of trade have come back a bit, the Aussie dollar hasn't give as much back as it normally would because there's just this fundamental support for the currency because of the strength of the government economically. And so I think that's another factor we're seeing here. The same story we've been telling you probably for the last 2 or 3 years in terms of the patterns in the economy remains.

Warwick Bryan
Former Investor Relations Contact

I'll go to Victor, then across to Richard and then I'll go to the phones.

Victor German
Nomura Securities Co. Ltd., Research Division

Victor German from Nomura. Ian, if I could just draw your attention to the comments that you've made in the outlook statement where you say that current revenue trends are likely to continue, as we just discussed in the second half, revenue was pretty much negative and throughout the year was just slightly up. Consensus currently has about 4% revenue growth for the bank. Are you just being ultraconservative? Or do you think the market is just missing something that you were seeing in terms of tough operating environment out there?

Ian Mark Narev
Former Executive

We're pretty conservative. And I think we -- I'd say our general settings and views are probably on the conservative end of the market. The way we look at things at the moment, we've got the Australian dollar effect which I've just talked about. And two, we can clearly see that in terms of the uncertainty which is impacting the markets business, I don't think anybody here has yet got a better view than they had when we're here 6 months ago, about how Europe works itself out. And I'm not smart enough to be able to see the path by which that's going to be resolved. Our view on that, organizationally, isn't probably we're at the precipice and we're about to see an absolute disaster. But by the same token, we can't see the catalyst for improvement. So we're just working on a sort of base scenario that things are going to keep pretty rocky as they are at the moment, which is okay system growth on credit, continuing pressure on margins because of funding costs and competition and continuing issues with the markets business just because their uncertainty just going to keep flowing through into them. So I'm not saying specifically take a point in time over a 3-month period and extrapolate it. But I'm saying, the broad forces that you're seeing in the business now are going to continue, we think, for the next 6 to 12 months.

Warwick Bryan
Former Investor Relations Contact

Richard?

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. Ian, I've got a question about the institutional bank strategy. During the year, the loans were up more than 15%, and yet the revenue in the pro provision profit fell even if you take out the market's income, which I'm assuming includes that CBA move that you've referred to a number of times today. The revenue growth was 6%. So it significantly lagged the loan growth. I wonder if you could explain why as CEO of a high-return, low-risk bank you're happy with the strategy in the institutional division that appears to be balance sheet-led and looks like it will dilute the group ROE and could well lower the risk profile -- increase the risk profile.

Ian Mark Narev
Former Executive

I'm happy, and look, Ian, you can comment on this if you want to add anything. But I guess, since you asked whether I'm happy as a CEO, I should answer as the CEO. I've got a long-term view of the business, and while I can tell you categorically is that the growth in lending assets has not been accompanied by any change at all in risk appetite. What we have done looking at the Commonwealth Bank group, and I mentioned this, very consistent with what I said in February and at the strategy update as we look at markets like Canada, where you've got Royal Bank of Canada. The other big banks really having significant institutional presence. We have a look at the fact, with the greatest of respect, that a lot of the global banks have had to reduce presence in Australia because Australia is noncore, and that's leaving good people with an -- looking for somewhere Australian to work, and we've got access to good customer base. We've got great technology to drive the transactional banking. And so what we are focusing on is not changing risk appetite to grow gangbusters. It's actually slowly and deliberately building capability to get to a market position which we think is an appropriate one given the scale of the franchise. I mean, we're a $90 billion company. We're in the top 10 banks in the world by market cap, which is a function of the environment. But the fact that we're so underweight institutional banking in our domestic market, which we know well, well, where I know the CEOs. Where Ian knows the CEOs. So it doesn't make sense. So as we're looking for a way to grow, it's obviously a good place to look.

David Paul Craig
Former Group Executive, Financial Services & CFO

Richard, can I just add to that before -- just to sort of get some clarity, too. Spot balances are up 15%, that's correct. But they're up 15% on 30 June last year. If you go back to 30 June the year before, they were down broadly 15%. So average interest earning assets for the 2 years for Institutional Banking & Markets, are pretty much flat. And so the increase in revenue is off stronger performance, and interest margin on -- average interest earning assets being flat. But obviously, this is fantastic momentum for the reasons Ian just talked about coming into the new financial year.

Richard E. Wiles
Morgan Stanley, Research Division

Let's assume for the moment that there is no change in the risk profile. You had a slide that flagged a 40% increase in capital ratios since 2007. We're in an environment where funding is scarce, and in fact funding from the corporate market is expensive. It seems to me that this strategy will dilute the group ROE even if the risk profile of the institutional bank is unchanged.

David Paul Craig
Former Group Executive, Financial Services & CFO

We look at every loan we make on a risk-adjusted capital-weighted basis, and we're making very good money in that area. So we absolutely take into account the regulatory and economic capital associated with those loans, and I can assure you that they're good profitable loans.

Richard E. Wiles
Morgan Stanley, Research Division

Right. The loan -- is a 15% loan growth likely to deliver an ROE that's above the 8.5% that you're delivering at the group level?

Ian Mark Narev
Former Executive

Yes. But the other thing is it's really important to understand we're building a long-term strategy, and you don't build long-term strategies by extrapolating 6 month performance and going out 4 or 5 years. Our base case for some period of time has been that balance sheet lending generally for the corporate clients is going to get less and less and less, which is the whole reason we've built the Total Capital Solutions strategy which is going very well. So to say, "Gosh, it's 15%, have you got an appetite to grow institutional banking at 15% half-on-half for the next 10 years?" Of course, we haven't. This is just a point in time at the market, and we're very happy with how it's going. Do you want to add to that?

Unknown Executive

It's not a lending-led strategy. In fact, of the 4, I'd say we're the least lending-led. Our whole strategy around Total Capital Solutions is being borne out in a whole range of other things. 38 new to bank Transaction Banking clients, 33% growth in markets sales year-on-year, the #1 leading capital markets lead for Australian corporates over the last year again. So very much the engagement with the clients is across the whole capital solution from working capital, lending capital markets, equity-raising Transaction Banking. And if the inference is we're growing volume by reducing margin, that's not the case.

Ian Mark Narev
Former Executive

Or taking more risks.

Warwick Bryan
Former Investor Relations Contact

May go to the phones now. Thanks, Ian. Matt Davison from Merrill Lynch.

Matthew Davison
BofA Merrill Lynch, Research Division

A couple of questions on asset quality. The first relating to new impaired assets in the second half were up about $300 million on the first half. Just interested if you could provide some color on what divisions saw the increase there, given your overall comment about improving asset quality? And the second question related to the chart on Slide 106 around the 30 days home loan arrears. The '08 and '09 cohorts, they look like they're peaking, but it's not entirely clear. So I'm just interested in your views on whether those years have peaked and whether you actually saw any losses on those loans?

Ian Mark Narev
Former Executive

Matthew, we'll just hand over to Alden to answer that question for you.

Alden Louis Toevs

Former Group Chief Risk Officer

Taking the second part first, the '08 financial year, '08, '09 vintages were coming from a fairly rapid growth in origination with no real major credit settings that would drive that. It's just a capability to underwrite those at the time. But we've had some issues in our credit collection department that -- and including as we report this, a fair and full attribution of hardship into the arrears that's not common across the industry. So we have the appearance of higher arrears in those vintages in part because of time and place and in part because of a collections process that got behind on those particular vintages a bit now reversing quite dramatically. You see the quality of the new book being -- performance quite good. We view those as some of our most profitable portfolios because the margins that were booked there. And we would not second-guess the decisions at that time, although we've had to make some adjustments in our credit collections department, but modest and well underway. In terms of the impaired, the impaired story is a relatively benign story. There are still some sectors in the economy that are under stress: retailing, tourism and that sort of thing. But that's the same story as we've had for some time.

Ian Mark Narev
Former Executive

Thanks, Alden.

Warwick Bryan
Former Investor Relations Contact

Mike Wiblin at the back.

Michael Wiblin
Macquarie Research

Mike Wiblin from Macquarie. There was an interesting letter out from APRA on Friday looking at consumer hardship cases and treatment of consumer hardship cases. Can you give us some color just on that, whether CBA includes those hardship cases in 90 days past due and impaired assets, and if not, what the impact might be?

Ian Mark Narev
Former Executive

Yes, we can because we actually think about -- there's a lot when we compare our results with our peers. But Alden, you'd probably want to talk about that.

Alden Louis Toevs
Former Group Chief Risk Officer

We've been actually asking for some consistency in this regard for some time because there is very low consistency in terms of reporting of hardship. We believe that the APRA letter is consistent with our reporting, and we think that the adjustments will be elsewhere as opposed to ourselves.

Warwick Bryan
Former Investor Relations Contact

Chris Williams. Down here. And then I'll come up to Scott at the back after.

Chris Williams
UBS Investment Bank, Research Division

Chris Williams from UBS. I've got a question on Slide 41 and at the risk of picking on the second half like an unwanted stepchild. Your 12-month disclosures there, the buckets that I'm particularly focusing on here are the customer deposits, term funding, the liquidity and the lending. And if we look at the first half/second half splits, in the first half, you did $21 billion of that $30 billion of customer deposits, so only $9 billion in the second half. You did $7 billion of wholesale funding in the first half and $22 billion in the second half, which is obviously explainable by market conditions. Your liquid assets went up $16 billion. Of that $16 billion in the first half and 0 in the second half. And your lending was roughly equivalent to $13 billion, first half; $12 billion, second half. So my question about that really is in 3 parts. Firstly, the deposit growth subsystem are not fully funding lending. Can you talk to the rate environment and whether that's a satisfactory outcome in your view? Secondly, that leads into a question about the mix of funding, with the net stable funding ratio as a backdrop. And the third question is around liquidity balances in the context of the ongoing global volatility uncertainty.

Ian Mark Narev
Former Executive

So let me take those and then David and, if possible, if she wants too, Lyn can add to this as well. Look, as I said before, we've talked a lot for a number of years about wholesale funding. But I mean, I'm not telling you anything you don't know by saying that the competitive environment for deposits is critical. For us, there are clearly 2 factors you balance when you're looking at the trade-off you want between margin and volume and deposits: Number one, is the cost of the deposit relative to the next best substitute of funding, subject to number two, which is making sure you have a base level of deposits as a percentage of total funding that you're happy with, and we do. So we've gone from 61% to 62% in terms of deposit funded. There's no magic in that number, but there's clearly an upward trajectory there, which signals our intent. We're very comfortable with that. We're very careful though, particularly as the largest stock of deposits in Australia not to chase all sorts of deposits at any cost. And so what you will find during the year in our core banking platform has enabled us to do this a lot better, is that in any given day, week, month or period, we might choose to make different decisions on that balance of deposits versus other sources of funding than in others. But you can see overall what the trajectory is. I think that's the important thing to look towards. In terms of the liquids, we had this discussion. I think we were at $134 billion in February, and we were saying we're not quite sure what the environment is like. Now we're at $135 billion. We're still in the environment that we're in. There are aspects of net stable funding ratio in terms of what you were talking about with deposits, the overall level and classification of liquids which are still the subject of debate with APRA. And that's -- that uncertainty is another thing we need to take into account. So we feel pretty good about where the liquids stand as well as a balance between what we need to reflect the current environment and also the fact that we're obviously all needing to build towards an end state, which is not yet completely defined.

David Paul Craig
Former Group Executive, Financial Services & CFO

Can I just sort of perhaps add to that. Firstly, I think I can see why a number of our peers are trying to move away from quarterly reporting and a little on maybe half yearly reporting because at the end of the day, there are 2 aspects: Firstly, we have a clear long-term strategy, which is to make profit and to be safe. And that manifest itself in the short-term, in the very short-term obviously, in lots of different ways. So the market is moving very quickly on competition, on pricing and deposits, on availability of funding in the long-term markets. So we will always move -- say on the long-term end market side to raise money when it's cheapest and most available, and there's a timing thing there. On deposits, we'll react, as Ian said, every day of the week to what the competition is. But we're not interested in losing money on deposits, and that sometimes during the period, there has been very uneconomic pricing. On mix and timing of funding though, we have very consistent settings around our balance sheet. So you may look at flow, but when you look at the balance sheet itself, it's been heading in the one direction very safe. And the liquid balances move according to what's happening in Europe and how we feel about things. That's, again, an ongoing management decision. But again, on net stable funding ratio and those sort of things, we're very comfortable with the direction we're heading when we -- although there's still some uncertainty about final definitions. But remember, 2018 for that one, we're very comfortable about the path that we're heading. I don't know if you want...

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

[indiscernible].

Warwick Bryan
Former Investor Relations Contact

Scott Manning, then I'll go back to the phones. Scott?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. Just on the days, I think there was a leap year this year. So I think it might only be a 2-day difference, not a 1-day difference. So on my calculations, you actually got a net interest income boost, but you didn't pay everyone an extra day. Two questions. Firstly, just on the ROE, do you consider a line in the sand for the ROE in terms of capital generation and fulfilling dividend requirements to the shareholders? And you look at that in absolute or relative terms, i.e. 15% or hey, we're at 13% but everyone else is still 10%, we're still pretty happy. Or secondly, on the branches, if you're talking about a 5% housing credit growth going forward, is that enough approvals coming through the system with broker approvals and pushed on line and all these tech investment to sustain the branch footprint that you currently have longer-term?

Ian Mark Narev
Former Executive

Okay. So let me take those 2 questions. First of all, on the branch footprint. So this is a really an important long-term question. We've got a competitive advantage, not only in our branch footprint, but in the quality of the interactions we are providing in the branches. What we will say though is that the branches, in terms of how they deal with customers, are undergoing a fundamental transformation. And you can see in the materials, I think there's a page later on -- yes, Page 80 which just shows you the use of electronic channels, et cetera. This is a structural change in the market, and we absolutely are going to be adapting to it. So what I can tell you is that the format of the branches is going to look very different over time than how it looks today. They're going to be more geared towards interactions with customers who choose face-to-face interaction, which we believe will still happen, and less geared towards the transactions which can happen remotely. What that means in terms of overall footprint numbers are we're just going to need to see at the time. We don't have a point-to-point view it's going to be X numbers of points of presence. We just know they're going to look different and feel quite different. And with the branch refurbishment program, which has us on shorter-term leases than we're used to. We've got more flexibility than we had to do that. In terms of your question about the ROE, look, we don't have a line in the sand or a number above which or below which we won't go. The way we do look at it is under a number of different scenarios relating to our expectations of the profit generation, what we want to pay out in dividend, what the capital requirements are going to be and we balance that. It's probably fair to say we have more of a relative look at that than we have an absolute look at that, but both of them are important. And I think I said when we got asked this question 6 months ago. Look -- and the ROE for that period was 19.5%. I said, look, I can see scenarios where it's over 20%, and I can see scenarios where it's down at 17%. And it all depends on what you believe in terms of the numerator in the capital requirements, and that's something which we need to be prepared to manage a bit more dynamically than perhaps we used to have to.

Warwick Bryan
Former Investor Relations Contact

Thanks. I may go to the phones now. George Gabriel from Evans and Partners in Melbourne. George?

George Gabriel

My question is in relation to repricing of your assets book. So we've seen NAB increase its SCA out of cycle by more than peers in May and June of this year, and we've recently seen them increase their liquidity margin on business loans by 20 basis points. So given NAB has been the sector's price leader in recent years, are you now contemplating systematic group pricing of your business banking book to help mitigate your NIM decline?

Ian Mark Narev
Former Executive

I think you'll understand the reasons why I can't answer that question. But I can just tell you that we've got more than one competitor and we look at all of them, and we make our pricing decisions very dynamically. We certainly are not driven on any product or part of the business by the moves of one competitor.

David Paul Craig
Former Group Executive, Financial Services & CFO

But nor do we have any intention ever of cross subsidizing one part of the book with another.

Warwick Bryan
Former Investor Relations Contact

Okay. One more question on the phone, then I'll come back into the room. Brian Johnson from CLSA.

Brian D. Johnson
CLSA Limited, Research Division

Ian, before you slash your wrist because everyone's saying it's shocking, I have 2 questions. The first one is, is the summary of this result basically that you've had a missed timing between repricing the various loan books and basically the cost of funds continuing to rise, which will probably reverse in the next quarter?

Ian Mark Narev
Former Executive

Number one, although thank you for your concern about my welfare. I'm not feeling in the slightest bit defensive about the result, that's number one. Yes, look, that is -- I think that plus the fact of the market's impact that I've talked about are very much part of the revenue story, yes.

Brian D. Johnson
CLSA Limited, Research Division

Okay. Now for the nasty question, Ian, can I get you to just flick up Slide 117. The 7.5% APRA core equity Tier 1 ratio, does that basically include whatever they're going to do on the financial conglomerates, which I believe now comes in January '14?

Ian Mark Narev
Former Executive

Are you talking about...

David Paul Craig
Former Group Executive, Financial Services & CFO

No, it doesn't.

Ian Mark Narev
Former Executive

The domestic services?

David Paul Craig
Former Group Executive, Financial Services & CFO

No, it doesn't. But it...

Unknown Executive

No.

David Paul Craig
Former Group Executive, Financial Services & CFO

It won't affect core Tier 1 banking ratios. It's a separate ratio.

Brian D. Johnson
CLSA Limited, Research Division

Is that basically, David, implying that it's going to come out of the Pillar 2 adjustment but we'll never see it?

David Paul Craig
Former Group Executive, Financial Services & CFO

I'll hand over to Lyn.

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

Brian, I think it's fair to say APRA is still working through that. I mean, the whole Level 3 capital rules are all about having a transferable surplus amount. So even at this point of time, it's not even a percentage-based capital ratio in the way that we're used to seeing. So no, we can't really comment on its impact under Basel III common equity Tier 1 or Basel II common equity Tier 1 level yet. It's still in the works. And we'll find that, I think, about the middle of next year.

Warwick Bryan
Former Investor Relations Contact

Brett Le Mesurier. Over, across on the right there, please.

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

It's Brett Le Mesurier at BBY. David, I have a question following up on a few things that you said so far today. The expense growth was 3% in the past year. We've got some pluses and minuses going forward, so maybe 3% is the right sort of number to think about going forward. You've also indicated that the cost of income ratio is likely to fall in the 2013 financial year. So income growth has to be, in your mind, somewhere around the 4% given that credit growth is likely to be 5%, maybe 6% if we get really lucky. So you're managing towards an in decline of about 5 points is what it sounds like. So what I'm really getting to is, what gives you confidence that NIM would only fall by that sort of number given that the funding cost impact is really quite significant, you're relying on ongoing loan repricing?

David Paul Craig
Former Group Executive, Financial Services & CFO

Look, Brett, I can't really comment on your model. Those -- all of those numbers are your numbers. I haven't given any numbers at all and nor am I going to.

Ian Mark Narev
Former Executive

Brett, the other thing I'd say on this, and you yourself said it in a note this morning, and I think you are right. You can't look at this business given its breadth just by taking system growth times market share times margin because there are a whole lot of markets businesses involved as well. And it's really owing -- you made the point in your note that what we're seeing now is the volatility -- the slower growth in business in the core bank means it doesn't hide the volatility of the markets business as much, which I totally agree with. But the reality is you only need to change a couple of assumptions on the markets businesses to make that picture you've outlined look entirely different.

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

Can I move on to something else? That didn't seem to work. No one's asked about the life insurance business. That was a very large and adverse experience variation. There was commentary about adverse claims experience and lapses, but the number was so large. I was hoping we can get some more detail as to what was going on there, in particular the claims experience. Is that about disability, or was something else going on there, and interest rates have an impact on it?

Ian Mark Narev
Former Executive

I'll let Annabel answer that.

Annabel Fitzgerald Spring
Former Group Executive of Wealth Management

If you look at the life business, the life insurance business as a whole, we're actually really pleased with the performance. So all insurance lines have performed well. We've got -- we're looking at net inforce premium growth of 20%. Now we are looking at 11% on insurance income, and I think we are seeing claims performance in line with the industry. And also, lapse performance has been challenging, and that has been an industry-wide phenomenon. And if you look recently at the moves by FSC on managing the lapse, I think you'll understand that industry-wide phenomenon because the FSC is looking to manage the lapse ratios across the industry in those lapse experiences. So I think you're right on that.

Warwick Bryan
Former Investor Relations Contact

If there are no more questions -- no more questions? We might call it a day. So thanks, everyone.

Ian Mark Narev
Former Executive

Thank you very much.

David Paul Craig
Former Group Executive, Financial Services & CFO
Thank you.