Question and Answer

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Too hard a question, then?

Michael Wiblin
Macquarie Research

It's Mike Wiblin from Macquarie. Just a question on strategic focus. You seemed to have a lot going on. You've obviously got -- you brought some good people in. You have got Agri, Virgin, Investec. You're focusing on the brokering channel as well. You've got multiple projects going on at the moment. So double-barreled question. Is there too much change going on in BOQ at the moment? And are you satisfied that you're not going to drop any of those balls? And from another perspective, do you think you've completely plugged all the strategic gaps now? Or do you think there's other things you want to focus on as well?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Look, it's a good question. It's one we debate quite a lot at the executive team as to whether we are actually doing too much. One of the things we're putting forth is a very rigorous process of evaluation, where we match resources and capability to outcomes. The results that we have just released, I mean, we've been doing this for 18 months, so this is not something we're just starting now. So we're starting to see the benefits of those projects. And just so you know, we actually do stop doing a lot of stuff as well, so we don't say yes to everything. And I think most of my job is actually about saying no more than saying yes. And we have a very strong project offers, which maps how everything is running. It's a great challenge in running an institution like this because there is so much opportunity. And when you said, "Is there more to come?" We feel that the longer we go with this business, the more we can get out of the business, and we still think we're very early stages of that.

Michael Wiblin
Macquarie Research

I just had just one quick follow-up question. Just in terms of the interstate expansion, Agri, commercial, real estate business expansion, I think it would send a shudder down anybody's spine who was covering the sector between 2008 and 2010.

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Might want to go back a bit further than that.

Michael Wiblin
Macquarie Research

That's right. Can you just give us a guarantee that you're not moving down the risk curve there, particularly in the mid-market commercial real estate space, which is very, very hot?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Yes, look, we're very selective in what we're doing. We're not rapidly expanding the balance sheet, as you'll see through the numbers. I mean, the corporate portfolio is about $5 million all up, and about half of that is really the top end of that market, so a lot of it is still quite small. Look, I guarantee, if you asked a number of the major banks in the '80s whether they could give a guarantee, 12 months is a long time depending on the market. But we have set the right risk parameters around it in terms of presales on developments, equity in. I mean, one of the characteristics we're starting to see now is debt's more than equity, and we're still running equity in. So we've got a good risk process under Peter Deans and we're pretty comfortable where the portfolio sits.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Just 2 quick questions, one going all the way back to the start. You sort of mentioned that there's some pretty aggressive pricing out there across a lot of segments, housing being one, business being other. And that you don't have to get involved in a lot of the silly pricing that's going on out there. From your perspective, it might be silly, but from a major bank whose hauling 15% risk weighting against these books, it's still a very attractive ROE that they're getting. So given that disadvantage, and I know you've got the inquiry coming through and we'll see what that merit comes up with it. But can you hold out or is this just a situation where, yes, the major banks who are getting great ROE is going to continue to compete, and you just have to live with that?

And a follow-up question, and I would have loved to have asked this question 2 years ago, specific provisions to impaired at over 50%, it looks pretty generous, I will have to say, given asset price inflation is now coming back in. Are you now comfortable, maybe you've got too many provisions? And I would have loved to say that 2 years ago.

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

No, [indiscernible] two years is a long time, isn't it? Look, I do say the pricing was silly. It's not competitive for us. And if the regulatory arbitrage continues, it's still attractive for major banks to win 40% return on equities out of the mortgage product. The issue for us is that we don't necessarily compete on price. So when Brendan's growing his business book, it's as much about the customer interaction that we have in that space. And the advantage we have is we don't have a big book, so we can actually grow reasonably well without having this massive requirement to keep fueling the engine. So we will continue to compete. And it was only 2 or 3 years ago when you would say, mortgage competition was quite rational. And within a couple of years, we've actually changed, so it is quite cyclical. And you've got to figure out when you want to go hard and when you want to just keep your pace going at the moment with mortgages. It's pretty expensive for us, so we'll keep doing -- servicing our customers, but we won't have an aggressive push into that space. But we feel, from what we've seen in the brokers, the opening new channels brings flow with it at reasonable price, so that works pretty well.

On terms of the specifics, it's good to have good coverage. I think I'd much rather be on that side of it than where we have been in the past. And we can still have that discussion in the next 6 months, but now, we've got a strong balance sheet, and that's the way it's staying.

Andrew Triggs
Deutsche Bank AG, Research Division

Andrew Triggs calling -- from Deutsche Bank. Just a couple of questions and one following on from Jon's question on your management targets. Firstly, around the retail asset growth. Does that 1.2x FY '15 target essentially achievement, I guess, a relaxation of that aggressive competition? And the second question relates to the NIM target. With a 180 basis point exit margin and a low to mid-160s target, what's the thinking there in not changing that target?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Other than NIM, we set this in 2013, and at that stage, we were thinking the margins were probably going to go south, south at 160. It was a 3-year targets, so we actually don't -- they're just internal targets we've set at that time. We might reset them at the end of 2015, but we don't set them on a yearly basis. So when we come out of that at '15, we'll have a relook at it. But I don't think there's anything wrong with actually achieving through a target, and we're pretty comfortable where we sit with them all.

On the retail one, look, if we're hell bent on getting to a 1.2x system in expense of profit, then we'll put a tick on it, but that's not the way we want to operate it. Speaking with Matt Baxby, we think with the broker channels opening up, the benefits we can get out of the corporate branch network and the mobile lenders, we still feel that, that can be achievable just because the new channels will open flow.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

It's Andrew Lyons from Goldman Sachs. Just a question on your capital. You reported pro forma capital ratios, looked very solid comparable to the majors who are, obviously, subject to a 1% decib [ph]. Despite this, you're still discounting your DRP. Just in light of that, can you just help us to understand how you're thinking about, I guess, it's sustainable or your target capital ratios?

Anthony Rose
Interim CEO & COO

Let me take that?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Yes.

Anthony Rose
Interim CEO & COO

So look, I think we had called out in the past that we're a fully domestic institution, 100% domestic taxpayer, generating a lot of franking credits. So yes, we could look to reduce impact of the DRP. The reality is the DRP as it's structured today is an element of recirculation of capital, which does mean we can pay higher absolute levels of dividend out. And we think that's generating and releasing a much higher level of franking credits to our shareholders than otherwise would be the case if we took the other path. That's simply the strategy.

Nicole Mehalski
BofA Merrill Lynch, Research Division

Nicole Mehalski from Merrill Lynch. Just going back to the mortgage volumes, you talked about opening up new channels. I'm wanting some comfort around how comfortable those channels are selling your product and your process? If you talked a little bit about the branch network having a few processing issues? I'm just looking for reassurance that there's not any issues there and anything that could sort of impact you in terms of your reputational damage and gaining further growth?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Yes, we've actually in the process -- we've put a streamline process in, particularly for the brokers, where we're putting more people behind rather than just at the front. So the processing has -- you can't just go out and sell without actually supplementing the back with people. So we're managing that pretty well. The experience we've had with the broker network as having a new brand into a new franchise, actually works pretty well. There's bit of a traction in that as well. So we're getting scale when we haven't -- we're averaging 4 products, 4 or 5 products per customer as we run through the management of the broker introductions. So we're pretty comfortable on both fronts that we're processing well and originating well. It's still quite heavily manually based, which is why we have to put people behind, but the turnaround times are quite consistent with what we've explained to the network.

Anthony Rose
Interim CEO & COO

I mean, there are other aggregators, obviously, that we could look to distribute through. We have expanded beyond AFG now. But we're going to be very, very measured in the way we do that to purely make sure that we continue to deliver the top service levels for that channel that, that would expect.

Clearly, the investment in what we're building in the infrastructure is going to create step change for that team. But we've got what we've got at the moment, so we have to manage that quite carefully.

Anthony Hoo
Nomura Securities Co. Ltd., Research Division

It's Anthony Hoo at Nomura. Just a couple of questions on returns. Firstly, you've achieved your target of 13% ROTE. Are you willing to set or disclose a higher target? And secondly, around -- you've outlined a target of 20% for mortgage-closing brokers. Can you talk to us about how you formulated that, given that, on our estimates, it looks like broker flows have returned, that they could be up to 40% lower than the proprietary channels? So just wondering how you set it at the same time, given that there appears to be other low-hanging fruit, like you talked about corporate bank, corporate branch productivity, et cetera?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

And the broker channel were actually pretty well remunerated the same as owner-manager channel, so there is no price conflict there as well, so returns are actually very much the same. So as a channel, it returns the same as our owner-manager channel. So if in -- if you look at the market, 45% to 46% of all mortgage is originating through that channel, so it doesn't make any sense for us to be outside of that. So with -- one, we're comfortable that we aren't going to change ROTE; and two, that the broker channel is actually a valuable one for us going forward. The -- Brian?

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Congratulations on a great result. I had a question for Anthony and then one for Stuart, if I may. But Anthony, you've spoken about the change in the liquidity reform coming through. What I'd be interested in is does the committed liquidity facility fee have an impact on the NIM when it comes through, and if you could quantify that in basis points? But also can you clarify how much of the committed liquidity facility you'd be using? And what is the forward plan on proving to APRA that you're going to reduce its usage?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

My question or Anthony's?

Brian D. Johnson
CLSA Limited, Research Division

That's Anthony's. I've got a better one for you,, Stuart.

Anthony Rose
Interim CEO & COO

There's a number of questions in there, Brian. Look, it's fair to say that the whole industry is still in evolution, and we've got probably reasonable clarity now as to how the world's going to operate. One of the aspects that's clearly driving the biggest change is 30-day notice accounts. We suspect that the industry will move very quickly there in the middle market treasury space, and that's pretty universal and we're prepared and there already.

In the retail space, one of the issues has been how much of that book does transition into 30-day notice. Clearly, APRA wants to shift liquidity risk outside of the banking system and put it in the hands of depositors more broadly and provide 30 days of time to rectify any dislocation. At the moment, the expectation, I think, is going to be that the industry needs to assume that, because we don't have an asset order yet on the retail solution, we've got to assume that none of that is 30 days. And I think progressively through the course of next year, we'll all be pushing to shift as much of those as we can. A lot of that's going to be industry dependent and to see how that plays out, but I think we're pretty well progressed.

Brian D. Johnson
CLSA Limited, Research Division

And Anthony, can you quantify a NIM impact? Because you must know what your CLF usage is going to be.

Anthony Rose
Interim CEO & COO

Yes. Look, it is only a -- it's a 15-basis-point fee. You got a lot of moving parts in your margin. You've also got a change in the composition of your liquid asset portfolio that we're undertaking as part of that broader strategy. We think we've probably come from a less sophisticated liquid asset management profile than where we're moving to, and moving to that greatest degree of sophistication is likely to generate some protection against the overall fee. It's not significant in basis points terms when you drive through the other changes that we've got as a consequence of the broader, I guess, routine changes.

Brian D. Johnson
CLSA Limited, Research Division

Stuart, congratulations for showing some restraint in lending. Never a pleasant thing when you got to do it because that actually costs money upfront. But I'd just be interested in the interplay between basically buying assets sort of multiple of book, paying goodwill, which we all ignore about -- which we all ignore, and yet trading at a fee premium to book, which means you can issue shares basically on the P/E arbitrage. As your share price continues to rise in the P/E to book -- the price to book continues to expand, does that, in fact, increase your capacity to pay goodwill for acquisitions? If your share price was lower, you wouldn't be able to do this deal, would you?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Look, if it makes sense strategically, it's a good deal. I mean this is -- because strategically, this makes a lot of sense on many footings, which we'll come to. And that's the most important thing to start with, rather than whether you're trading to pay premium or not. If it makes strategically, then you can start working it as to how it works with your business and what growth potential we see out of it. But we don't actually start at the finance, we start at the strategy and how it fits, then work our way through it so.

Anthony Rose
Interim CEO & COO

Yes. Probably a question better addressed in the second half of the presentation in [indiscernible]

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

No, it's just a -- it's an acquisition overview of how you look the board. It's got to fit strategically or else it doesn't make sense. And also, the whole passion and culture is very important, too.

Karyn Munsie
Former Group Executive of Corporate Affairs, Investor Relations & Government Relations

Thank you. Question?

Victor German
Nomura Securities Co. Ltd., Research Division

It's Victor German from Nomura. I just wanted to follow up on earlier couple of questions on balance sheet. If I look on Page 26, where you provide a target channel mix and we take your earlier comments about competition on mortgage space and profitability in mortgage space more broadly, given majors are making what they're making in mortgages, it doesn't look like returns will come down in that space from a margin point of view. Assuming you're not going to get capital arbitrage wallet, if we take that assumption, does -- how do you want us to read this chart? Because you got your OMB channel going from 85% to 60%. Does that sort of imply that you want to grow that below system because it's not as high returning as your proprietary channel? And you really need to maximize your proprietary channel growth in order to deliver better returns in your mortgage book?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

We don't work tap on, tap off with the Order-Manager network. We actually want them to originate as much as they can. What we also need to recognize is that, not every customer that wants to bank with us wants to walk into a branch. And so what we are making ourselves is more accessible to as many people as possible. And it's, to a degree, using a broker and digital as a semi-outsource of distribution to a wider area that we can get to. So weeks, as our 2015 target indicates, we want to grow at 1.2x, just to grow above it. The economics of those channels will determine which one grows quicker than the other. But we, still, are very supportive of the owner-manager network and want their -- they still have core distribution focus and we're just expanding the horizon.

Victor German
Nomura Securities Co. Ltd., Research Division

But with the current -- at current margins, would you delivering better return than your target for the group? So assuming margins in mortgages are where they are and capital position doesn't change or your risk weightings, do you actually make incremental return relative to your target on mortgages through OMB?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director
Yes. I mean, we actually -- a mortgage is a core product for a customer, so it's not just one product. It's what else you can get the customer to bank with you as well. And the customer profile is the one that's most important because, as you know, the more products you get with the customer, the sticky the customer is. Is it as lucrative as a Business Banking customer where we'll get 5 products out from them, including capital markets? Probably not, but it's still a good-returning business for us with the right customer.