Question and Answer

Travis Crouch

Thanks, Mike. Thanks, Richard. Before we go to the phones, we might have to see if there's any questions here in our Docklands office. If you could introduce yourself when you ask a question. Thank you.

Ian Rogers

Ian Rogers from Banking Day. So Mike, could you first talk about the significance of the agricultural trade sanctions being imposed by Russia for the rural bank? And secondly, going back to the FSI, the big banks seem to be accepting that they will have to reach a higher minimum capital ratio. Do you think any of that will flow through to Bendigo?

Michael John Hirst
Former MD, CEO & Director

Okay. So on the first one in respect to the Russian trade sanctions, we haven't been through our customer base to see who exports to Russia or -- and who doesn't. But I'd note that the agricultural minister, the other day, said that the amount of trade going to Russia is 0.4 -- 0.04%, I think, of all trades, so it's not a significant impact, and I wouldn't expect it to be a significant impact on our customers. The reality is that, especially for beef, there's been an increased demand of export over the year to the extent that there is some concern about whether or not the breeding herd will be able to meet future demand for exports. But I think the expansion of markets for Australia both through more going to existing markets, such as China or in the Middle East, will be able to pick up the slack on most of the ban from Russia. In respect of the additional capital, we'll wait to see how that plays out, although I think the majors were already aware that they will catch it under the D-SIB, and that would require more capital to be applied. So whether or not there is more over and above that, who knows. I'm unaware whether or not we'll be considered to be a D-SIB. I'd be surprised if we were, but I've been surprised before. Is it likely we'll be required to hold more capital? It might be. But the question for us is whether or not it will be more capital relative to what we hold against the majors today. And I don't think we'll end up in a position where we'll have to hold more capital relative to the majors. Certainly, the Inquiry would suggest that it will go the other way.

Travis Crouch

Do we have any more questions here? No. We'll now go to the phones. Thanks.

Operator

[Operator Instructions] Your first question comes from the line of Anthony Hoo from Nomura.

Anthony Hoo
Nomura Securities Co. Ltd., Research Division

I have a couple of questions on your margins. Firstly, if I -- just in reference to the slide that you have, on Slide 16, it looks like in the last quarter of the year, the impact or the monthly NIM was down by around about 10 basis points. Can you talk about how much of that was driven by the liquidity buildup? Can you give us -- are you able to quantify that impact? And secondly, just looking forward -- or looking into the first half '15, besides this liquidity buildup, you've implied -- Richard, you've implied that this should unwind. Are there any other drivers that we should be aware of?

Richard Fennell
Executive of Customer Banking

Okay. Thanks, Anthony. The drop off in May and June, I haven't got to hand exact split of how much of that was due to that liquidity impact, but I'll just explain the process we went through because we're obviously in a position where we need to raise a reasonably significant amount of funding reasonably quickly, and that was to increase our term deposit specials in the middle market space and also of the wealth advised deposit space. And so not only were we carrying excess liquidity, but that liquidity we were raising was at a higher price than the back book. Obviously, that was our TD -- that were TD specials, so that will play out for a little bit of time. But the actual liquidity overhang where we were sitting for May and June with liquidity well in excess of 14% were now back down to around 12% as we sit here today, as we've put the majority of that to work. The drivers looking forward, as we've seen the greater and greater proportion of borrowers opting for fixed rate loans, that is a drag. But the additional thing we've seen just very recently is even further price competition in that space and I think well publicized a number of banks getting out there with 5-year fixed rate loan offers of some 5%. Now we haven't matched those prices, but we do need to remain competitive in that space. And I think those sorts of offers also will encourage more people to look towards the fixed rate lending space. What we have seen on the other side of the balance sheet, though, is some continued easing in price competition in the term deposit space. So we will continue to be active in how we set our term deposit prices to make sure that we balance our need for our funding and liquidity and the need to provide a competitive proposition from a price perspective but manage our margin. And we'd do that literally on a week-to-week basis through our pricing committee. So that's really the key drivers. We'll -- we don't expect that we'll need to be building up our liquidity again, so we'll just see how that plays out.

Anthony Hoo
Nomura Securities Co. Ltd., Research Division

But should we -- on an underlying basis, should we read that chart as even excluding the liquidity buildup, it is still a negative trend?

Richard Fennell
Executive of Customer Banking

Look, there's no doubt we were starting to see from March a slight drop-off in our margin relating to those fixed rate -- or the margin we were generating on the asset side with those fixed rate mortgages. And it had been by around March, April, the benefit of earlier reductions in term deposits have completely washed through by then. So look, I'm not sure I can give you too much more insight unless you give me your spreadsheet.

Operator

Your next question comes from the line of Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

In the full year '14, about half of the profit growth was driven by the Homesafe contribution. And then you've obviously flagged the increased asset competition and the impact on margins. Mike, I just wonder, what do you think will be the key drivers of profit growth and EPS growth in 2015?

Michael John Hirst
Former MD, CEO & Director

Yes, look, I think the Homesafe in the second half was only slightly above the Homesafe in the first half, to be fair. The opportunity for further increases of that size, I think, would be muted, but we'll wait to see how that turns out. The opportunities for us going forward continue to be growth in the balance sheet. The pickup of the Rural Finance business gives us a meaningful place in that agribusiness in a market where we have got a lot more demand yet to be met, especially by virtue, of our branch -- Bendigo Bank branch network, the expense side, I think, can also -- will also start to show some benefit as we've been through the major piece of that Advanced Accreditation investment. And my expectation is that the margin will certainly continue to benefit from lower deposit pricing and as we start to see that come through. So yes, the Homesafe piece is impacted favorably this year, but I don't have major concerns for a lack of growth in profitability going forward.

Richard E. Wiles
Morgan Stanley, Research Division

Just as a follow-up, a couple of things here, Mike. Homesafe has gone from sort of $2.5 million of revenue 2 years ago to $25 million last year to $50 million in the 2014 year. You just said that it might be difficult to grow it. It would almost seem that without another year of very strong house price growth. It would be very hard to sustain anything near that $50 million.

Michael John Hirst
Former MD, CEO & Director

Yes, there's been growth in the portfolio as well though, Richard.

Richard Fennell
Executive of Customer Banking

Richard, even without any increase in residential real estate properties, their property prices, we would expect a contribution in the order of $13 million to $15 million. Now even if real estate prices, they'd only grow at somewhere around inflation, there'd, obviously, be additional value on, on top of that, given the value of that portfolio now is up towards $400 million. So look, if you put those together and that -- if we're talking 3%, roughly, inflation, then you've got probably around $30 million of contribution. Yes, it's not as strong as the $50 million we've had this year, but it depends whether you think those property prices in Sydney and Melbourne will only grow up 3%. We are aware this brings volatility. And the year -- you talked about a couple of years ago. It was a year when we saw a significant pullback in property prices in Melbourne. Sydney, despite its strong growth in the last 12 to 18 months, that follows a long period of recently benign movement in property prices in Sydney and arguably a period of catch-up over the last 18 months. So we see how that plays out. We're certainly not counting on another $50 million a year, but at the same time, we are expecting some contribution.

Operator

Your next question comes from the line of Andrew Triggs from Deutsche Bank.

Andrew Triggs
Deutsche Bank AG, Research Division

A couple of questions for me. Firstly, on the expense line. Just interested, there was step-up, obviously, in advertising promotion costs, just whether that's sort of a new normal level. Also, when you expect the Basel Accreditation capitalized balance to start flowing through the expense line and, just in that context, how you sort of think you'll achieve that good JAWS management, as you call out. And just following on also from the margin, just on the retail funding mix, obviously, you said you'll continue to look at both RMBS issuance and term issuance. I know there's some pretty recent RMBS issuance done at pretty tight spreads. Just interested in whether you think you'd look to push a bit more hard into that space, obviously, if given the capital efficient way how you could grow there.

Richard Fennell
Executive of Customer Banking

Thanks, Andrew. On the marketing side, rather than rebasing at the second half level, I think what you see in our full year results of advertising promotion of costs in that sort of low $30 million range, $32-ish million, which is reasonably flat year-on-year. We'd like to think we can hopefully keep it around that sort of level, maybe at most sort of CPI increase, but not rebasing on the second half of 18 [ph]. The Basel II causes a number of moving parts there. Yes, the amortization of those capitalized expenses will start to hit this half year to some extent but probably more fully in the second half year of the 2015 financial year. Offsetting that to some extent is the -- not all of the costs we're incurring at the moment are being capitalized. Some of those are being expensed. So we will be winding down the program at work over this year. And as that winds down, we expect some of those expenses will fall away as well. So look, it is a headwind, and it's a challenge for us. The reality is we know it's the right thing to do for the strength of our business. And from a long-term perspective, the challenge for us is to keep growing the top line faster than that expense growth. In relation to RMBS, there have been certainly some very attractive pricing in that market in the last few months. Look, we generally are out there with roughly one deal per half. I don't think we'll look to try and ramp that up particularly. The -- as we've moved back in the wholesale funding markets, we recognize the importance of not just being out there very infrequently. We need to be out there reasonably regularly in those wholesale term debt markets to make sure that we do get the ongoing support of investors there. So there has been a natural increase in the proportion of our wholesale funding going into term debt rather than RMBS, but I'd like to think we wouldn't see too much more runoff proportionally in the RMBS balance on our balance sheet.

Andrew Triggs
Deutsche Bank AG, Research Division

Richard, just following up on your comments on the Advanced project there, I mean, the tendency for a lot of banks is to neglect other spend, while you're focusing on that project. And then once the project finishes, you actually need to -- the overall level of spend actually doesn't decline by as much as you think, given you start to look at other areas of the business. Is there any risks there that, that happens?

Richard Fennell
Executive of Customer Banking

Look, that's a really good question. We've continued to invest across a number of parts of our business. Whilst this has been in parallel, what we have done with this is really look at it somewhat as a separate strategic initiative. So Mike talked about some of the technology investment. Saw the outcomes of some of the technology investments we've made. We're also investing heavily in a new lending platform. We continue to invest in our customer relationship management system. So look, there -- I guess there will be some discussion as this winds down, whether we have additional capacity to invest in some other programs at work because -- I mean, I can assure you there's no lack of demand for a change in the projects and initiatives within the bank. But that will be up to us to make that decision, given what we see on both the revenue side and how our costs are tracking to make sure we control that -- the return for our stakeholders.

Operator

Your next question comes from the line of Andrew Lyons from Goldman Sachs.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Just 2 questions. Firstly, just on your Advanced Accreditation, you've noted that you've -- your expected submission has been pushed out towards the end of the calendar year '14. I think you'd originally hoped sort of June or July of this year. Can you maybe just outline some of the reasons why that has been pushed out? And just the second all-encompassing question just around the return on tangible equity. You've -- you had pretty good cash earnings growth this year, but your return on tangible equity has actually fallen. You've noted that, that relates to the strengthening of this balance sheet, et cetera. Just wondering how you're thinking about that. Going forward, obviously, the big variable will be what comes out of the FSI, but just perhaps, any other levers you expect to impact your return on tangible equity going forward?

Richard Fennell
Executive of Customer Banking

All right. In relation to Advanced Accreditation, we have been calling out for some time that we're targeting middle of this year to -- I think the term I've used previously is complete the heavy lifting of the development. And look, there's probably been a slippage on some of that by -- in the order of probably 6 to 8 weeks. In what we also have needed to do and appropriately do is effectively self-assessment of those models. And when I say self-assessment, we have involved external experts in that process. And it's an important stage that we did that self-assessment before we submit our request for accreditation through to the regulator. And so that's really a lot of the focus now is that process of self-assessment, which is a process of some months. So I think a realistic time frame is around the end of this year. Whether that's just before Christmas or just after Christmas will probably remain to be seen. Overall, given the size and complexity of this program, a slippage of sort of 6 to 8 weeks on most of the system side of things, I think, actually, has been a reasonable outcome. And I think probably early on in the project, we may not have been aware of and certainly didn't call out this need for self-assessment. We have become aware of it, obviously, in the last -- well, for some time now and -- but haven't called it out, but it's an important stage in the process. And then it will be interesting to see how long it takes us from there, but that next stage after submitting our request is a process that will obviously have some influence over but no control. In relation to ROTE, look, we've now got ourselves as part of this recent acquisition in a very strong capital position, we believe. Again, reflecting on the first question, we have to wait and see what comes out of the Financial Services Inquiry and anything else that may impact where we need to get to, but we're certainly very comfortable where we're going to have fundamental capital, too. And we -- as we continue to increase our ROE, we -- the organic capital growth will hopefully sustain us moving forward. We continue to have a target on ROTE of 15%. It's something we review from time to time whether that's an appropriate target, given the risks we run. But look, we'll continue to try and edge that higher, and I think there are opportunities for us to do that. But capital efficiency is a key element of any of those ROE or ROTE numbers, and so it's a question of continuing to grow the returns but trying to drive a more efficient capital base as well.

Operator

Your next question comes from the line of Jonathan Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Just going back to the question Richard asked before just on Homesafe and volatility as it comes through. I just wanted to see if you could comment on how you and the board think about the dividend, given this volatility going from $2 million to $50 million over a 2-year period. Obviously, a tailwind of lower interest rate obviously boosted, has been passed through to the dividend. If there's volatility going the other way, if interest rates rise or whatever happens in the future, how are the board taking into account that when considering the dividend policy?

Michael John Hirst
Former MD, CEO & Director

The board has a dividend policy that they stick to. It's a little bit hard to answer that question in isolation, Jon, because in the year that it was at $2 million, we had enough earnings to cover a reasonable dividend in that year. And my expectation would be that as the business grows, we'll continue to have enough earnings to cover the dividend at the level that it currently is. One of the reasons that the board's increased the dividend this time around is because it reflects the view that we have of the business going forward. So we certainly take those things in consideration when we're declaring the dividend. The beauty of having a business that's diversified is that when one area is down, another area can generally pick up the slack. And I think if you put aside Homesafe for the moment and think about our Margin Lending business, which was $8 billion prior to the GFC, earning a margin towards 3%. Today, that sits at $2 million (sic) [$2 billion] yet we've been able to maintain the dividend growth through that period despite the significant drain on earnings.

Operator

Your next question comes from the line of Mike Wiblin from Macquarie.

Michael Wiblin
Macquarie Research

Just a couple of questions, if I could. Just, so you have the community and alliance margin share, it's obviously gone down, margin's up, and the absolute number's down. So as a percentage, it's actually down quite a lot. Can you just talk through the drivers there and whether there's anything more of that kind of dynamic to come? And then I just wanted to talk about the growth in the balance sheet, which looks quite strong. You sort of struggled in the first half, but you've turned that around. Can you talk to us about what you're doing there and how sustainable it is?

Michael John Hirst

Former MD, CEO & Director

Well, in respect to the margin share, that -- those numbers that we show are the numbers of the margin share across the total business. And Community Bank doesn't participate in all areas of the business. So for instance, in Rural Bank, Margin Lending and other Third Party mortgages, where there's been growth through those businesses, that doesn't accrue to Community Bank. So in respect to the payments that we've made -- the absolute payments we've made to Community Bank, I think they're probably stronger this year than what they were last year. But as a percentage of your total margin, they are down a bit. The second question were in the growth in the balance sheet. There's been a number of things there. We didn't lose as much. On I think around Margin Lending and Third Party, mortgage book was stronger in the half. Rural Bank grew in the half. So again, that diversity of the business is playing out there.

Operator

Your next question comes from the line of Craig Williams from Citigroup.

Craig Anthony Williams
Citigroup Inc, Research Division

We've talked about the investment technology you're making. Do you see much of a threat to banks from technology players in the payments market? Or will many of them still require a banking partner and because the fee structures that many of them are introducing seem to be quite high? And can you talk about your thoughts around investing in third-party solutions versus investing in technology yourselves?

Michael John Hirst
Former MD, CEO & Director

So I think, Craig, the opportunities for people to enter the payments market are very strong. And you see PayPal and other people come into the market. And I heard a figure the other day that PayPal in Australia now has about 5.5 million accounts. Well, that's a significant part of the market. What they don't have, though, is a lot of money in those accounts. And I think banks and others in financial services industry who currently have incumbency do have that trust element for -- working for them at the moment. Now if anything, it where ever to happen that would blow that up, then I think you might see a much faster shift to some of those new things. But that's one of the reasons why we're prudentially regulated. It is a more onerous standard that we have to meet, and hopefully, that stands us in good state around that trust piece. In respect of investing ourselves or investing with others, our view very much not -- and this is just -- that just doesn't apply to payments, is that partnership is going to be a very key thing in how businesses operate going forward. A lot of it is driven by technology because there are so many people out there developing new things that can be bought to market, that you couldn't possibly hope to invest all of those things yourself. And more and more, we see consumers are quite willing to dispose of whatever they're using if something better comes along. So that disposability piece really means that you have to be very careful about how you apply your investment. And one of the ways to avoid that bleeding edge of technology investment is to partner with people going forward, and you see us doing that with Samsung. Our mobile banking platform is being developed with a third party. The EFTPOS has got third parties associated with it. So we think that partnering with people makes lots of sense. I think the good news for us is that partnering is an integral part of our business. We partner with 300 community companies in Retail Bank. Our Margin Lending business is entirely partner-driven. Our Third Party business is partner-driven. So it's something that we think we have quite a good handle on. And our credentials in that space, I think, are well regarded going -- well, the numbers of phone calls I get from people looking to partner with us.

Operator

Your next question comes from the line of Ed Henning from CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

A couple of questions. Firstly, just on the negative capital generation. If you exclude the acquisition and capital raising, you lost 33 basis points in the year. And I think you said, with the reclassification, that was about -- that's minus 25 basis points for you. How can you guys turn that around? The first one. Secondly, the $38.6 million of Basel II costs yet to be added to capitalized software, is that yet deducted from capital? And lastly, just on the preparation on the works of the Basel III liquidity, can you run through how you guys anticipate this to impact you?

Richard Fennell
Executive of Customer Banking

Yes, the capitalized software is a deduction in capital even though it hasn't hit -- sorry, the cap -- it's capitalized expenses, which is a deduction in capital. And even though it's on the capitalized software balance, it is a deduction. The negative capital generation, look, the -- as you say, 57 basis points, the risk-weighted asset drag take off 8 for the one-off change to some loan terms and conditions take off another few basis points for the amortization of our RMBS. And it's around the same level as we've generated through our retained earnings and DRP. The reality is, though, we are aware that over the last few years, we haven't been able to generate enough capital organically for the risk-weighted asset growth. I think we're getting very close to a point where that starts to turn around. And look, there's, I mean, obviously, a great deal of discussion going on at the moment in -- through the FSI and other forms around capital efficiency of different models. Now no matter what happens, that we're working very hard to try and get on -- we're getting our risk management processes in a really good strong shape. So hopefully, we will be able to generate greater capital efficiency as we grow going forward. But it's something we focus on, but there's more work to do.

Brian D. Johnson
CLSA Limited, Research Division

Richard, it's Brian Johnson. Could I just go back to Slide 21 and perhaps ask the question a little bit more impolitely than Edward. You started off with 7.82%. You've ended up with 8.73%, which is courtesy of 124 basis points you raised. If it hadn't been for that, the capital ratio would've been 7.49%. That's got a big benefit from Homesafe. To say that if it hadn't been for the capital raising, it would've been neutral. It looks as though it would've been well down.

Richard Fennell
Executive of Customer Banking

That's an observation, I think, rather than a question, isn't it?

Brian D. Johnson
CLSA Limited, Research Division

Well, what I'd like to do is it doesn't marry with the would've been a few basis -- it would've been kind of broadly neutral. I'm just wondering what I'm missing there because if I take the 124 bps out, you would've been 7.49% organically. We know you've got a dividend that plunks out in this next half. I'm just trying to understand how it can be a few basis points either side of neutral when on those numbers, if it hadn't been for capital raising, it look as though it would've been substantially negative.

Richard Fennell
Executive of Customer Banking

The deferred tax asset, that swings around half-to-half. That's not something that we would expect that sort of impact to be a regular impact. Capitalized expenses, at the moment, that's building up. Yes, I mean, you've made an accurate observation. I mean, I'm not sure what more you expect me to say. It is what it is. We're aware of it. And the question is we're now in a very strong capital position of 8.02%. If the acquisition hadn't happened, yes, we would've been around 7.5%. I don't think at 7.5%, we would've felt that we were in some terribly weak capital position, given the risk we're carrying in our balance sheet. The reality is we feel we're in a very strong capital position now at 8.02%, given the risks in our balance sheet.

Brian D. Johnson
CLSA Limited, Research Division

But Richard, the dividend doesn't zonk out till the next quarter, does it?

Richard Fennell
Executive of Customer Banking

That's correct. And then we -- and that actually hits in September. And during July, August, September through December, we'll continue to generate earnings, I hope.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Sorry, can you just add that one on the Basel III liquidity preparation and how it's going to impact you?

Richard Fennell
Executive of Customer Banking

We're well prepared for Basel III from a liquidity structural perspective. We're certainly not in a position where we expect we need to increase the balance of our current liquids or the structure of the assets being held in our liquids in our trading book at the moment. Having said that, that is on the assumption that term deposits will be non-breakable. And there's still some work going on with various regulators around that to make sure that that's going to play out. If, for some reason, term deposits end up being then breakable for the industry, then we will have to hold more liquidity, but so will the whole industry. And I would've thought that, potentially, could impact us proportionally slightly more, given our strong deposit book. But it's not -- it was something we've been analyzing from a scenario perspective, and it's something we can certainly cope with if we have to.

Operator

Your next question comes from the line of Nicole Mehalski from Merrill Lynch.

Nicole Mehalski
BofA Merrill Lynch, Research Division

Mike, my question is coming back to the margin and the growth in the at-call deposits. I think in the last half, we talked around a particular account that was quite attractive from a margin perspective because of the tiering and the pricing. And I just wondered if -- and at the time, I think like it was a bit of a surprise that, that account was growing as strongly as it was. And my question is, has that been a key driver of that at-call growth in deposits this half? And has the growth continued at a fairly steady pace? And what do you see in terms of an outlook for that?

Richard Fennell
Executive of Customer Banking

Nicole, Richard here. Mike just pointed at me, so I think it's for me to answer. The -- yes, the -- there's a particular retirement account we have, where the rate is aligned with a deemed rate that's set by the government, which in the first half did attract a lot of volume. That rate was changed lower. I'm just trying to think the days of that. But we still saw reasonable growth in that, not as strong in the second half, but the deemed rate was dropped reasonably significantly. And we have seen continued growth in other at-call deposits that are sub-cash rate, interest rates. Now it's -- it will start to get into consumer behavior with dynamics here about, I guess, whether consumers are looking at TD rates in the 3s and saying, well, if I can get at-call probably in the 2s, then I'm happy to sacrifice 1% for the flexibility that gives me. But also, as we continue to grow and mature our branch network, we would hope to continue to see growth. But whether it remains at this roughly $1 billion a half will remain to be seen.

Michael John Hirst
Former MD, CEO & Director

And I think, Nicole, this -- what we're seeing now in terms of the at-call deposits is entirely consistent with what we saw during the GFC, that there seems to be a level where TDs get down to where people go. The flexibility of having an at-call versus the benefit of an extra 1% or something on term doesn't add up for me, so I'm going to leave it in at-call.

Operator

Your next question comes from the line of Brett Le Mesurier from BBY.

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

It's actually Kristen Le Mesurier on the line. I've got a question about Great Southern. Have you discussed whether there are grounds to sue the class action lawyers? And if so, have you made a decision either way?

Michael John Hirst
Former MD, CEO & Director

No and no, but it sounds like a good idea.

Operator

Your next question comes from the line of Shaun Drummond from Fairfax Media.

Shaun Drummond

I just like to go back, sorry, to the accreditation process. I mean, what steps in, when do you actually expect to get any benefit from that? And given that there's sort of some discussion about changing the Advanced Accreditation here rather than standardized, will you get less than you expected?

Michael John Hirst
Former MD, CEO & Director

I think, Shaun, in the first instance, the benefit that we get is far more significant than just the capital issue, so the metrics that you have to put in place for a business for managing the credit on the portfolio, for managing the risk-adjusted performance and those sorts of things is quite significant and probably the greater part of it. And from that point of view, we're starting to see those benefits now as we've put those models in place. That will flow through into better credit outcomes. It will flow through into more consistent customer experience and faster turnarounds for our customers as well. So from a growth point of view, we would expect that to start to happen from now on. In respect of the FSI, the discussions that are taking place there, I suppose the thing that we have wondered a little bit about is if the FSI recommends and APRA concedes to, for instance, the risk weighting on standardized mortgages being lowered, have we wasted money in applying for Advanced Accreditation in respect of the capital benefit? Well, clearly, the answer to that is no because the business will be more robust in terms of how it's managed going forward. And there'll be better understanding of how the business is run. So if it turns out that that's what transpires, and to some degree, I'd be surprised if that's the outcome, then terrific for everybody else and good for us. It might mean we get some capital relief if there's any coming much earlier and an even playing field, but it'll still be money well spent on our part.

Operator

Your next question comes from the line of John Buonaccorsi from CIMB.

John Buonaccorsi
CIMB Research

Mike and Richard, I've just got 2 questions: one on mortgages; and the second one on Great Southern. So on the mortgage book, just referring to Slide 48, showing that the fixed rate share of the mortgage book has risen to 30% over the last year. So I just wondered, with the increased competition in that space, will that 30% now start to fall? And how strongly will you compete on the variable rate product to maintain the overall book growth? And also just reducing the share of variable rate product mean that you can also cut back on the hedging of the term deposit book?

Michael John Hirst
Former MD, CEO & Director

Yes, so John, in the first instance, it's really up to our customers whether or not they take fixed or variable. We'll certainly sit down with them and go through the pros and cons of every strategy relative to their particular position. However, it's the customer decision of what they -- whether or not they do that. I think Richard was telling me before that there were some statistics that came in today that showed the amount of fixed mortgages is actually starting to fall. So whether or not people have an expectation that rates are going down or whether they want the ability to be able to make lump-sum payments is driving that, I don't know. But from our point of view, that's entirely customer-driven. In respect of competing well, we compete on our value proposition, not on price. As I've said many times, prices is a race to the bottom. There are some people running pretty fast in that regard at the moment, but they seem to go through cycles and spurts, depending on what the structure of their balance sheet looks like or here close out of the profit result.

John Buonaccorsi
CIMB Research

And on the hedging of the term deposit book, will that need start to fall as you build up the fixed rate loan mortgage book?

Richard Fennell
Executive of Customer Banking

John, the key factor there, look, there is some benefit in a natural hedge there although -- I mean, obviously, term deposits tend to be shorter -- significantly shorter term than your fixed rate mortgages. What tends to impact our cost of hedging more is the volatility in the interest rates. And now that we've been in a relatively stable interest rate environment for some time now in relation -- and not just the cash rate but expectations, the cost of that hedging is significantly less during that period of stability. But yes, there is some positive impact of -- from a hedging perspective, of having a higher fixed rate lending book. But the margin impact or the lower margin in those fixed rate mortgages more than offset that benefit.

John Buonaccorsi
CIMB Research

And can I also ask about Great Southern how -- I mean, assuming the court approves the actual agreement, how do you see the profile of the book evolving over the next 6 to 12 months? Because the strategic -- or the actual arrears started to rise again in the June half. So do you see quick progress on getting the 90-day arrears down? Or will it be a very long time before we see the actual books start to fall?

Michael John Hirst
Former MD, CEO & Director

Well, John, on that, the settlement includes a 30-day, I think, period whereby we won't pursue the borrowers so that they'll have time to make the arrangements to repay us or talk to us about payment plans, et cetera. After that time, we will be taking action. The structure of the book is such that I don't think a lot of people will be looking to avoid the payment. The average loan balance is actually quite small, although there are some larger individual ones. So my expectation would be that within 6 to 9 months, we'd have a pretty good hang on here that's going to play here.

John Buonaccorsi
CIMB Research

Do you expect the 90-day arrears to start falling 6 to 9 months?

Michael John Hirst

Former MD, CEO & Director

I would've thought so.

Operator

Your next question is a follow-up question from the line of Ed Henning from CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just 2 more questions, if I may. Number one, if you read the financial services, the interim report, it talks about household leverage quite a bit. I was just wondering, is -- have you got any expectation at all that rather than just reduce the risk weighting for the regional banks, we could actually see them increase it for the major banks? And the second one is just on Slide 25, we see this one big retail loss that's come. You said today it's on construction. Can we get a feeling on the timeline of, basically, this loan loss, how it basically comes up?

Michael John Hirst
Former MD, CEO & Director

Yes, so on the first one, I think there's really about 7 different options that the FSI considers in respect to the risk weighting, including increasing the risk weighting or putting the floor in place for those on Advanced Accreditation, reducing the risk weighting for the standardized, putting in a teed model, which I sort of thought already existed, helping the non-IRB banks get Advanced Accreditation sooner and quicker. So there's a whole raft there, and whichever way it plays out, I'm not sure. I think there was even a talk of a leverage ratio. So we'll just have to wait and see how that pans out. What I can say, though, I think that there is -- there appears to be quite a determination to close that gap between the IRB banks and the standardized banks, which, of course, will be very welcome.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Such a relative positive as opposed to an absolute at this point?

Michael John Hirst
Former MD, CEO & Director

Yes, I think so. I think that's right. And look, at the end of the day, that's all we're asking for. All we want is an even playing field. The reality is that most of the regionals and the credit union-building society books perform at the same rate in terms of losses as the major bank books do, as you'd expect, and so we just want recognition of that fact. And the ability for majors to gain further advantage through using price because they're getting a higher ROE off a low capital requirement, is patently unfair. And that needs change. In respect of that individual asset that will sort of play out or it'll be concluded in the very near term, it was a particular asset where the developer and the builder went broke, and the remediation costs to get it to completion turned out to be, well, significant once the new builder got in place.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

It's not a new thing, Mike, even though it rates as though it's a new one.

Michael John Hirst
Former MD, CEO & Director

It's new in -- it's pretty new in terms of the new builder being in there and the remediation issues emerging.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Mike, if I just push my luck, in the hopes that a lot of people are talking about ring-fencing, can we just understand how the Homesafe business is effectively ring-fenced from the rest of the bank?

Michael John Hirst
Former MD, CEO & Director

In what regard?

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Capital funding?

Michael John Hirst
Former MD, CEO & Director

It's funded by the bank. It's on the bank's balance sheet, so it's not ring-fenced. But if you think about the exposure, it's no different to the exposure in the mortgage book. So from that point of view, I'm not concerned about it nor I'd be. People should be concerned about it in terms of ring-fencing that might be associated with different sorts of assets as commodity trading, FX trading, et cetera, et cetera. It's very much a homogeneous risk in respect to the rest of the book.

Operator

Your last question comes from the line of Jamie Ellis from Credit Suisse.

James Ellis
Crédit Suisse AG, Research Division

My questions have already been covered.

Operator

There are no further questions at this time.

Travis Crouch
Thank you, Mike. Thank you, Richard. That brings us to a close to the full year results presentation. Thank you for everyone who's joined us here in Docklands and on the line today. Have a good day.