Question and Answer

Travis Crouch
Chief Financial Officer

[indiscernible] over the phone?

Operator

Yes. The first phone question comes from Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

I've just got a question about Slide 18, just from the back of [ph] you provided a couple of scenarios for [indiscernible] forming good flows [indiscernible]. I'd just like to know, what's the basis for those scenarios? Is that -- is part of that [indiscernible]? And has APRA approved those flows [ph]? Clearly, the presentation would suggest that that's the capital position that you might end up with.

Michael John Hirst
Former MD, CEO & Director

So the information in those -- in that slide is coming out of the models that we run for the advanced accreditation piece. I had a discussion with APRA about what I would or wouldn't say here today, and I think I've been true to that discussion. I think, Richard, one of the things is that, with the change to the 25% floor, you're seeing that they still -- it's still very fluid in how all that might settle. And I note APRA put a note out the other day saying that they've been working with those banks who are already accredited around changes to their models and how that might play out. Their intention, from what I read in that memo, was to get the risk weighting to somewhere around the 25% mark. And I guess, as we go through our use of that, we'll be having similar discussions, which would I think support what we've put here in this slide.

Richard E. Wiles
Morgan Stanley, Research Division

And while I've got the phone, Richard, could you give us a little bit more detail on what was included in other banking income? I think you mentioned some revaluation of the trading book, but perhaps a little bit more detail of why it's such a strong number in the half.

Richard Fennell
Executive of Customer Banking

Yes, the trading book contributed around $10 million in the half year, which is -- sounds an unusually high number, but it's not an unusually high number when you consider what's happened with interest rates and interest rate expectations on the half year. We do build that in that -- well, the -- our trading book position into our overall management of interest rate risk. And so when you do see interest rate expectations drop, the value of those assets we hold in the trading book increases. They're recognized on a -- or the gains or movements are recognized on a mark-to-market base there, so that's the most significant. The other element is the -- at the end of each financial year, we do receive a number of annual bonuses or from -- well, our effectively bonuses from a range of different partners that we distribute products for. If we hit certain targets in relation to the distribution of those products to our customers, then those volume bonuses accrue. So they're the key factors that's driven that improvement half-on-half.

Operator

The next question comes from Ed Henning from CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Can you just clarify the margin for me, what you've said in the announcement today that you're hopeful that you're going to neutralize the rate moves in May and Augusta back to your second half margin?

Richard Fennell
Executive of Customer Banking

Not necessarily back to the second half margin, Ed. What we are looking -- look, the other way to think about it: The rate cut that we experienced in May -- let me see if I can find the right slide here. There we are. Look, that's we passed on 20 basis points, and you can see we had a significant drop in margin on the back of that. On Friday, we announced we were passing on 10 basis points of this most recent move. We are hopeful that, subject to some of the other dynamic pricing factors that are occurring in the industry, including, well, on both sides of the balance sheet, we'll ensure that there is no impact from that August -- negative impact from that August change; and help to call back some of the, if not all of the, impact of the May cash rate reduction. Whether that means we end up with a flat margin for -- at -- to the second half '16 at -- of 2.17%, look, there's just that many moving parts. We can't be that prescriptive, so that's why we're quite careful around the words we use. So that was our objective, that we were seeking to achieve to try and not have a negative margin impact of the May and August cash rate reductions. Whether it plays out exactly that way, there are factors that are within our control from a pricing perspective, but there are also factors that aren't completely within our control, assuming we want to continue to be at least competitive in most of the markets that we're in.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay. And also, just on you've obviously grown your deposit book and stuff like that, where does the loan stand for you guys if you do reduce the deposit book and go more towards wholesale funding?

Richard Fennell
Executive of Customer Banking

That target, Ed, that we've talked about previously of 75% to 80% deposit funded. Obviously, we've gone above the top end of that range, but that's been driven really by customer demand for our product rather than a strong strategic focus. And certainly, it hasn't been led by a strategic focus driven by price. Now clearly, if we were to come back into that range and even towards the bottom end of the range, I don't think we would see that as an issue, as long as we were able to offset that with using other sources of funding that were reasonably priced from an economic perspective.

Michael John Hirst
Former MD, CEO & Director

Yes, look, I think, Ed, it's not -- it's much an art as it is a science. And you have to look at the relative pricing between the 2 markets. You have to understand what your customer is looking for. We clearly know that it's important to keeping a name here in the wholesale markets to be able to run the -- raise funding when we need it. So it's a matter of balancing all those things up before making a decision. I think the key takeaway, though, is that, sitting at 82%, we've got a lot of flexibility in how we manage that funding going forward. And I think that stand us in very good stead as others move to try to get to where we are with the stable funding ratio.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

And just one final one while I've got you guys on the line. You talk about being appropriately capitalized. Is that appropriately capitalized at the 8.9% (sic) [8.09%], or once the changes have gone through for potential risk weight -- advanced risk accreditation?

Michael John Hirst
Former MD, CEO & Director

Well, I think it's probably hard to separate those two to some degree given where we are in seeking advanced accreditation, but we are definitely appropriately capitalized at the 8.09% and, as I said, in the absence of any acquisitions.

Operator

The next question comes from Victor German from Macquarie Bank.

Victor German
Macquarie Research

Just also a couple of questions from me, if possible. The first one, I was just hoping to ask just a further question on margins. If I look at that monthly chart that you've got on Slide 14, as you mentioned, you've got a little bit of a decline in June month. Is -- so in terms of your comments, and maybe you can give us a little bit more color into how we think about it, I understand that the repricing that you've done just recently should offset the impact of lower interest rates. Also, you usually -- because of the hedging profile, you usually have a little bit of dip in the months just following after the rate cut. I was just wondering whether that includes that dip, which you generally see a recovery from in later periods; or whether we should sort of think of it as 2 separate issues.

Richard Fennell
Executive of Customer Banking

No, look, I -- again, I think, if the capital -- the science of -- if the funding is -- percentage is art versus science, I think, margin management, there's a fair bit of art in as well because really you can't be completely prescriptive, Victor, on this. So I think the modeling we've done, all other things being equal, we might get a little bit of noise sort of in the first or second month based on the timing of when some of these changes occur. But what we're not -- what we're looking to do is to alleviate the -- what would otherwise be a significant drop in margin if the full amount was to be passed on because clearly it is becoming more challenging to reduce deposit product pricing. And in particular, there are some product -- deposit products that we can't reprice at all because there are transaction-style products that are already near enough to 0. And obviously, you can't reprice capital. The hedging does provide some comfort to us around these movements, but they don't fully offset the impact of a cash rate reduction with the cost of actually fully hedging. When the market is already expecting a cash rate reduction, it means it's a 0-sum game. In fact, it's probably a negative-sum game because of the transactional costs in putting some of those hedges in place. So look, our objective in the pricing decisions is to try and get our margin back towards where it was pre the impact of the May cash rate reduction. Whether we succeed or not, only time will tell, but we think we've positioned ourselves appropriately to try and hold that margin pretty flat.

Victor German
Macquarie Research

Maybe I'll just try and ask the question slightly differently. If I look at the waterfall chart, the liability pricing had a 7 basis point impact in the half. When we look at the charts that you provided at the half year, that really wasn't a feature, so it sounds like liability pricing in this half have had quite a material impact on margins. I'm just wondering to what extent it's more competition driven. Or is it driven more by interest rates?

Richard Fennell
Executive of Customer Banking

Look, it's the -- it's certainly the liability pricing piece is very much driven by the absolute level of interest rates. It's not -- and -- although, you can't divorce the two completely because, if there wasn't competition that -- or strong competition that -- in that term deposit market and you saw a 25 basis point cash rate reduction, then logically you'd think those term deposits would drop by something similar. That's not -- we've seen that not be the case over the last 12 months.

Victor German
Macquarie Research

Okay. The second question I had was on just your -- maybe if you can kind of reiterate your thoughts around the payout ratio. So if we look at your payouts and when -- payout ratio when we exclude Homesafe contribution, it's close to 80%. And I fully appreciate your -- the capital benefit from potential advanced accreditation, but even assuming if you do get those benefits, is that, do you think, an appropriate sort of level of payout that you can sustain? Or would you be looking to reduce it over time? Just your sort of thoughts on that.

Richard Fennell
Executive of Customer Banking

The board looks at a number of factors, including the payout ratio excluding Homesafe unrealized gains. So it seems illogical to exclude all Homesafe contribution, so with excluding the unrealized gains, yes, it's closer to 80% but still below 80% versus the full cash earnings denominator, which has it around the 70% mark. So I mean, looking forward, obviously, advanced accreditation does give greater flexibility for the board to look at advanced accreditation but also with the overlay of what is going to be the requirements from a capital perspective once we find out more around Basel IV. The other element to bear in mind, we do have roughly 45 basis points of unrealized capital through the unrealized gains from Homesafe. If we were to close that book now to new funding, over time, that 45 basis points of capital would be realized. So there are a range of factors that the board takes into account in setting the dividend. It's not for me to speak on their behalf, but clearly [indiscernible] comfortable to announce a $0.34 dividend in considering those factors.

Victor German
Macquarie Research

Well, I mean, that's a good point about the realized element. Well, in terms of the basis point contribution, do you roughly have a number what you think every year you get through from those realized benefits to capital as that sort of -- that 45 basis points unwinds?

Richard Fennell
Executive of Customer Banking

I haven't got the number to hand, but we can certainly have it by the time we come around and see you, if you'd like.

Victor German
Macquarie Research

Great. And sorry, just one last thing: On Homesafe, just that Slide 22, Richard, are you able to just maybe clarify exactly the position of how you're planning to unwind that $24 million overlay? I mean it's our understanding that -- if the -- if property prices are under 6% in a given year, that you will be looking to unwind some of those overlays.

Richard Fennell
Executive of Customer Banking

Potentially, depending also on what our view of the market is likely to be going forward, but what you've seen is 6 months of close to 0 movement in property prices. With our view of the outlook for property prices, we felt it was appropriate to wind back one 6-month period of that. Clearly, if we had -- if the next period was something similar, then all else being equal, that's probably a reasonable guide about how we might use it. However, if it ended up, let's say, at 4% or 5%, we might say, well, look, there's no need to unwind any significant amount of the overlay given the contribution has already been made, again depending on our view and the market's view of what's going to happen to Sydney and Melbourne residential real estate prices going forward.

Michael John Hirst
Former MD, CEO & Director

And I think that's the difficulty with being prescriptive. It's really hard to consider those things in the absence of a further 6 months knowledge. And so that's going to be a big part of it.

Operator

The next question comes from Jon Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Two quick questions, if I could. The first one, for Richard. You've given us the liquidity coverage ratio, net stable funding ratio, CET1, but the one ratio you haven't given us is your leverage ratio. Can you provide that for us, please?

Richard Fennell
Executive of Customer Banking

Jon, we haven't done a huge amount of work on that leverage ratio, but we've done some rough modeling of it. The reason we haven't spent more time on it is because we're very comfortable that we will be able to meet the different scenarios I've seen banded around as potential levels for that to be set, which is probably no surprise when you think of -- when you look at things like that S&P RAC ratio from a comparative perspective; and the fact that our largest part of our balance sheet being housing lending, we're risk-weighting those at the moment at near-enough 40%. So the "back of the envelope" work we've done, Jon, certainly has us comfortable from a leverage ratio perspective. I wouldn't want to give a number because we just really haven't done detailed analysis on it because we feel we've got pretty good headroom there.

Jonathan Mott
UBS Investment Bank, Research Division

Okay. Next question was following on from a comment before. In the event that we had further rate cuts -- I know there's a lot of headlines anticipating that, but if rates go down towards 1%, what percentage of your book, of your deposit book is already at or near 0 and you won't have the ability to reprice going forward? Obviously, that's going to have an impact on your ability to pass on future rate cuts if those did come through. So what percentage of the book is close to 0?

Michael John Hirst
Former MD, CEO & Director

Well, I think the first thing I would say is that, at some stage as rates drop down, the whole industry is going to be in a position where they can't pass everything along. And that goes back to my earlier comments around the role that banks play and the fact that they need to charge a margin to do that. So that's going to become something that needs to be explained better and better as we move along. In terms of the -- essentially, the at-call deposits that sit in the "at or near 0" range, it's about...

Richard Fennell
Executive of Customer Banking

It's about 25%, give or take, or slightly higher. Our eyes aren't quite good enough.

Michael John Hirst
Former MD, CEO & Director

Yes, the screen is sitting a bit further away from us, but we've just put up a slide, hopefully, that you can see.

Richard Fennell
Executive of Customer Banking

27% of the at-call funding, which is 42% of the overall deposit funding, is less than 25 basis points, so obviously there's a little bit of room to move with those that are between effectively 0 and 25 basis points but not much. And obviously, those that are effectively 0, we can't move at all. Does that slide give you the information now, Jon?

Jonathan Mott
UBS Investment Bank, Research Division

Yes, it does give the exact numbers. So effectively, the further you go down, and I'll take this offline, the more the margin crunch is going to become, which just means that -- the less ability you're going to have to pass-through. Or are you going to have to give away a 2% margin?

Michael John Hirst
Former MD, CEO & Director

Yes. And what we've got -- well, I don't think we'd be on [indiscernible].

Jonathan Mott
UBS Investment Bank, Research Division

Yes, great. That's just interesting to know.

Operator

The next question comes from Craig Williams from Citi.

Craig Anthony Williams
Citigroup Inc, Research Division

Just with respect to the Homesafe and the property valuation income that you've recorded this period. If we have a look at the Residex index, for Sydney, it looks like, in 6 months to May, it was down 1.6%. For Melbourne, it looks like it was up 1.3%. If we weight that 40-60, according to your portfolio, mix indications appears at -- and consistent with Richard's earlier comments, that it's come out a 0.1% positive contribution across the portfolio. How, therefore, do you recognize property valuation income of $11.4 million for the half? Because I'm not quite sure how that all reconciles.

Richard Fennell
Executive of Customer Banking

Yes, no, good question, Craig, and one we're expecting. So the difference for that is the -- there was new information put out by the Australian Bureau of Statistics, which the -- is an input to the model around longevity. And in addition to that, a review was undertaken around the percentage of contracts that are completing early and what sort of age they are completing at. So those factors were fed into the model, so that contributed a similar amount to the overlay release for the half year. And it's a one-off adjustment that occurs every couple of years when those -- that's -- those assumptions are updated. Sometimes, it's a positive. Sometimes, it's a negative. What continues to give us comfort, though, around these things, for example, in the month of June and the month of July, which isn't included in these numbers, the contracts that had completed, the -- they have had a positive contribution to profit. So houses are being sold, were being sold for a value higher than the carrying value; and that's the carrying value pre the overlay adjustment. So again, we're seeing that the valuation we're holding these assets at is holding up over time as being reasonable when contracts complete. So with that adjustment, as I said, it was a similar number to the sort of the value of the overlay release.

Operator

The next question comes from Ashley Dalziell from Goldman Sachs.

Ashley Dalziell
Goldman Sachs Group Inc., Research Division

Just picking up on the last question with regards to this latest adjustment around Homesafe with regard to the valuation as of holding -- valuation of the assets that you're holding, holding quite up in terms of when you do come to sale. I'll just note that the "profit on sale" line for the second half actually swung to the negative, which would sort of imply, I would think, that when you are coming to sale, you're sort of realizing prices that are probably below where the values on your books are sitting. Can you help us reconcile those 2 issues? And I guess, just following on from that, should we also be expecting that there's going to be another postcode-based valuation review in the first half of '17?

Michael John Hirst
Former MD, CEO & Director

Yes, yes.

Richard Fennell
Executive of Customer Banking

Look, you're right, Ashley. For the month of January through May, the gross value of the properties pre reducing the values for the overlay versus the sale amount, and that's how we calculate that profit or loss on sale, it was actually a loss on sale. Then we've seen that swing around in June and July to positive, which gives us some more comfort that -- and look, when I say it was a loss, it's a relatively minor valuation difference, both positive and negative, through that whole period. If you looked at that period for the 6 months, though, January to June; if you look at the value of the properties, including the reduction for the overlay versus how much we were achieving when they were sold, on average, they were selling for a higher amount. So again, it was backing out that the overlay was appropriate...

Michael John Hirst
Former MD, CEO & Director

And I think the other thing too is that on a full year basis it was like $100,000.

Richard Fennell
Executive of Customer Banking

Yes, it's pretty flat. The last couple of months, the property being sold have exceeded the value. So it does swing around a bit, but we're talking generally a couple of percent above or below the value, the overall value of the properties. And to your second point, yes, we will be undertaking that postcode review for 30 June 2016. And I'd expect that to be a positive or negative contribution in this half year, depending on the timing, but generally we get it done before the end of the December half.

Ashley Dalziell
Goldman Sachs Group Inc., Research Division

Okay. Just picking up on the trading income discussion earlier. Can we assume that you are sort of positioned similarly, for the August rate cut, to where you were for the May cut? And should we be expecting that sort of rule of thumb will hold to the extent that we get any additional rate cuts this year or next?

Richard Fennell
Executive of Customer Banking

Yes, that positioning was similar. Whether you'd expect the same quantum, that would depend a lot on what the market expects about future interest rates. Over the last 6 months, we've seen a reasonable swing from where we were sitting at 31 December around expectations for interest rates. I think, whether that continues to be expectations of ever-low interest rates, well, time will tell, but we're similarly positioned for the August 1.

Operator

The next question comes from David Spotswood from Shaw and Partners.

David Spotswood
Shaw and Partners Limited, Research Division

Just back on the NIM. I mean, what are you assuming for your own deposit pricing in the next 12 months? Are you assuming you're going to reprice down your deposits by 25 basis points or the 50 basis points at-call and term deposits?

Richard Fennell
Executive of Customer Banking

Look, David, the deposits, it very much is a product-by-product piece of work. So we've got certain products that do -- that are established to align with the movement in cash rate. So our EasySaver suite of products, which is about -- it's one of the products that we've had in place for, I think, less than 18 months, but it's about $1.5 billion worth of our funding there. That moves down in line with the cash rate because it is a product that's tied to the cash rate. Likewise, our cash management accounts seem to move in line with the cash rate. Term deposits, that is -- that tends to be driven more by what is happening from a competitive perspective. And we really can't give you guidance on that because we adjust those as we see fit, as often as -- well, we consider those as often as our pricing committee meets, which is every 2 weeks, and so theoretically we might be moving those up, down on how we want to move our positioning there very regularly.

Operator

The next question comes from Anthony Hoo from Deutsche Bank.

Andrew Triggs
Deutsche Bank AG, Research Division

It's actually Andrew Triggs here. Just a couple of questions, please, guys. Firstly, on that NIM commentary. The Community Bank share that -- what are the expectations there? Well, that has been going for a few halves now. Would you expect that to continue to rise? Or now that, that alliance impact is fully in there, do you think it will stabilizes at this level? And secondly, just looking at the disclosure around 90 days past due. In the pack, it looked like they're up quite a bit half-on-half, I think, around 16%, but when I turn to Slide 21 of the pack, the -- it's hard to see where that came through. And I'm not sure if that's a netting impact on the Great Southern portfolio. Could you just please give us an indication of what's going on there?

Richard Fennell
Executive of Customer Banking

Sure. On the NIM impact, the rise you see here is largely a one-off. However, our Community Bank and Alliance Bank partners tend to be some of the faster-growing areas of the business. So if they continue to grow faster than other areas of the business, then over time that proportion of margin being shared would gradually increase. But we wouldn't expect to see a sort of 2 basis point increase out of 12 months that we've seen in the last little while unless, for example, we were to implement some additional Alliance Bank partnerships going forward. In relation to the 90-day past dues, I -- from memory, we haven't had a couple of exposures in the agri space move into that area. However, the month of July, we'll see a dropoff again there as a significant existing 90-day exposure in that agri space comes off there. So it's -- and those agri ones, in particular the largest one of those, it's with -- it's not an impaired asset. There are some issues that have led to it going 90 days past due, but we're certainly very happy with the collateral we're holding in relation to that particular exposure, so we're not expecting that to be a precursor to any increase in loss rates from an agri perspective.

Operator

The next question comes from Brett Le Mesurier from the Velocity Trade Australia.

Brett Le Mesurier

A couple of questions. Just going back to the Homesafe income sensitivity. Slide 23 showed $15 million income for no change in property value. What does this $15 million relate to?

Richard Fennell
Executive of Customer Banking

That is the unwind of the discount that we pay -- that we -- whilst we don't pay the discount, it's the difference then what we pay for the property versus the actual value of the property and how that unwinds over the expected life of the occupant...

Michael John Hirst
Former MD, CEO & Director

So effectively the rent.

Brett Le Mesurier

So is that the difference in the -- you've got a time series bottom left corner of that same slide. Is that difference between the portfolio balance and the funding balance recurring over a period of time?

Richard Fennell
Executive of Customer Banking

It is part of that, but that portfolio balance also takes into account the value movement. If there's been 0 value movement over that whole time series, there would still be a gap between the two, which would be that discount, but clearly it wouldn't be as significant as the difference there at the moment which is over a couple of hundred mil.

Brett Le Mesurier

Okay. Your loan assets increased by about 3% less than your credit risk-weighted assets. What was the reason for the difference?

Richard Fennell
Executive of Customer Banking

A lot of the growth we've had has been strong in this half year, has been in the business lending space. And with that seasonality on agribusiness, that's you're getting 100% risk-weighted assets coming onto the balance sheet, which is -- and that weighting of those heavy risk-weighted assets in this last half year has been a stronger weighting than in the existing business.

Brett Le Mesurier

The business like -- okay, sorry.

Richard Fennell
Executive of Customer Banking

[indiscernible] so there was one other factor as well, which was that reclassification which occurred in January where we had around $600 million worth of additional assets going into the risk-weighted asset balance of the business with the reclassification of the -- of products that historically had offset accounts netting against the asset value, whereas now that we have changed the terms so that's split as separate offset account as a liability product and the grossed-up asset value.

Brett Le Mesurier

So that increased. You're seeing an increased credit risk weighted assets by $600 million.

Richard Fennell
Executive of Customer Banking

No. The total -- sorry. The total increase in assets was about $600 million risk weighted at around probably 40%.

Brett Le Mesurier

Got it, but so I guess what you're saying, this business -- within business loans, you had a greater proportion of high credit risk-weighted assets because business loans and residential loans increased by the same rate at 3.7% over the 6-month period.

Richard Fennell
Executive of Customer Banking

The other -- look, I think you'll find that our business lending grew in the 6 months around -- when you include agri as well, around 10%, which should be certainly stronger than our overall residential real estate which I think might have been 5% to 6%, something along those lines. The other factor that is impacting our credit risk-weighted assets versus our total assets is the rundown in securitized assets. And again, that was about $1 billion that ran off over the course of the 12 months. So quite a number of elements that go into that. The -- I think they're the major ones off the top of my head.

Brett Le Mesurier

Then lastly, on capital, Slide 18, where you showed those different scenarios. How do your target capital ratios fit with whatever outcome you've got? In other words, do total capital ratios depend on the risk weighting that you have for mortgages in the future as an advanced bank?

Michael John Hirst
Former MD, CEO & Director

No. We currently have our target capital ratios based on the model we're operating.

Brett Le Mesurier

Yes, but my question is, will they change when you become an advanced bank?

Michael John Hirst
Former MD, CEO & Director

I don't think they will, no.

Richard Fennell
Executive of Customer Banking

Well, I guess that'll be up to a discussion we have with the regulator.

Brett Le Mesurier

Okay. So I guess you're hoping the answer is no.

Michael John Hirst
Former MD, CEO & Director

Yes.

Richard Fennell
Executive of Customer Banking

Yes.

Operator

The next question comes from Scott Manning from JPMorgan.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

A couple of questions. Firstly, Mike, you mentioned a couple of times, in the absence of any acquisitions, capital is strong. I haven't really heard a lot of discussion around acquisitions from yourself for a while. Are you able to expand on some of those thoughts there, please?

Michael John Hirst
Former MD, CEO & Director

Well, we've got opportunities always presenting themselves. One of that is -- acquisitions are probably known to be considered in the broader sense because we've got the Alliance Bank model, which we continue to work on. And any credit unions et cetera that might come into that model would require us to have capital to support their balance sheets. So there's -- you know what, I -- and you've heard me say this before, Scott, I think there's going to continue to be consolidation at the smaller end. And we're willing to be a participant in helping that happen.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Okay. And secondly, on the Community Bank, I just wanted to check. What was the specific reason for the increase this period? Was it just the growth, or was there a tweaking to trends of price curves or incentives?

Michael John Hirst
Former MD, CEO & Director

In terms of their share of margin, do you mean?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Yes.

Richard Fennell
Executive of Customer Banking

No, there was no material change to the Community Bank share of margin. The movement there was primarily around the Alliance Bank.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Okay. And then the third one, on the Homesafe portfolio. Are you able to provide a sensitivity to what the earnings impact would be if you reduced the long-run growth rate from 6% to 5%?

Richard Fennell
Executive of Customer Banking

Look, we can probably run the math on that. One of the factors that is important to understand with that model is that not only do you have to take into account the long-run growth rate assumption but also the discount rate that's being used. So at the moment, with a 6% long-run growth rate, we're assuming a discount rate of 7.75%, so if we're going to do some work around the long-run growth rate, which from the analysis we've seen we don't see -- we haven't heard any reason to think that that's going to suddenly stop stacking up, we equally might want to think about what's an appropriate discount rate when you've now got a risk-free rate sitting sub 2%. And for this sort of asset, is 7.75% an appropriate discount rate to use? It's something we've thought about doing. We haven't done that work, Scott, but it's something we will continue to consider from time to time. And if we think there is a need to consider that, we'll do it.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And sorry, just to refresh my memory: Hasn't that already moved? In the annual report a year or 2 ago, I think the long-run growth rate was 7%, down to the 6%, but the discount rate also came down to compensate for that.

Richard Fennell
Executive of Customer Banking

Yes, that's correct.

Scott Robert Manning

JP Morgan Chase & Co, Research Division

So that was in there, from 7% to 6% on the growth rate, but the discount rate came down by 1% as well.

Richard Fennell
Executive of Customer Banking

That's right. That went from 8.75% to 7.75% because, when this discount rate was initially struck, the risk-free weight was probably 6%.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Okay. And then the final one is a bit of a kind of theoretical question, but why don't you think industry is pushing lower on term deposit rates and the like? I mean deposits have to fit in the system regardless of price, quite frankly. So why do you find this stickiness on some of the deposit rates?

Michael John Hirst
Former MD, CEO & Director

Well, I think there's a couple of things to think about there, Scott. One is that we've seen a number of banks try and put market -- rates into the market that are significantly higher for the longer-term deposits. I've read some commentary that's a bit skeptical about the reason for doing that, but it may well be that they are genuinely trying to shift depositors at that long run on a little -- I'd be interested to seeing how it goes. I don't think it'll be a difficult thing to do. Deposit, I think term deposit rates are probably being more actively managed than ever before. If you follow all of the movements across all of the terms, it really is extremely active, and that may well have a reason to do it. I think we've got the net stable funding ratio issues, then other people will be trying to work their way towards putting themselves in a good position for that. I think I've noticed the variation in rates between some of the players. I think we see them in 4 [ph] basis points above the majors. And then some of their peers are another 20 or 30 back from that. So it's -- it probably goes a little bit to all of the different opportunities. Wholesale funding margins have grown and blown out [ph], so that's obviously going to be reflected in it as well.

Operator

The next question comes from T.S. Lim from Bell Potter Securities.

T.S. Lim
Bell Potter Securities Limited, Research Division

What are your plans to raise ROE? I think it's gone backwards. And in your view, who would prove to be the greatest threat to you: the majors, the disruptors or government?

Michael John Hirst
Former MD, CEO & Director

Well, so ROE, I think, has fallen across the industry, T.S., as you'd expect, because the risk-free rates dropped significantly during that period of time. That drop in rates is -- or should reflect in the different relative asset classes, and I think you're seeing that happen. So I don't think it's unusual or unexpected at all that you should -- that ROE rates are falling, in my view, given the risk that the industry takes. And it's probably, I think, fair to say that the ROE rates have stayed longer than -- or higher for longer than one would have expected. In respect of who's the biggest threat to us, I think all competitors are very good competitors. I think the major banks are more and more focusing on their customers. And where we might have had a clear advantage there at one stage, they're certainly getting much better at doing that and we need to be on our A game to make sure that we continue to do that. In respect of the government, I think they've been helpful in acknowledging that there's been an uneven playing field and helpful in doing something about that to the extent that they're trying to grow up or develop a market that certainly provides a lot of choice for people on who they might bank with, so I don't seeing them as necessarily being a threat to us. And disruptors, they're all out there. I think you can put disruption into 2 areas. 90%

of it is just improving on something on an existing customer experience. It's probably the 10% that brings something totally new to the market that's a real threat.

Operator

The next question comes from James Ellis from Crédit Suisse.

James Ellis
Crédit Suisse AG, Research Division

Mike, just a question on the branch numbers. It appears that, in the second half, you had a reduction in 4 branches which came through in the company branch network. I'm just wondering if you could comment on that given that's a break in what's a very long-standing -- your history there. And then secondly, related to that, to what extent is branch reductions, either already -- net reductions already done or in the future, underpinning your cost guidance for the full year?

Michael John Hirst
Former MD, CEO & Director

Sure. So James, the branch reductions that we've made have predominantly been company related. They've either been an amalgamation of 2. Or for instance, in Jolom [ph], a market I'm particularly familiar with, we had 4 branches in the CBD down there. And as the CBD has moved as a result of development et cetera, 1 of those branches was closed. It wasn't being used by customers. The future for branches, I think, is certainly still bright. People want to sit down in front of someone when they have a complex decision to make, and that's particularly important around mortgages. However, it will be driven by customer requirements. One of the things that we talk about internally as an organization is just how you manage the customers' desire to do more and more transactions on mobile and online but they still want you to maintain the branch network to do other things. So there are some challenges there for the whole industry. I don't see mass closures in the near term, but certainly over time, we'll be thinking differently about the things that take place in branches. And that'll have implications for, say, the footprint and the layout rather than whether or not they exist.

Operator

Thank you. At this time, we're showing no further questions from the phones.

Ian Rogers

All right, great. Ian Rogers from Banking Day. Look, Mike, could you please give us an assessment of the process on conduct that the Australian Bankers' Association set up in April? What benefit do you think it will confer on the industry? And in particular, how will it help Bendigo Bank?

Michael John Hirst
Former MD, CEO & Director

Sure. So I think what you're seeing with the ABA [indiscernible] framework that's being put in place is a constructive reaction to feedback from consumers. And the areas that they've targeted, they're all areas that have been given a lot of publicity over the last 3 or 4 years, in particular the issue around remuneration that drives -- what doesn't drive good outcomes for customers, volume-related remuneration. And it'll be a challenge for the industry to be able to address that. In our case, we don't have any volume-related remuneration for our staff, so we're already at the level that we need to be to be able to meet that. In 2003, I think we moved away from that for our financial planners. And I think we had probably 60 planners at that stage, and it wasn't an easy thing to do. So it's going to be very difficult for some of the larger organizations, but I'll note the commitment that they have to getting that done. The rest of the things, the review of the code of conduct, it probably was due for a refresh, anyway. The other issues, I think, are ones that can be dealt with giving folks [ph] greater ability to get across different things or all things that respond to customer demand. So the industry is putting in place a very rigorous framework to measure our compliance with what we share we'll do. And I see, when I sit around the table, a real commitment from the other banks to get it done.

All right, that seems like we've got all the questions, so thank you all very much for your interest. And we look forward to seeing you all over the next few days.