Question and Answer

Operator

[Operator Instructions] Your first question comes from Jarrod Martin from Crédit Suisse.

Jarrod Martin
Crédit Suisse AG, Research Division

Just a question firstly on margins. I think you said the average level was 2.21% during the first quarter. I'm on the assumption you only sort of had five weeks of mortgage rate pricing. Is it

fair to say that your margin exiting the first quarter was above the level of the second half at 2.23%?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

I don't know. I haven't got the daily margins. I'm not exactly sure what it was on the 31st of December.

Jarrod Martin
Crédit Suisse AG, Research Division

Would it be up on the average for the...

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Yes, because the repricing went through in late November. you had maybe five weeks maybe six of repricing in the quarter. So obviously, you're going to get 13 weeks of it in the next

quarter. That said, growth in mortgages does tend to average down the margin because they are low margin low capital products.

Jarrod Martin
Crédit Suisse AG, Research Division

And just on the SCDO portfolio, you've had a couple of periods of positive hedging gains. At what point do we get to where you decide that it's time to actually dispose of some of those

assets and release some capital?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Well, we do -- we maintained high vigilance around the secondary market on these things. Obviously, the three-year instruments are more likely to trade in a range, where we could take

them out than the longer-term ones. But they're behaving so well on a credit basis. On the one hand, it be nice to get rid of them. On the other hand, we're reluctant to give somebody else

the 25% IRR maturity when we can take it ourselves. So it remains a profitability, and I think have traded up in the high 80s in terms of secondary market value to book, but not enough yet

for us to feel we wanted to take it.

Operator

Your next question comes from Ben Koo from Goldman Sachs.

Ben Koo
Goldman Sachs JBWere Pty Ltd, Research Division

Just wanted to get a bit more of a view around just the revenue outlook, in particular, just looking at the margin commentaries from the different divisions. You've got margins being

maintained flat in the Business Bank -- sorry, it's slightly up in the Business Bank, flat in the Personal Bank. The Wholesale Bank's been negative. So when we're just taking a look rolling

forward, you're probably going to get some further benefits from repricing and the Personal Bank recovers some margin there. Can you just give us a feel for just with the Business Bank,

that margin improvement that you've seen so far. Is that going to be sustained because there's been a lot of talk about the competition coming back in the market? Just wanted to get your

views on that, and just also on New Zealand, please.

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

On the Business Bank, yes, they benefited from mortgage repricing, because they do account for a decent chunk of our book. And then now, I think it's about 90% repricing of customer

facilities, so that's come on a bit more in the quarter and is obviously more to go. But you're quite right in saying that there is a distinct focus amongst all three of the other major banks in

Australia to increase their exposure to business, so we are seeing a lot of competition there. But of course, prices isn't the only thing when it comes to business, and which is why, despite

that, our relationship model continues to gain share. So I don't think we're pushing on an open door in trying to get margins to grow in the Business Bank. But we're working hard to maintain

them in the face of quite strong competition.

Cameron Anthony Clyne
Former Executive Director

What was your New Zealand question, Ben?

Ben Koo
Goldman Sachs JBWere Pty Ltd, Research Division

Just on the New Zealand, I just wanted to get a feel for how things are trending over there? I think some of your peers have talked to a very strong margin expansion that they've seen in the

New Zealand franchises. Just wondering if you're seeing a similar trend or is there just a slight different business mix?

Cameron Anthony Clyne
Former Executive Director

There is some margin expansion in New Zealand, but very little volume. And I think what we've positioned then, really over the last probably five or six years it's probably been the most

consistent performer in terms of providing pretty steady results. We had costs of overall [ph] spend well maintained, and revenue growth may not have run as aggressively as peers in the

boom time. So we certainly haven't certainly collapsed [indiscernible] the performance indicates. That's just a very steady performer but it's very little in the wide volume growth in the New

Zealand market, but there is some margin expansion.

Ben Koo
Goldman Sachs JBWere Pty Ltd, Research Division

So that mix issue that we're seeing at the group level between mortgages and business, are we expecting that mix issue to start reducing as mortgage growth slows down because I think in

the past you've been just trying to tie a bit of catch up game on mortgages? Are we expecting that catch up is now towards the end or are we expecting to still grow 2x system going

forward?

Cameron Anthony Clyne
Former Executive Director

We're still happy growing at that light [ph] rate. So I mean, your analysis is correct. If we slowed it down the mix would change. We're comfortable growing at that rate, the quality of

customers we are attracting is good in that market. So we're happy. So we are always watching it, but we feel we got the balance sheet and as long as the quality of customers is there and

it's also the growth that we're bringing in other accounts. In fact, one of the pleasing things in December, the month of December, bearing in mind that was after Australia after the batch

processing as we had our strongest transaction account growth month ever. So as long as those sort of things are coming with mortgages we're comfortable to grow above system.

Operator

Your next question comes from Jon Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Two quick questions. The first one on deposit growth. I think, Cameron, you just mentioned transaction accounts. Can you just split the difference between growth and transaction accounts

in the personal area and growth in UBank? We say that half of deposit numbers with the credit stats, so if you could break that up. And the other question was just on this is a two-speed

economy, we're seeing some pretty material downgrades in the retail sector, especially over the Christmas-January period over the last couple of days. Are you seeing similar things for your

businesses? And are you still comfortable with the potential recovery in Business Banking volumes, especially as the two-speed economy really is just kicking in now?

Cameron Anthony Clyne
Former Executive Director

Well, we're still comfortable at business credit. I know it's a sort of perennial question for the last three quarters as when is this bounce and business credit is going to happen. And it seems

to be either confidence issues or natural disasters or something that pushes it out a little bit. But the reality [indiscernible] talking to a lot of small businesses is that immediate respects,

they gain to a point where they can't actually hold back from some investment, holding back to the high dollar and holding back to the DFC. Now that reality in many cases around capital

equipment down. So we're still relatively confident that we're going to see towards the back half of this calendar year business credit come back. Anything, as we said, the rebuild activity

might provide some stimulus to that. The important thing we're actually more mindful of at the moment is of course what the short-term impact of what might be some of the implications on

businesses that have been struggling, and now they've got a downturn in business activity [indiscernible]. In terms of the two speed and the retail downgrades, I mean, those sectors we've been watchful for a couple of years. I think we flagged previously, the things like tourism, some commercial property in those tourism areas, specialty retail, price sensitive export have

actually been areas we've been struggling. Most of that, already we featured it out, we got our watchlist anyway. So we don't, this is just probably a confirmation of trends we've been

seeing for a couple of years. On deposit growth, Mark...

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

On the deposit side, a good chunk of the growth has been coming for UBank and iSaver. So UBank is now well over $7 billion. And USaver has been taking a decent amount. So not a

particularly large amount coming in the transaction account itself. It's very pleasing to be attracting new customers at such a high rate. But we are seeing that of the new accounts that get

open on the transaction side, we test them six months after they are opened. And we've got about 80% activation, and the average balance is coming into them almost identical throughout

book average. So they may not be moving the numbers as much as some of the term deposits underlying, but they are very healthy underlying.

Jonathan Mott
UBS Investment Bank, Research Division

So if you just look at the spread on the new business year acquiring through the UBank, and iSaver versus the new lending, that you're going to the Mortgage business and particularly if you

open UBank mortgages, are you still comfortable with the front book margins of using those two -- using that funding source versus the spread on new business?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Well, obviously, iSaver and UBank are lower margin deposit products than some. But they nevertheless have -- all both have a positive contribution. And the idea with UBank is not just to

make money out of deposits but progressively to turn into a full-service bank for customers who'd like an online, a purely online experience. So as we add mortgages and then as our next

gen capabilities get developed we have payments capabilities, so we will have a whole bank. And then in a normal way, it will be able to -- it will be a very low cost and so on a low margin,

we'll be able to generate the decent ROE.

Operator

Your next question comes from Craig Williams from Citigroup.

Craig Anthony Williams
Citigroup Inc., Research Division

You've called out positive jaws at a group level, so pre-provision profits grow this period. Bad debts down I think about $30 million lower than the fourth quarter, yet profit for each quarter

seems to be about $1.3 billion, if our math is right. Am I right in suggesting therefore, that the tax rate's crept up this quarter? If so, what has caused this and what are your expectations?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

The shorter the period you look at, the more lumpy items weigh heavily in it. and we don't do a full tax true up on the quarters, we do that on the half, so that's just sort of runs along at

notional. So I wouldn't read too much into things below -- the lines you've talked about. Also our distribution expense is different between quarters with certain third quarters running at more

than double at what second or fourth quarters do. So there's other items of lumpiness in there.

Craig Anthony Williams
Citigroup Inc., Research Division

And the volume growth in retail has been relatively strong on both the mortgages and deposits. Can you provide a bit more color on the extent of revenue uplift you're seeing in the Personal

Bank?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Well, hopefully, momentum continues on the deposit and account opening side. And we will, as I said before, get more than twice the effect in the second quarter of the mortgage repricing

that went on. So I think pretty much they're going to be the main factors. There's not going to be change in direction hopefully in the second quarter. in fact, there's not, we can already see.

So just more of the same, and a little bit extra.

Craig Anthony Williams
Citigroup Inc., Research Division

So the Personal Bank was a sort of tight run thing in terms of the revenue uplift first quarter on fourth quarter?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Sorry, what was the question?

Craig Anthony Williams
Citigroup Inc., Research Division

The personal bank revenue uplift was a little bit of a tight run thing first quarter on fourth quarter 2010, is that right?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Yes, it had revenue uplift. Yes, absolutely. But almost entirely driven by mortgage volume and repricing.

Operator

Your next question comes from James Freeman from Deutsche Bank.

James Freeman
Deutsche Bank AG, Research Division

Just a quick clarification. The revenue growth of 4% and the cost growth of 2% you're referring to, is that quarter-on-quarter? Or are we annualized growth rates there?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

AT constant FX, taking out the SCDO gains and losses and comparing first quarter '11 to the average of third and fourth quarter of '10.

James Freeman
Deutsche Bank AG, Research Division

Just on the U.K. LC area, your bad debts or your 90 days in arrears keep going up. Are you guys confident now you got enough a provisioning to cope with this? I mean, we've been seeing

constant deterioration in that market and constant top up needed.

Cameron Anthony Clyne
Former Executive Director

The B&DD expenses is actually coming down there, and the 90-day past due is stable. We're just seeing things pile up in impaired assets, where they get specifically provided. But the ability

to liquidate the security and move on, you just doesn't happen quickly in that environment as it would do in a normal environment. So the provisioning kept rising, and we change our view

on the value of security of things that we top up. So there's not a question on the adequacy of provision, it's just the liquidity of being adequately book.

James Freeman
Deutsche Bank AG, Research Division

Right. So the 90 days are not going up?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

No.

Operator

Your next question comes from Matthew Davison from Merrill Lynch.

Matthew Davison
BofA Merrill Lynch, Research Division

My question was just on the cost growth. You mentioned the 2% trend. Just coming back to your priorities in 2011, there a number of systems and efficiency initiatives that you're still

expecting to come through. Just wondering if progress on those is on schedule or you've fallen behind, given some of the issues the bank has had and whether with that agenda, you'll be

able to maintain that sort of cost growth that you're currently tracking?

Cameron Anthony Clyne
Former Executive Director

Well, just on the cost, what we are trying to do is managed the business positively on jaws. So we're not giving a further guidance on costs, so that's how we're trying to manage the

business. In terms of the major systems investments, they are on track and proceeding. The instance we had late last year now impact on those programs. We've still got no impact in terms

of that delivery schedule, so we've got, obviously, a series of major releases coming through the back end of 2011 and then more in 2012 in terms of the next generation as we switch more

and more functionality out of it. But that's all proceeding on time and on track.

Operator

Your next question comes from Craig Turton from Macquarie.

Craig Turton

I've got two questions. just the first one relates to markets income. You grew market income during the December quarter, which is a bit contrary to the general global trend. Could we just

get a color on how what was achieved? And also, is it possible to quantify that amount for the quarter?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Well, we don't like to add numbers in the disclosure. We don't like to go too far in the business unit performance. I won't give you that, but the third and particularly the fourth quarters were

very weak in sales and trading. The third quarter was bolstered a bit by strong performance out of treasury. I think related to the Greek debt crisis. But in any case, the fourth quarter was

quite a low in activity. So the first quarter has been much better than that. But it's still probably being something of a disappointment to us in that we had expected a bit more of a bounce in

fourth quarter. So we have positive and negative news out of that, but we're still see stable FX, reasonably stable yield curve and farm bank interest making it a difficult market. But I think

nevertheless, quite a lot stronger than it was in the fourth quarter last year.

Craig Turton

And the second question was more of a philosophical one. You talked a lot about covered bonds and potentially bringing down the average funding cost down. What do you think the issuance

of covered bonds would do to the cost of senior debt? Would that actually go up as a result? Is it actually clear that average funding costs would come down?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

I'm sure your professor told you that if you create layers of risk like that, what you save on the low risk, the high risk just gets more expensive. But we think it's not a straight-line

relationship, and we think it's more of an S curve. And so a limited amount of covered bond issuance, we don't think is going to increase the perception of risk in our senior debt. We will still

be a AA institution, people still be going AA senior debt. But we will have AAA issuance. But if it gets to reasonable level, we will not increase the risk or the credit rating of the senior. So we

think it's a net benefit of the system even though your professor might disagree.

Operator

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

TS Lim
Southern Cross Equities

With the weather extremes across most of the states, what does this mean for the outlook in terms of agri-banking? I think that's your core competency.

Cameron Anthony Clyne
Former Executive Director

Well, I think again it's going come in to some of the short- and long-term effects and I obviously had a chance to go spend some time of some of our big agri-customers in Queensland. I

mean, I think, there's obviously some short-term crop damage. Livestock by and large seems to have got away relatively okay. There are some transport issues, obviously rail lines don't seem to be getting at the stock. Prices seem okay, obviously, you've had some traditional damage in North Queensland to various crops. But the flip side of that is in fact some of the crops

we've taken off early because there was prediction of this coming for some of the cotton crops were taken down. We've also got the fact that after a flood and given the infrastructure

damage is okay in some places. You've actually got full dams and pretty good crops and pretty good stock. So the short-term whether or not can you manage through some of the working

capital issues of some of the farmers are going to experience, but you actually should be set up the remainder of season relatively well. So at this stage, notwithstanding there will be some

isolated examples, we're not expecting perhaps as bad an impact on the agri sector as we were expecting when the storm actually occurred.

Operator

Your next question comes from Brian Johnson from CLSA.

Brian D. Johnson
CLSA Limited, Research Division

Just three very quick questions. Mark, just to clarify, in the United Kingdom, when we talk about past 90 days plus the impaired, it actually increased. But the past 90 days was steady. Isn't

that telling us that basically there must have been a new past 90 days coming to replace those ones that might migrated into the impaired?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Yes, presumably. I mean, you'll never have a period where you don't get new people going into the 90 days past due.

Brian D. Johnson
CLSA Limited, Research Division

So there is a deterioration in the asset quality in that business?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Well, if you move between any two barriers, every bank has new bad debt. That doesn't mean there's a deterioration in asset quality. That means there's just an ongoing loss rate in

banking.

Brian D. Johnson
CLSA Limited, Research Division

The second question, Mark, you guys did a great job leading off everyone and kind of pointing out the Basel III the last time perhaps as a little bit more onerous than we thought. But the

other thing is subsequent to your full year result came out and they had even bigger kind of pro forma Basel III adjustment. At this point, do you sense the Basel III adjustments would be in

line with what you previously described or could it be perhaps a little bit bigger?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

We haven't changed our view. I mean, we still think it's 15 basis points on the core that we're likely to get. But that's not because APRA's told us or anything. It's just where we can see logic taking us. So we could be wrong on that. And I think what the other banks have presented is a worst case, and we've presented them expected case. But the IR guys are quite happy and

have quite probably have already given you what the worst case would be for us. We're just trying to, as I said, give the expected the case. But after a -- I mean, we have no insight into

exactly what they're going to do.

Brian D. Johnson
CLSA Limited, Research Division

Mark, I can't say that I have been given the benefit of that worst-case scenario, could you just enunciate for us?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Not at the top of my head, but one of the guys will give you a call afterwards.

Brian D. Johnson
CLSA Limited, Research Division

Just a final one, if you have of you look at the New Zealand covered bonds issuance that we've seen, it's all well and good to talk about whether it's 5% or 10%. But the degree of over

collateralization we've seen in some of the recent ones is pretty significant. When you talk about this if it was set at 10%, would get us over the line. What the implicit assumption are you

making about the over collateralization that you got to put in there?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Haven't got there yet. Haven't got there yet. Obviously, we have to wait and see exactly what -- first of all, the legislation and then the constructors in Australia before we can address that.

Operator

Your next question comes from Ben Zucker from CBA Equities.

Ben Zucker
CBA Equities

You talked a fair bit around the Australian business and the like. I was just wondering if on U.K., I realize conditions are fairly weak still there and you talk about slow recovery. But I was just

wondering if you could provide a bit more color around your thoughts or expectations on when we might start to see a more meaningful turnaround in that business?

Cameron Anthony Clyne
Former Executive Director

Well, we've always said the U.K. getting back to its earnings potential, which is probably low-teens ROE. It's primarily dependent on two things. One is asset quality returning to more normal

levels, and the other is the U.K. Bank of England beginning to raise interest rates which improves profitability, particularly at the liability side of the balance sheet. So as those two things

happen, we should get ourselves back up to that sort of level of profitability. And as to when they're going to happen, you can probably [indiscernible].

Operator

Your last question comes from a Brett Le Mesurier from BBY.

Brett Le Mesurier
Axiome Equities

Two questions. Firstly, our new impaired loans falling for the bank as a whole?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

I think very slightly.

Brett Le Mesurier
Axiome Equities

Okay. And secondly, are there any below-the-line expenses this quarter?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

No, we're not doing any of that.

Cameron Anthony Clyne
Former Executive Director
Thank you, everyone. We appreciate you dialing in at earlier time. Have a good day.