Question and Answer

Warwick Bryan
Former Investor Relations Contact

Thanks so much, Ian. Just the normal ground rules, if I could repeat them. Please wait for the microphone and provide us with your name before you ask questions. Not more than 2 questions at a time, thanks. And again, I think we have media on the phone, so if they could just hold their questions until the media conference this afternoon. Okay, Jon Mott?

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Got a question just on deposits, if I could, sir. On Slide 43, you've got a good chart that you kind of repeat most periods. Just looking at the funding and liquidity and the movement in deposits, you talked up early in the presentation the good growth you've seen in transaction accounts and both on the retail side and the business side, but I note that the customer deposit growth in the period was $7 billion. If you go back over your last couple of presentations, first half '12, that was $21 billion; second half 2012 was $9 billion, now it's down to $7 billion. Credit crisis subdued at the moment and you're more positive about the outlook for confidence and a pickup in credit growth, yet deposit growth is slowing. Why is deposit growth slowing? And is it something that management's focused on, is improving deposit growth, especially when you're growing slower than fixed line [ph] deposit?

Ian Mark Narev
Former Executive

So why is deposit growth growing -- slowing as you would expect a couple of answers here. Number one is quite some time, people have been observing higher household savings rates at the expense of other asset classes and certainly, we would expect to start seeing some of that revert to more long-term averages. In terms of our own performance, we have continued to do what we have said for some time that we would do is manage the margin volume trade-off very, very carefully. So our deposits are still roughly funded lending growth in this period. That, by the way, is not a strategic intent. That is a function of how the markets have been and that deposits have funded the lending growth. Our view remains that there are 2 critical aspects for deposits on our balance sheet: number one, is liquidity management. And in that sense, they need to be seen as an important source of funds but one of a number of source of funds and we pay equal attention to making sure that the weighted average maturity of our long-term wholesale funding is good and diversified. So that's part a. As long as we are happy with those overall levels for liquidity purposes, we then do what we will continue to do is make sure we're not writing deposits that eroding value for shareholders. And that's something which we don't announce targets for, a, because for competitive purposes would not be sensible and, b, it's something in which we need to be prepared to look at quite dynamically in this kind of environment and we'll continue to do that.

David Paul Craig

Jonathan, I'll just add 2 headlines to that. Our deposit growth is very close to system, so if the system has certainly slowed, I think that's partly because we're starting to see some funds start to move back into equities, just starting to see that turn. So close to system, but secondly at a time when retail funding is substantially more expensive than wholesale funding, we would think it would be very silly to be funding more of that reference, [ph] seizing, trying to compete in an incredibly hot retail deposit market and hurting our shareholders by taking more expensive funding when there's cheaper funding available in wholesale markets.

Warwick Bryan
Former Investor Relations Contact

Jon, can you please pass it to Jarrod and then to James behind you.

Jarrod Martin

Crédit Suisse AG, Research Division

Jarrod Martin, from Credit Suisse. A question just more so on the funding side of things and perhaps if you could comment on the funding markets in the last month. It appeared to have -- the margins have gapped down dramatically and we're seeing anywhere as narrow as 50 basis points and we're not seeing anything that's above -- 100 basis points above swap now, and then how that does lead into the term deposit pricing that's probably more an immediate benefit on margins. If I could get a comment on that. And also just to your comment on Slide 19, referring to the wholesale funding tenor and the fact that you are still replacing funding that was done cheaper because it was rolling 5 years ago whereas if I look at that chart, really the increasing tenor of funding has only come in the last couple of years. And in fact, if I go back to 2007 and '08, the tenor of funding done then would've been closer to the 3 year mark, which -- so I sort of challenge you on the comment that you're rolling funding back in 2007 and whether you actually threw that comp [ph] a bit more. And then with the rates that we've seen in the last month, that the margin benefit from funding is actually going to be a lot more positive in the second half than, I suppose, what you're willing to say at this point.

Ian Mark Narev
Former Executive

Well maybe I'll break this into 3 parts. I'll take one, then hand to David and then maybe, Lyn, you can talk about the funding markets. Can I first take the part of your question which talked about the impact of wholesale funding on term deposits. This links with the answer I said to Jon. From the point of view of how we should manage this business prudently, we look at the overall cost of funding and the external markets, how much it costs to fund through the wholesale funding markets and the kind of funding we want. And that obviously gives us some good benchmark against which to measure the price we should be willing to pay for a deposit and that's the fundamental way in which we look at this. Now the differences that we've got to be aware here are, number one, that we're obviously all cognizant of the fact the balance sheet needs to look at certain way; and number two, that we're not the price maker in the market. I mean we're in a very competitive deposit market and if we have a different view of the price and deposits than others, then the price and deposits may well be bid up for liquidity management tier beyond what would be beyond logical relative to the cost of the substitute funding. And that's undoubtedly what's happened in the market at the moment. That's what has impacted the funding choices that we're making and the question of whether that will change in the near to medium term is probably more a question for my peers in the other banks than for me. On the question of the tenor, you might talk about that David, and Lyn, you talk about the markets.

David Paul Craig

The first comment to make is, Commonwealth Bank has always had longer average tenor than our peers and our tenor for long-term funding has always been over 3.5 years, Jarrod. If you have a look on Slide 82 in the pack, and we've tried to put a slide to help explain this. So on Slide 82 on the right-hand side, there's a chart that shows firstly, what's happened to our long-term funding cost since 2006. But particularly, the finer black line above there is the cost of 5-year debt. And as you can see, that cost, although it's come down for the first time really since the beginning of the GSC below the long-term average movement in funding, it's still, as of today, at a higher rate than it was 4.5 years ago. So as we continue to fund primarily out of longer-term debt and indeed I think the average issuance -- average tenor of our funding in this 6 months was 5.2 years. So as we continue to get debt that's averaging 5 years in duration and you're rolling off debt that's 4, 5 years old, you're still ticking the thing up. In fact, if you look at this chart, our prediction is that if rates stayed where they were today -- of course, who know where they're going to go. If they stayed where they were today, then it would be about 12 months before we hit the peak of the impact of having all this more expensive debt on our balance sheet and we would expect that peak will be about 5 basis points higher than it is today. And lastly...

Ian Mark Narev
Former Executive

The other thing that I'd just say to finish up on that point before Lyn talks, Jarrod, if our weighted average term in the portfolio is not moving and we are issuing new funding at 5.3 years, by math, it must be replacing funding at the same tenor. So that it does support the point that it's replacing something priced at a time-certain point in the market.

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

Yes, I'd just emphasize that point Ian makes. Obviously when we get a portfolio average, even if it's 3 years, we do have some debt that is longer in tenor than 3 years and typically we are trying to keep -- spread out those tenors and then raise them. So it makes absolute sense that we're replacing it with long-term debt now. And the markets are exceptionally good at the moment, Jarrod, and certainly we're very -- exceptionally good in January when we executed over $6 billion worth of deals. So what we're seeing at that time, the spreads were 3 to 50 basis points tighter than 3 months ago and up to 150 basis points tighter than 12 months ago. I've been in this job long enough to know that, that doesn't always last, so what we do is we try to take advantage of the conditions when they're good. And we still have some more funding to do this year, so we'll have to see how the markets trail out as other events come up. But our base case is that we're hoping that the conditions still remain neutral for this year.

Warwick Bryan
Former Investor Relations Contact

James?

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. Sorry to follow on the same thing, margins. But in terms of the term deposits we have heard from other banks that in December we started to see a softening in the rails and premium in the right view, [ph] softening for customers. Just whether you're seeing the same thing through your book, is that a tailwind that we should be expecting coming into the second half of the year just given the average duration of a 2 day [ph]? I know it tends to be around that 3 to 4 months apart. And also just actually wanted to get some clarification on the DRP neutralization. Is it the intention to neutralize 100% of the DRP? In the media release it suggested there may be some issued in stock, just some triggers around that if there are any that we need to be aware of?

David Paul Craig

Look at the triggers. The intention is to neutralize 100% the triggers that are just -- the midyear release written by a law year, just covers the fact that if there was a huge market dislocation, we wouldn't continue to neutralize the DRP. But the intention is certainly to do 100%.

Ian Mark Narev
Former Executive

Just on the first question, James, in terms of the term deposit pricing, I'd say, yes, in the last couple of months it's probably come off slightly. The challenge in this area and it goes to the previous questions as well, is as we see what the system is going to be doing and as each individual financial institution makes its decision as to the optimal liability of configuration of its balance sheet, the level of competition and deposits might go up and might go down and it's just not predictable. So I -- we've certainly seen slight improvement in the last couple of months. I wouldn't call it a trend and I think what we're going to see as we have these discussions every 6 months is we're going to see quite different patterns of behavior depending on what we talked about. I think our approach to this is going to remain very consistent with where it is today.

Jarrod Martin
Crédit Suisse AG, Research Division

Would that be in spot holds? Spot holds would get a tailwind?

Ian Mark Narev
Former Executive

If you believe that what we've seen the last couple of months can be extrapolated to a longer-term trend, then it would improve the numbers that you've seen here.

David Paul Craig

But the deposit market has been incredibly volatile. It's a very competitive market.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. I'd like to ask you the same question that I asked you 6 months ago. I'm sure you can't remember it, so allow me to refresh you. The question is basically do you have a line in the sand on your our ROE? And I think we've had a few more data points since I first raised the question. First of all, the ROE is down 100 basis points year-on-year but it's flat half-on-half. And secondly, we've had Westpac come out and reallocate capital and focus on their Basel III hurdle returns and therefore, what they want to get out of their business. And you also reallocated capital within your pre-release of any segmental disclosures as well with a few changes between business units. So with the context of the net interest margin tailwind coming through potentially, good cost management on the core, I'd say, and the amortization being under control there. The market's recovering, provisioning under control, the question still stands, do you have a line in the sand on the ROE and is it around current levels?

Ian Mark Narev
Former Executive

I hope I'll repeat the answer I gave 6 months ago, which is no; but let me give you a bit more context. We value the ROE premium to our peers and we think that's an important part of how people look at the Commonwealth think. And if I think about what we aspire to do in the long term, it's to maintain a good level of premium to our peers in terms of return on equity. What we don't believe here as a management team or indeed as a board is that line is in the sand and say it won't go below X or Y. In environments like what we've learned over the 4 or 5 years is a good way to manage the business. What we believe we should do is have a high degree of accountability to front up to you folks every 6 months and explain the decisions that we've made. The prospect of me saying the line in the sand is 18 or 18.5 or 17 or 16.5, and then having to make suboptimal management decisions so we can do what we said we were going to do 18 months ago just isn't a good way to run the business. And genuinely that's how we think about it here. We do not have a line in the sand, even internally, that the talk about. We manage to optimize environment.

David Paul Craig

That said, without a doubt, the largest single downward force on ROE has been the fact that we've had to continue to increase capital. What you're seeing today is we're not -- we stopped increasing capital, so we've stopped that particular thing. 54% higher capital ratio since the GFC.

Warwick Bryan
Former Investor Relations Contact

Mike Wiblin and then I'll go across to Craig.

Michael Wiblin
Macquarie Research

Michael Wiblin from Macquarie. Just on Page 30, just looking at investment there, it looks like it's come off just a little bit. But I wanted to talk a little bit about sort of longer-term, the outlook for investment, just in aggregate, do you think it's going to be lower going forward? And what might you be, I'd say, using the cash for? And does it make sense, I guess, given returns until today, I guess, have looked a bit softer. Growth is pretty slow, pulling back on the CapEx could provide some relief just on a cash basis?

Ian Mark Narev
Former Executive

The obvious point to start your question is the fact that we're still at 24% here on core banking and what's happens to that. I'm very comfortable, and David and the management team are, with the level of investment we have in the business at the moment and the important thing to bear in mind here is: a, we've got this productivity initiative which is going to require further investment. We've got one Commbank initiative about bringing the whole of the group to our customers, which requires investment. And on top of all that, our fundamental view is -- while we've all been focused on all the important issues of the global financial crisis -- technology-enabled competition is on an exponential curve and we must be prepared to invest to maintain our competitive advantage and maintain competitors. And we've put all those things together. I expect the levels of investment will remain very similar to where they are today. We won't as a management team look to sort of squirrel away a bit more to boost short-term earnings because these investments are long-term programs, and I think we should be prepared to continue to do that to invest for long-term growth. What you won't see is one single major 6-year project that's going to come in to replace Core Banking Modernization and in that sense, yes, we do get a bit more on period-on-period flexibility in the investment profile.

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi. It's said that success has many fathers except it seems that CBA's result in share price. But with low economic and credit growth prevailing and strong profitability cash flow generation remains extremely strong, so how do you think about managing the situation optimally given your stock is trading on 2x booked and no particular abundance of franking credits available to you at the moment?

David Paul Craig

Well, given that you've got a buy on the stock, you get as many questions as you want today.

Craig Anthony Williams
Citigroup Inc, Research Division

I had to wait a long time to get it.

Ian Mark Narev
Former Executive

Look, the short answer, Craig, is our overall view on this is that we're going to maintain the course of the business very much as we've been managing it. It's important and the last slide of David's presentation talked about managing the environment and we have had to manage to a more volatile environment. But the core of what we've been doing as a management team for the last 5 or 6 years is just focusing on executing the same strategy and we actually believe that strategy has got a lot more juice left in it. I'll start with a point of simply saying we've got 1 in every 3 Australian consumers sees we're their main financial institution. We've got 2.9 products per customer and we can do a lot better than that. And that's sort of one of a number of data points and there's a lot more that we need to do to manage that. So we -- investors, analysts, et cetera, will all form a view of the stock at any given time and form a view of whether it's good value not good value, et cetera, and that's something you will all do. We are very much focused just on maintaining the management attention on the long-term things and just keeping on going.

Craig Anthony Williams
Citigroup Inc, Research Division

But your capital is going up and you said today that it doesn't need to go up any further essentially. And your probability looks like remaining strong so you're going to continue to have this capital problem building?

Ian Mark Narev
Former Executive

And what we've shown with the DRP neutralization, we flagged it 6 months ago, that we do need to be prepared every period to take a view on capital and we have taken a view on capital -- we've had the one-off this time, which is the Bankwest advanced accreditation. That's 30 basis points. But beyond that, as we get into this point every year and through the period we've got to be prepared to look at our capital number and actually decide is it optimal for the period. That might lead to a DRP neutralization. It may or may not next time, but it's something we do need to be prepared to manage pretty actively. If we're sitting here in 6 months time and risk-weighted asset growth is really taking off again, that will add a different factor into capital management which we'll have to consider at that time.

Warwick Bryan
Former Investor Relations Contact

Richard, and then we'll go to the phones and I'll come back to you, Victor, and then back down here.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles from Morgan Stanley. You've been CEO for more than 1 year now. Investors are increasingly interested in your approach to acquisitions. I'm wondering, if you could answer, or provide some clarity on a few things. Firstly, would you be prepared to do acquisitions outside of Retail Banking and Wealth Management, which are the 2 clear areas of strength for Commonwealth Bank? Secondly, would you be prepared to do acquisitions outside of Asia-Pacific? And would you prepared to do acquisitions in developed markets? And finally, would you be prepared to sacrifice some of that ROE premium to peers in order to enhance your medium-term earnings growth prospects?

Ian Mark Narev
Former Executive

And fourthly, what are you going to buy? Those are good questions. I think overall, the approach that all of us here have from the board through the management team is exactly as we've outlined it, right from when I first got this question 18 months ago, which is we've got a very disciplined approach to how value is created through M&A. That fits a very high bar. The answer to all of your questions would be yes, if we had an acquisition which followed the principles that we talked about consistently for the last 18 months, which is we can create more value for all our shareholders through acquiring with the net [ph] of themselves. And that's a key and that requires adding capability. Now when I cast that over the lens of what you are talking about, it is unlikely that we would look a lot beyond, in theory, beyond sort of Retail and Wealth Management which are things that we know well if we were thinking inorganically. And our focus markets that we've talked about for quite some time I think, the principles behind those are markets where we feel we could add value, whether its organically or inorganically so none of that's changed. And the response is still the same as it has been for the last year, which is I think there are a lot of people who think because of this price-to-book ratio there's a list of sort of 50 things were looking at and any given day we might be buying one of them. That just simply isn't the case because the bar that we put for successful M&A is very high, a; and b, because what we've seen here again, is that by sticking to the living [ph] we can still continue to do a very good job for our shareholders.

Richard E. Wiles
Morgan Stanley, Research Division

And if I can just follow up. One could argue that with CBA's track record over the last 5 or 6 years, you could add value to banks in developed markets. Is that a fair conclusion? Or would you take the view that it's not an attractive strategic direction for Commonwealth Bank to take?

Ian Mark Narev
Former Executive

Well we have worked really hard on things here, a number here that I've talked about, and through sustained multiyear effort, we think we've managed improve the business pretty well. When you talk about adding value to banks in developed markets, let's say the U.K., or the U.S., et cetera, too often the debate is here's your price-to-book, here's their price-to-book, do the numbers and it's a good acquisition. The way we think about it here is that if you believe, for example, we are good at technology or good at service or something like that, you've got to be prepared to put 50 people on the plane tomorrow, fly them over to the target, have them work on that target for 2 to 3 years to transfer the capability into that institution to create the value for the shareholders. So again, that's a really high bar and we don't sit here and say, because we've performed okay, our customer satisfaction is okay, and we've got some good technology investments that, that makes us a logical buyer of big assets in developed markets because the other bankers in those markets and the other management teams are pretty good. They compete hard and they compete well and we've got to have a pretty good reason for believing that we could outcompete them.

Warwick Bryan
Former Investor Relations Contact

I might go to the phones now. Brian Johnson from CLSA.

Brian D. Johnson
CLSA Limited, Research Division

Just a few questions if I may. When I have a look in the profit release, which I've got the luxury of doing as I sit in my office, I can see that in the slide pack you talk about how the liquidity position is really strong. But when we have a look on Page 24 of the result, we can see that actually the cash in government and semi-government bonds was reduced from 44 being down to $39.8 billion, which presumably would've had a favorable impact on the NIM. Could you give us a feeling on how much of a favorable impact that was, when the cash and government bonds were run down and what's the outlook for that particular component, the liquidity going forward? That's the first question. And the second one is perhaps a more important one, I think. You've had a lot of questions today about drawing lines in the sand, about the ROE -- a lot of questions about the ROE. But when I have a look at Slide 79, in your core franchise which is home loans, you're losing share. In your other core franchise, which is household deposits, you're losing share. Are we getting to the point where you pull the price lever and compete more aggressively?

Ian Mark Narev
Former Executive

Let me answer the second question, Brian, and then I'll pass over to David for the liquidity question. Obviously, the numbers are the numbers. And they show exactly what you see, and I've obviously got to be careful here whenever I talk about pricing. What I will say is that we have come through a period, particularly over the last couple of years, where as we talked about our thoughtful approach to balancing share and margin, margin has not been that attractive. And we have decided that the best way of creating value for our shareholders is to go easier on the price lever, obviously, and just manage margin well while focusing, number one, on our customers and that's been the story of what you seen here in these numbers. In environments where margin improves and the whole environment which we are competing is different, that can obviously lead to some different decisions. So again, it's an example of not saying, we wouldn't let a market share go below A or go below B, but actually saying we're constantly making a tradeoff here between what's the right way to create long-term value for our shareholders and as margin starts improving in some of these areas that could obviously result in a strategy which would reverse some of the trends that you've highlighted. David, you want to talk about the liquidity point?

David Paul Craig

Yes, I mean I guess it's just 2 points to make about liquidity, particularly the way you're looking at it, Brian. The first one is that, yes, we have reduced our liquidity -- our surplus liquidity from where it was, say, this time last year. Remember in January last year, the markets were extremely volatile. There was a great deal of caution coming into Christmas and we had really built up substantial levels of liquidity, really just as a precaution. So compared to this time last year, in aggregate, we're holding less liquidity -- less surplus liquidity than we did because we just don't believe the markets are as bad and indeed the answer you heard from Lyn a little earlier about just how good markets have been in January, would give you that indication. The second comment to make is that...

Brian D. Johnson
CLSA Limited, Research Division

David, sorry, can I interrupt there? But wouldn't that suggest if the funding environment is so great, you'd be borrowing more and you'd be holding it in cash?

David Paul Craig

Well, as I mentioned in the presentation, we have in fact, on $7 billion of funding in January, so we've done $13 billion through to December. We've done $20 billion as of today. So that -- we are holding more cash today than we were at 31 December, that's just because of the point that you make. But at December, we were sort of sitting where I've indicated, which is that the liquidity was lower than it was at the time of great volatility in December the year before. The second comment to make is going to be a little bit cautious about looking at the accounting classification of things that count in liquidity. So when you look on Page 24 of the MD&A that's a reference to what's in statutory reporting for accounting purposes and so what's classified there and what counts -- what you'd see as liquid assets can be a little different to what accounted for liquid assets for regulatory purposes. But look, I'll just hand over to Lyn to give you a little bit more flavor.

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

Yes, Brian, I mean just a couple of comments. First of all, yes, we have raised reasonable amount of debt in the first months of this year, month and a half. But remember, we've also done a $3.9 billion buyback of government guaranteed debt, so that means we don't have that much excess cash sitting on our books. Secondly in terms of your question around the composition of liquid assets, you can expect that to be fluid overtime. Yes, it will go up and down in terms of our Level 1 assets and our Level 2 or above Level 1 assets. That's still a matter of negotiation with the regulators as to what is the desired composition at the end of the day once the new liquidity rules comes in. And we can expect to see more clarity of that during the course of the year.

Brian D. Johnson
CLSA Limited, Research Division

Lyn, did this favorably impact the NIM, in this half year?

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

A reduction in the holding of more expensive assets inevitably does have favorable impact.

David Paul Craig

It wasn't 1 basis point, Brian. I would've called it out if it had been a significant impact on this particular half.

Warwick Bryan
Former Investor Relations Contact

Matt Davison for Merrill Lynch. Matt, you there?

Matthew Davison
BofA Merrill Lynch, Research Division

On costs firstly, if we look year-on-year costs were up 3%, staff were down 2%, recognizing there's that 1% of extra investments and, a, I'm just interested if you feel like you've really shown the efficiency dividends yet from any of that investment and whether you're at a tipping point where you can really change the dynamics around costs excluding amortization? And then second question was just relating to the dividend guidance, the second half, you talk about it being slightly down. Depending on your definition of slightly, I'm just interested whether this could see you move towards the top end of your 70% to 80% payout ratio?

Ian Mark Narev
Former Executive

Maybe I'll take the second question first. No, it's not signaling that. The primary reason we've even made that comment, which is atypical for us, is because as David and I were sitting with the board yesterday, what we wanted to be very clear about particularly for the benefit of our retail investors is that a 20% hike in the dividend for this half isn't indicative of what they can expect in the second half. Because not everybody spends a lot of time studying dividend policy and we were worried that, that might send a signal to people who rely on the dividend and that's a very important shareholder base to us. It's not signaling anything other than the fact that we really care about those retail investors. In terms of expenses, I would characterize what you have seen here as a good heightened awareness of expense management and the very early signs of the efficiency dividend. So because of the way that we have approached productivity, this is really a -- a, it's continuous improvement and b, it's one of these things where you really start seeing the benefits kind of 2 years in. I'm really happy with where we've got to, to date. The focus on this from my team is extremely high and I'd say the benefits of that real engineering are only just at the very start and what you're seeing here is the start of that, that the lion's share of the story here is just good awareness and good approach to expense management.

Victor German
Nomura Securities Co. Ltd., Research Division

Victor German from Nomura. First question on capital position, obviously, a big improvement in the half. One of your peers, who has -- which has very similar capital position of around just over 8%, signaled that they would be more comfortable sitting at about 8.5% given the volatility around dividends on quarterly-on-quarterly basis. Are you able to give us an idea whether you're comfortable at your current level? Or would you want that capital position to shift up?

David Paul Craig

Look, I think, the fact that we're buying back the dividends should be a black and white answer to that question. But we indicated when the capital was sitting at 9.8%, that we were pretty comfortable with the capital levels. Now that they're sitting at -- and of course, part of that was because we knew we had the 30 basis points coming on the Bankwest advance credit accreditation. Now that we're sitting at 10.6% were extraordinarily comfortable, so I think you should take the DRP neutralization as a pretty black and white answer.

Victor German
Nomura Securities Co. Ltd., Research Division

The second question, Ian, to you perhaps. You've obviously made a very big investment in IT over the last number of years and you're saying that you're nearing the end of the program. As Brian highlighted earlier, you're still alluding market share in your key retail segment and I understand the trade off around margin, et cetera. But does this IT platform that you have now, give you a sustainable advantage over your peers, which should provide you with the ability to actually maintain or grow above market? And have you been disappointed so far that you're not able to grow at system given your IT advantage and when do you think that can close?

Ian Mark Narev
Former Executive

The #1 issue here that it comes back to the answer to the previous question is we manage for shareholder value and that's what's driven the volume performance and the relative market share and we're very comfortable with that. Now we keep looking at that period-on-period relative to what the competitors conditions are in the market, the margin environment. So as per my answer to Brian, that might lead to different views given this margin environment, but I certainly have no concerns whatsoever about the market share performance historically, as you've seen it today. In terms of the technology performance, I remain even more confident than I was when I joined the steering committee of course, 6 years ago, that this is really industry-leading capability and hard to replicate and at the core of this is simplicity and real-time banking. It was interesting one analyst did a review saying it takes 3 seconds or longer to log on to the Commonwealth Bank website than it does to some of the peers. And that was a difference of 3 seconds and we're thinking, yes, but you can actually get your payments done 72 hours earlier on the

Commonwealth Bank website, so you may be willing to tolerate the 3 seconds it takes you to log on. And those things -- I mean, this all comes down to whether you believe -- and there are good debates about this that, that kind of real-time capability in payments and the customer-configured system actually matter. We do -- we think we've seen the benefits of that starting already, and we're going to continue to as our people use it even more as we get commercial lending on there, et cetera. And if you believe that, you will understand that it is going to take 5 or 6 years from anybody starting today to replicate that fully. You can replicate parts, but not replicate it fully. The views of some of our peers are that actually that isn't the source of competitive advantage and they will tell you why they believe that isn't the case. But we stand firmly that view that those investments are great long-term investments. And the fact that we're now talking about them, given all the challenges they're putting in their capability almost in the past, i.e. not if we pull it off, when we do it, but now that it's in I think that puts us in a great spot.

Victor German
Nomura Securities Co. Ltd., Research Division

Do you expect that to deliver market share benefits or just cost benefits?

Ian Mark Narev
Former Executive

The combination of benefits was always going to be some increased customer preference, some better ability to manage it at margins because for example, you've got the ability to price down to the individual branch levels instead of having 22 price points very quickly, and some benefits from operating expenditure. And the way in which we would balance those in any given period of time will mirror the overall view that we've got about the attractiveness of the markets at the time.

David Paul Craig

I think we will be very careful about just the market share thing, because we can grow market share and we've seen other banks able to grow market share by throwing price, by throwing shareholder value. We can do that at the drop of a hat, but what we're trying to do is balance the interest of our shareholders with the interests of our customers.

Ian Mark Narev
Former Executive

I would say just a tie off that point, there's an important one that Brian mentioned. I mean, we would be crazy as a major institution with our footprint not to look at market share. So I think the question about saying, "Here's the trend of the numbers, what do you think about it" is very legitimate because we need to -- that's something that we do, we do keep looking at and keep focusing on.

Warwick Bryan
Former Investor Relations Contact

T.S. Lim?

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

Simple question for you Ian, on a scale of 1 to 10, how would you rate these results and why?

Ian Mark Narev
Former Executive

I would rate them as 6 out of 10, because I'm very happy but I would never rate anything about above -- above about a 7.

Warwick Bryan
Former Investor Relations Contact

Are there any more questions from the room? Do you have another question, Craig? Because I've got one on the phone, so I'll go to the phones and then I'll come back if anyone has got more questions, and then wind up. Brian Johnson is back on the phone.

Brian D. Johnson
CLSA Limited, Research Division

Ian, I'd like to post a hypothetical situation, which definitely will happen in the next sort of while and I'll like to hear what your response is. Okay, you're sitting on the 7:30 report being interviewed. The RBA has just chopped interest rates by 25 basis points. You've chopped them by 20 basis points for the reasons that you've enunciated today. During the day, Hockey has come out and said, "Oh geez, those banks are bad. We're going to have an inquiry into the banking system." Wayne Swan has come out, "Geez we're going to have one as well." What is your response?

Ian Mark Narev
Former Executive

That's not a hypothetical, Brian. That's a history lesson, that one is.

Craig Anthony Williams
Citigroup Inc, Research Division

Well, I've got tell you, even as I sit here today, the Greens have already come out and said, "CBA, what a pack of b*******."

Ian Mark Narev
Former Executive

In all seriousness, there are a couple of answers to the question. Number one is we're a major financial institution and we have to expect the scrutiny, so that's number one. And you won't ever hear us complaining about the fact that there are people who have these views. Number 2, we need to understand that the fact that we're particularly in economies where people have found it a bit harder, even though the area isn't good, that there are people look at interest rate movements, don't exactly understand how our liabilities are considered in the balance sheet because we wouldn't expect them to, are struggling with their mortgage and look at this kind of profit and think is too much. And I completely understand why those people think that the way they do and that's a legitimate observation. Our job, unfortunately, is we just got to keep focused on the right balance between their needs, deposit holders' needs and the needs of 800,000 Australians who own the shares directly and a million more through funds, and realize at any given time, one or more of those groups of stakeholders is going to hate us. And that's just life running a big institution and what I'd like to think will happen if I'm under that situation is what's happened before, which is just we'll take the heat and continue to focus on what the right long-term balance would be.

Brian D. Johnson
CLSA Limited, Research Division

And then the second time they chop interest rates and you do it again during the election campaign, will you be having the same conversation or will you just not have cared?

Ian Mark Narev
Former Executive

You always in these kinds of roles have a responsibility to front to people who are genuinely asking questions in the public interest and doing it the right way, so we are never going to hide behind this. Obviously, more people want to talk about these sorts of things than we've got time to talk about it. But I don't think this debate is going away anytime soon.

Warwick Bryan
Former Investor Relations Contact

Any more questions in the room? Here and then to Victor. Excuse me?

Unknown Analyst

Saul Parker [ph], PINO [ph]. I'm just looking at Page 36, I think if you look at the breakdown, you had 32% of the market share in home loans of the whole, Big 4, and that's still 32%. So notwithstanding that you've grown -- that it's gone from 58% of the total to 77% of the total, can you just sort of comment -- so the market share thing is not really an issue. So could you just say where you think that's going vis a vis the brokers because clearly that's who has lost the market share. Are you going to work with them from now or what's the story there? Because it's a massive increase in a relatively short space of time.

Ian Mark Narev
Former Executive

Well, first of all, if you look at the RBA numbers, I think for the period ended December, you're definitely starting to see an increase in the activity of the next year banks beyond the majors, so that's up and they grew ahead of the average of the major banks. And that supports the view that we said all along, is that this competitive market and what we're seeing now is greater activity. In terms of the third-party market, it's still about 38% of our inflows and the mortgage book. Our view, clearly as an organization, we've had it consistently for the last 5 or 6 years, is we have a proposition that third parties offer customers, which is a complicated product, we'll help you sort through the best offering and we'll do it without charging you and that proposition is not going away. So we will continue to work with brokers. Obviously, we would like to think that the level of service people can get through our proprietary offer is going to be so good they won't want to go, but the reality is a chunk of people are always going to want to and we need to be prepared to be good in that market.

Unknown Analyst

So I suppose -- I can envisage that you'll still maintain that 30%, 32% of the Big 4. But do you think that 77% as a total market is now going to come back towards that figure of years ago or is that gone forever?

Ian Mark Narev
Former Executive

I don't think -- I mean, I can't tell you what the number is going to be, but the trajectory of the major banks share of the overall home loan market, if our base case is right -- it's under conditions, hours that were going, [ph] volatility is lower, et cetera -- over time, you would expect that to start inching back.

Unknown Analyst

And just a second question, if I may. Do you -- it's probably in the data here, but what's the split between your deposits for the retail world versus the commercial world?

Ian Mark Narev
Former Executive

Yes, I mean we've got -- well the split of the retail deposits is there on Page 37. The split between our overall deposits...

David Paul Craig

I mean, you can see the market share -- the question is, the market share is on Page 79 of the pack. There's an analysis...

Unknown Analyst

It's more of a dollar question. It's actually these, in dollars.

Ian Mark Narev
Former Executive

Okay it's an overall dollar, is it? Well, we'll leaf through it and come back to you on it.

Warwick Bryan

Former Investor Relations Contact

Victor?

Victor German
Nomura Securities Co. Ltd., Research Division

I actually wanted to come back to the previous question and ask on IT platform. To what extent is it scalable? And going back to Rich's question on M&A, to what extent are you able to utilize your IT advantage in potential M&A opportunities? And that would be that angle that you can add as an acquirer that the company doesn't have currently?

Ian Mark Narev
Former Executive

Yes, it is scalable, but it's scalable through people. So the real complexity of the core banking program is a, you've got a whole lot of people who need to be really adept at actually doing the coding; b, you've got to have a really strong capability in actually integrating the new capability with legacy systems; and c, you've got to have a whole lot of people in the business who know how to exploit the capability. So those parts are all scalable, but they -- going back to my -- Richard's question, all revolve around a bunch of people who know how to do it. So we've been very thoughtful over the core banking -- the time of the Core Banking Modernization program. Michael and his team have done a very good job on this on codifying everything we do. So when we do a big migration of retail deposit customers from a legacy player -- from on the SAP, we've got every step of how to test that, how to migrate them, how to follow up from it very carefully coded. But it's still never going to be a measure of just in e-mailing those instructions to a bunch of people in a new bank and saying go do this. So the same principle applies, which is you need a cadre of very experienced people who you're prepared to lift out of the business without impacting continuity of this business, seamed to the new institution and work on that for a protracted period of time.

Warwick Bryan
Former Investor Relations Contact
Okay, on that note, we might wind it up now. So thank you Ian, thank you, David and thank you, ladies and gentlemen. Good afternoon.