Question and Answer

Warwick Bryan
Former Investor Relations Contact

Thank you, Ian. Thank you, David. [Operator Instructions]. James Freeman?

James Freeman
Deutsche Bank AG, Research Division

It's James Freeman from Deutsche Bank. I just wanted to ask on the costs, you delivered sort of flat jaws number and spoken to us about no big redundancies and continued investment. I mean is that the mantra, flat jaws is the expectation that we can take away or whether some one-off is coming through in the first half that you don't expect to appear in the second half, and so we should start to see a more positive jaws profile? That's a question on costs. The second question is just on liquidity. David, you mentioned with that big increase in liquidity. Do you think you're there now? Have you got enough? And do we think that drag will start to ease on the margin?

Ian Mark Narev
Former Executive

Let me take the first question and then make a brief comment on the second question, James, before I hand it over to David. We have said for some time that jaws are the growth difference in the growth between operating income and operating expenses is something we look at very closely. When I talk about making sure we've got a long-term focus while ensuring short-term momentum, jaws is one of the key aspects of short-term momentum. So although with projects like core other aspects of our expenditure, we are long-term focused. What we're always looking to do is look at the shape of the revenue line in the short term and make sure that our discretionary expenditure ensures that we're not overspending for the environment and that has meant that even when we got a more challenged revenue environment like now, we're still keeping pretty flat jaws. My expectation would be that it wouldn't get worse than that. And as revenue starts to pick up and you start to see some of the benefits of productivity, the jaws should start opening more widely. Although we don't manage to any specific jaws target. In terms of liquidity, the overall setting then I'll hand over to David. This is something that we're looking at very closely. I mean, obviously, we've got the long-term regulatory liquidity settings to look at. We've also got the short-term view of our need to hold liquids dictated by our appetite, investors appetite, the rating agencies, et cetera, and we're constantly looking at that level of liquids in the current environment through asset and liability committee. We feel pretty good about the level of liquids that we're holding at the moment, as that 133 number that you can see here, I'd say we don't see a big need to increase liquids at the moment beyond that, but we really don't want to make a lot of predictions about what we're doing because to some extent, it's sensitive to the environment. What we are conscious of, and David pointed this out earlier, is the impact of the costs of holding liquids on the net interest margin. So obviously the name of the game isn't just get as liquid as possible. Do you want to add to that?

David Paul Craig
Former Group Executive, Financial Services & CFO

No.

James Freeman
Deutsche Bank AG, Research Division

Can I just confirm, so you said it's not going to get worse but it should get better. What's your timing in terms of when this jaws should get better?

Ian Mark Narev
Former Executive

James, it depends a lot on the shape of the revenue environment, and even if you take 3 or 4 people and you ask for the forecast on 6- to 12-month credit growth, we're still seeing a huge standard deviation in those assessments. So at the moment, even the variability on those forecasts in the near term is difficult to get a good number on. So as we sit today, keeping 4 and 4 in this kind of revenue environment, I would hope we wouldn't do worse than that. But if we got to an environment where we saw, for argument's sake, 3- to 6- months of slightly weaker credit growth and we look at our expenses and see the right thing to do for the long term for this half might be to spend a bit more, we'd look at it. But the best case scenario is to continue to manage to flat and positive jaws.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles from Morgan Stanley. Your investment spend in this period was $650 million, which is tracking ahead of the run rate in the previous years. Given the unpredictable environment, you've been talking about just like some insight on 3 issues. Firstly, you've been spending more than $300 million per annum on Core Banking Modernization. I understand that comes to an end by the end of 2012. Do you think you'll redeploy that somewhere else or save it? Secondly, do you need to continue to have the same level of investment in the branch network, given that households are now deleveraging? And thirdly, you've gone through a period alongside the other banks of growing FTAs in recent years. I know you made a commitment to no major redundancies programs. But has this gone to actually constrain that growth and, therefore, get some cost benefit that way?

Ian Mark Narev
Former Executive

Okay. Let me take those 3 questions. First of all, on core. We'll do more of an update on this just in the normal cycle in May. It continues to track to the forecast that it should. And yes, there's a lot happening this year and then it starts to tail off pretty soon after that. In terms of how we're going to fill it. What we are not doing is saying that we brought a budget of x-million dollars, that's the amount we want to spend on the business we'd fill it. The way we look at the project portfolio is we take a bottom-up view of what the best projects are, then we screen those projects against 2 criteria. Number one, is just is it a palatable level of overall investment spend? And number 2, which is actually equally important, the constraint, do we have enough expert taking the core resource in the business to do all the projects? So we certainly want, obviously, core particularly from the latter but also from the former, once the core spending tails off, it frees up some capacity. What we're not saying as an Executive team is great, we've got $300 million, how can we spend it? We're continuing that bottom up discipline. That might result in less being spent. It could conceivably result in more being spent, although I doubt that would be the outcome. On your second question on the branch network. I recall a lot of analysis in the mid-'90s, saying branch metrics were dead and everybody said, let's hold that investment on branch networks and they did it. And then all of a sudden, about 2000, 2001, everyone woke up and said, “Gosh, branch is still making money. Let's invest more in branches.” Although we do talk a lot about technology, mobile, peer-to-peer payments, et cetera, and in the long term, that's going to be a critical source of differentiation, the reality is that in the near to medium term at a minimum, the branch channel remains an absolutely critical part of our momentum and of our strategic differentiation. So although Ross and his team and more broadly with Michael Harte, Rob just obviously and others, we're doing a lot of thought to what the world's looking like as branches get used differently. What that does to branch formats, et cetera. We still have an appetite to invest in the branch network because it's still doing very well for us. On the third point, about growing FTEs. Yes, we have continued to grow FTEs in number. I would expect, as we've got the overall productivity initiative, that we can get more productive on current revenue base. So what you said is in a year's time, revenue is like it is, we should be able to be doing that year after year with fewer people and we would manage that, by definition, first with natural attrition, which is sort of 3,000 people per year, redeployment, et cetera. We wouldn't see the need. That's a lot of difference in FTEs. So that would be on today's revenue base. If revenues kept growing through different business mix, et cetera, might that lead to an absolute increase in FTEs? Technically, that's possible. But the key for us is to become continuously more productive on the baseline of today's revenue base.

Warwick Bryan

Former Investor Relations Contact

Jon Mott?

Jonathan Mott
UBS Investment Bank, Research Division

Jonathan Mott from UBS. If we take a helicopter view of the banking business at the moment, you can say is very profitable back book with 9% return on equity. But in the current funding markets, profitability on a lot of the key asset and liability products you're selling is substantially less than that. How do you manage that prices going forward, assuming finding markets continue to be difficult? Is there opportunities there on that front book? Or how do you manage that front book, back book process?

Ian Mark Narev
Former Executive

It's a good question. Look, first of all, on the short-term profitability, even with that, we've got to be a little bit careful. I mean in this period that we've talked about, and I might have the numbers not exactly right but they'll be close enough. Basis risk in this period moved between 16 and 42 basis points. That's a major shift just in these 6 months. So even in the short term, we've got to be very careful about what we're considering to be some kind of sustainable or what we call equilibrium level of funding cost we've got to work around that. And we work around that through pricing committees right through the group, which you're looking at a cost of funds, obviously. The impact on the back book, the impact on the front book, et cetera, and that has got to be a dynamic process. And what we're putting pressures on ourselves is to make sure that the infrastructure we've got for making those pricing decisions is as good as it can be but pricing strategies, by definition, need to be able to adapt pretty quickly and they will continue to adapt pretty quickly. In the medium to long term, it's actually a more difficult question, frankly because I think there's a lot of debate about will Greece default? What's going to happen in a month? What's going to happen in 2 months? The much more interesting and complicated question is what's the equilibrium state we move to once we worked through all that, if we assume that Europe's difficult for 3 to 4 years, what that does to demand for Chinese products, if you work through all that. And we've got to make sure that we're doing that thinking but also maintaining very flexible pricing settings. Because I'm sure you all have the same view, there are scenarios you can imagine credit growth coming back really quickly, funding costs coming down. There are scenarios under which you can imagine funding costs continue to go up and credit growth being equally weak as it is today or even worse and our pricing's got to be able to be flexible enough to adapt to both those scenarios.

Warwick Bryan
Former Investor Relations Contact

Ben Koo?

Ben Koo
Goldman Sachs Group Inc., Research Division

Ben Koo, Goldman Sachs. Just on the costs and then just another question on just how other opportunities you might be looking at on the cost. Can you just clarify on the 35% cost income target, is the Retail Banking, that still stand? And then just longer term as well, just looking at the opportunities for the business, you do have this environment of slowing credit growth and no growth in Australia. You already have 33% market share. I'm just interested in where you see the longer-term opportunities for growth for the bank?

Ian Mark Narev
Former Executive

Yes, we're committed to the 35% cost-to-income target, absolutely, but with one rankle, which I want to be pretty clear about. What that really -- what we were saying here is that we wanted to make sure that the ongoing productivity in the Retail Bank got us to a 35% cost-to-income ratio. The thing that concerns me and always has about the cost-to-income ratio is how much that's denominator-dependent.

So actually, we could get to the situation where we're sitting here in 3 years' time, congratulating ourselves on a 33% cost-to-income ratio. But actually, our process is less productive, and we've just grown revenue. So our commitment to the productivity that would get us there is exactly as it was. What I think you'll hear us talk more about from the time of the strategic review in April and beyond is more clear productivity measures around the unit cost and processes, quality and processes, et cetera that don't hide inefficiency against a strong revenue growth line. And so, that's a way of saying yes, we're committed to the productivity but cost-to-income ratio might not be the best measure of it.

Ben Koo
Goldman Sachs Group Inc., Research Division

So just to clarify on that, is the revenue environment that we're seeing right now wasn't foreseen when you set that 35% cost-to-income ratio? So you're a little bit less confident about -- you're confident on the cost side but not as confident on the revenue side? In other words, the revenue wasn't sort of foreseen when you set that target?

Ian Mark Narev
Former Executive

I'm very confident about all the actions we've taken on the cost side. The issue that I've got, and it goes really through the point I was saying in response to Jon's question is there's still such a variation of forecast on the revenue side. I mean, if we got a situation where credit growth came back very significantly, and we will continuously getting productive about the management team said, gosh, we've got 6 months to meet this target, revenue's really down, let's just slash and burn to get to 35%, we wouldn't do it. We've got the long-term focus but we want to make sure we keep getting the continuous productivity. To the extent you're talking about other opportunities, I think it's really important in terms of the Australian core commercial banking business to be thinking about this across a number of different levels. Markets, where the market environment's good, i.e., the systems good, areas we've got opportunity for market share, areas we've got opportunity for margin improvement and areas we've got improvement opportunity for operational productivity. And you could probably add capital productivity to that. And when people say to us, gosh, growth in Australia is challenged, they tend to say because your home loan market shares x we had deposit market shares x, and you can't possibly get better than that. Now there are a number of different product lines around the group and we have got industry-leading market shares that are hard to grow. But actually, those are businesses we've got a good opportunity to do better on our pricing or better on our operational productivity. And that's as valuable value creation as the next percentage point of market share might be, for example, in Business Banking. So as we look at the Australian commercial portfolio, we apply very different goals, different parts of the business and how they contribute to that value. But I'm very confident that all the different parts, when they add up, we can still see where the growth's coming from.

Ben Koo
Goldman Sachs Group Inc., Research Division

So just the domestic? Nothing international?

Ian Mark Narev
Former Executive

That's domestic. International, there's been a lot of discussion particularly since my appointment and Rob coming on board that we're about to become a major international bank. Our view on international remains I think very consistent with where it is today, which is we're very happy with what we're doing internationally. We are constantly looking for things we do very well in Australia that we could apply to do offshore. And as and when we find those, that we will do it. But we've got to be clear that in the near to medium term, at least, the momentum of this business is coming from Australian domestic banking and the Wealth Management business.

Warwick Bryan
Former Investor Relations Contact

Andrew?

Andrew Lyons
RBS Strategy

Andrew Lyons from RBS. Just a question to David on capital and I specifically refer to Slide 44. You fully loaded Basel III APRA core equity Tier 1 ratio of 7.1%. Just 2 things on that. Firstly, is that lower than what you would've expected it to have been 6 months ago, particularly around calculation of that number? And secondly, are you comfortable that you can organically build to a number where you think you need to be sort of over the next 2 or 3 years?

David Paul Craig
Former Group Executive, Financial Services & CFO

Well, firstly, we're very comfortable about where we are today. I think we're incredibly well-capitalized under any measure of risk today and we look at capital, not just through this lens but through economic capital lenses and talking with rating agencies and so on and so on, so on. So many different perspectives. And from our point of view, under any of those perspectives, we're very, very well-capitalized. We obviously don't know for sure what final rules are going to be nor do we know for sure when they're going to kick in. I mean, obviously, there are timetables. And again, under any timetable, we are way ahead of timing from our point of view. So I don't know how many ways I can answer the question except to say we're very confident about our capital.

Warwick Bryan
Former Investor Relations Contact

TS Lim of Bell Potter.

T.S. Lim
Southern Cross Equities Limited, Research Division

There are some shall we call, latte-sipping lefties, around in a market, calling for further bank regulation. What are your views about things ultimately being valued as utilities?

Ian Mark Narev
Former Executive

Look, our short view is that banks are not utilities. There are, and I mentioned this at the start, it's a reality that we expect and accept that given what the world's going through, there are all sorts of different regulators looking at the regulatory settings and wanting to change them. And they're becoming, in many ways, more restricted and our approach to that, is we engage good dialogue, we feel well heard, and then we adapt the business as it comes. But we're engaged in very active discussions with those regulators. And that's a trend that we accept and expect to continue. Beyond that is all sorts of speculation about what might be done with banks, et cetera, and we'll just take that if it comes. We don't do to spend too much time scenario planning around some of those things.

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi. If you look at credit growth at the moment, very subdued. Bank funding positions don't seem to be in a position where that can accelerate dramatically, I would argue. Your return on equity is 19%. So presumably, you begin to see significant levels of capital and I think what David's suggesting is your capital is very strong now. And I would expect that, that will continue to build. So how do you consider the balance between returning that capital directly to shareholders and investing the capital back into the business?

Ian Mark Narev
Former Executive

Look, we feel a, that we're holding the right levels of capital and that b, the outlook that we've got, again, there are scenarios that contain a whole bunch of things but the core outlooks that we've got, the core range of scenarios is that we can successfully and valuably continue to deploy that capital in the business.

Warwick Bryan
Former Investor Relations Contact

Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. Just a question on funding and clarification. Slide 37, you detailed on the changes in wholesale, as well as deposit finding being an impact of some 25 basis points. And then you say the increase in incentive variable weight was 10 basis points, that you've called back. And then I think, David, on the Slide 43, when you look at funding profile, you said that there was a further $7 billion of funding done in January, at 200 basis points. The calculations on Slide 37, do they include the additional $7 billion done at 200 basis points? Or are they prior to that?

David Paul Craig
Former Group Executive, Financial Services & CFO

They include them. But of course, the calculations on the other page are a rolling average cost of funds across the entire retail book. So although that funding, of course, was partly for the Retail Bank, you're talking about less than one month on a small portion of the overall funding of the whole book. So yes, it's in there but it wouldn't have a material impact in that first month.

Jarrod Martin
Crédit Suisse AG, Research Division

So it's going to increase from here on?

David Paul Craig
Former Group Executive, Financial Services & CFO

Funding costs are again going to continue to grow because we continue to replace cheaper old funding with unfortunately much more expensive new funding.

Warwick Bryan
Former Investor Relations Contact

Mike Wiblin?

Michael Wiblin
Macquarie Research

Mike Wiblin from Macquarie. Can I just get -- just an update. The GFCL looks like it's picked up. Can you just talk us through what's going on there? And then I'll follow-up with the same question.

David Paul Craig
Former Group Executive, Financial Services & CFO

It's hardly picked up at all. I mean with volumes moving around these things, move up and down, one part of the calculation moves up, one part moves down. It's just a reflection of the difference between the regulatory calculation and the more sophisticated economic calculation that we do. So I don't think you should read anything into that very small movement.

Michael Wiblin
Macquarie Research

It's not the payday in mortgages for instance or some other?

David Paul Craig
Former Group Executive, Financial Services & CFO

No, it's not.

Michael Wiblin
Macquarie Research

Just on Page 61 of the release, if you have a look at the business and corporate yield on assets, it looks like it's gone down sort of 36 basis points versus home loans. You've obviously had some pretty good growth in business lending. Can you give us some color as to I suppose that growth and then opportunity for repricing going forward in the market?

David Paul Craig
Former Group Executive, Financial Services & CFO

Sorry, are you talking about Page 61 of the profit announcement?

Michael Wiblin
Macquarie Research

Yes, that's what I'm up to.

David Paul Craig
Former Group Executive, Financial Services & CFO

And just ask again what specifically you're asking about it?

Michael Wiblin
Macquarie Research

Well, it looks like the -- I guess what you're earning on the assets has declined quite a lot. Can you give us some color as to you've had some good growth, just color around where you're growing and also the opportunity for repricing going forward in that space.

David Paul Craig
Former Group Executive, Financial Services & CFO

You’re looking at average balances. Obviously, these are reflected by what's happening in the market. Interest rates are down, so you've got a little bit net interest margin rather than the gross interest and this is the trouble with this particular analysis which obviously is compulsory. So I think that the way we characterize what happened, which is that margins in Business Banking have gone up a little bit, margins in home lending obviously down. That's a better reflection of what's happening. And clearly, in terms of where we're seeking to grow, I think it's pretty obvious that we've grown in credit cards and unsecured lending where margins are holding up well. We've grown in corporate banking, where margins are strong. We've not grown so much in home loans, where margins are weak.

Warwick Bryan
Former Investor Relations Contact

Victor?

Victor German
Nomura Securities Co. Ltd., Research Division

Victor German from Nomura. Firstly, would you be able to give us any indication of what portion of your business lending is linked to standard variable rate?

Ian Mark Narev
Former Executive

Yes, there is -- none of it is actually linked to the standard variable rate. A small portion of the Business Banking book is cash funded and that is primarily our recent entry secured business loans. So it's growing about 10%, give or take.

Victor German
Nomura Securities Co. Ltd., Research Division

So the benefit is not going to come through the business book at all?

Ian Mark Narev
Former Executive

Again, as I said, before we talk about the benefit, we've got people who look very carefully weekly at pricing and making their decisions based on the dynamics of the Business Banking markets. So I think that they've done a pretty good job of getting the right volume versus margins settings on it.

Victor German
Nomura Securities Co. Ltd., Research Division

Okay. And secondly, late last year, there was a paper, draft paper by APRA in terms of capital requirements for the life company. Would you be able to give us an update how that translates to your specific instruments that you hold in Colonial? What impact it has on the group? And just linking it to the capital position, which is a little bit lighter than your peers, what should we be expect -- or should we expect in the differences on the payout ratio going forward?

David Paul Craig
Former Group Executive, Financial Services & CFO

Payout ratio for the Bank group?

Victor German
Nomura Securities Co. Ltd., Research Division

Yes, for the group.

David Paul Craig
Former Group Executive, Financial Services & CFO

I don't think so. So we're doing like all of the industries doing quantitive impacts happens across all of the different proposals that APRA has come, and there's a number -- a range of them at the moment we're doing lots of Q analysis. None of those are giving -- the results of none of those are giving us any particular cause of concern. In other words, it's obviously working with APRA on proposals and on refining those things. But we don't believe that any of that will lead to any material change in the way we capitalize the group, and particularly the way we capitalize Colonial. In fact, you may be aware but we've announced today that we are raising a hybrid -- a retail hybrid in Colonial.

Warwick Bryan
Former Investor Relations Contact

I might go back to the phones, George Gabriel from Evans and Partners in Melbourne.

George Gabriel

You've talked about being overweight with conservative scenarios in your outlook. Just wondering what key metrics you're looking at as leading indicators of the outlook would cause you to shift your spending away from conservative to a more aggressive setting?

Ian Mark Narev
Former Executive

It's a good question, and we've spoken about this a lot. You can see later on the materials some of the charts in the economic research that Michael Blythe and his team do internally, that we look at most closely. Obviously, some of the classic standards like the unemployment rate are pretty important in the long term. But really, in our discussions on this in our monthly ALCO, we're looking at a variety of factors, including a few of those key macroeconomic metrics, including some indications about what's happening in China, including what are the markets pricing in terms of interest rates, funding costs, et cetera. So what we don't have is some algorithm that we put on to these numbers and it spits out where it sits on the conservatism curve. But we keep look at a variety of these sorts of metrics in looking at our settings.

David Paul Craig
Former Group Executive, Financial Services & CFO

I think it's worth adding that at the end of the day, consumer and business confidence has proved to be one of the most significant indicators of what's going to happen to our business.

Warwick Bryan
Former Investor Relations Contact

Brian Johnson?

Brian D. Johnson
CLSA Limited, Research Division

Ian, I had a question. If you have to look at -- and I apologize because I am going blind but if you have a look on Page 48, whenever we asked Ralph Norris about this, he tended to dismiss it. This was just what the economists were saying. And that's quite a valid answer. If we can get some explanation, do you honestly believe that system credit growth on these numbers can go back to growing at a multiple of nominal GDP in a world where we know that the regulators certainly is not saying that's a desirable outcome? Could you just run us through whether you actually believe that's right? And I'd stress, it's quite understandable to dismiss economists view on that if that is what it is.

Ian Mark Narev
Former Executive

The economists, the page is as we see it is the CBA economists forecast and it's very important to us that the CBA economists forecast are not forecast of the CEO or CFO, it didn't forecast the CBA economists. I have thought for some time, including my time as the head of the Business Bank, that the line of thinking that just as once we get through all of this, we get to return to the great healthy world where credit growth is multiples of nominal GDP isn't going to happen. So I would characterize these as obviously very strong analytically but with probably some more aggressive assumptions than I might have.

Brian D. Johnson
CLSA Limited, Research Division

There's some kind of acronym that involves CRAP in there somewhere. Because the problem is that than on one hand you're communicating on that slide that the revenue outlook is much stronger than perhaps it really is.

Ian Mark Narev
Former Executive

To be fair, what I'm communicating quite consistently through this is volatility. There were people at the time, I don't know whether you're one of them, who through the financial crisis when the CBA chief economist was making his forecasts and including his interest-rate forecast, his credit growth forecast was saying, this guy is a rational optimist. It turns out he was right. And some of those people were in the Executive Committee of the Commonwealth Bank Group. So yes, I think this is fact-based, well-reasoned set of conclusions which can be defended. But there's a big range here. And the range of outcomes on the standard deviation around some of these estimates on all sorts of metrics is broader than we have ever seen it.

Brian D. Johnson
CLSA Limited, Research Division

The second question, David, and I apologize for attending in a slightly obnoxious mood, but if you have a look at the housing stress testing stuff, which I've temporarily lost the page reference, but we have the stress testing figure where I note that, once again, the stress loss has actually gone up. But then, we've now introduced what I would say is the super stress scenario where the outcome looks far, far worse. I also note that we don't see a slide which shows the seasoning of the arrears rates on the loans that originated in '08 and '09, which were loans that were originated when interest rates were low, the first-time buyers grant was high. Can we get some kind of explanation of how those numbers kind of flip around? The one that really strikes me is if we have a look at the top one, the probability of default stress factor, can you express that to us in basis points? The frequency of loss.

David Paul Craig
Former Group Executive, Financial Services & CFO

Well, I'm going to put Alden Toevs, I'm going to pick and try to answer that last particular point. But look, a couple of things. Firstly, to your point about the '08, '09 loans, I'm pleased to say that the arrears on those loans, they passed their peak and the arrears on those loans as indeed the whole book are improving. So they were a very profitable bunch of loans. So in terms of when we took them back in the back book, those loans were landed at a time when interest rates were very strong, and we've had very high profit from the whole book from those particular lines, I suspect. But I'm guessing that the loss might have been 3 basis points as against 1 basis points average over the long term. So very, very little impact and very profitable book. As far as these home loan stress tests are concerned, the one on Page 104 of the pack is the one that we have used. It's the APRA stress test and it's the one that we have used consistently for many periods. But we have done a much more enhanced and sophisticated test, which we've introduced here for the first time, just to show what happens over multiple years and what happens when we start looking at -- from our point of view, in a much more granular way at the fact that certain parts of Australia would be more impacted by downturn in other parts, both in terms of what might happen to home loan pricing and in terms of what might happen to unemployment. And you know that unemployment is absolutely the leading indicator of home loan loss. So it's a much more sophisticated but our 3-year view rather than a 1-year view, which we believe is a better way of stress testing what might happen. But it's over 3 years. So that's the explanation of what the 2 are. I'll just ask Alden to give a little bit more color.

Alden Louis Toevs
Former Group Chief Risk Officer

Yes, you got it right, David, as always and the -- I think it's noteworthy that we do provide this much information on a very complicated test to give you a full understanding of a very big part of our balance sheet. The last part of the question that we haven't yet addressed is the average PD for the portfolio as a whole, it's about 19 basis points. But that includes the mortgage insured, which would have a slightly higher PD because of the higher LVR that's associated with it, although we still have good servicing quality to that.

Brian D. Johnson
CLSA Limited, Research Division

So Alden, just to confirm that, 6x of profitability of default stress factor equals 19 basis points?

Alden Louis Toevs
Former Group Chief Risk Officer

No, no. Onetime is 19. So 6x would be whatever that multiple is.

Brian D. Johnson
CLSA Limited, Research Division

Alden, can I...

Warwick Bryan
Former Investor Relations Contact

Sorry, I think we've got a few more questions, Brian, so can I come back to you later? Can we go to [indiscernible].

Unknown Analyst

Just Interested in a couple of high-level observations on the mortgage market from Ian. The first is you pointed out what's happening to margins and you started with a lot of political pressure on rates and also you're finding costs so much higher. So I'm just interested if you've taken any steps yet or thought about any steps to ration credit to that segment, given what's happening to ROEs. And then the second question, I say, the risk weighting on home loans is down again overall to just over 15%. So I'm just interested in your view and whether you see that as conservative and whether you see more room for that to fall and does that still strike you as appropriate in this setting with the job offers that we're starting to see come through the economy?

Ian Mark Narev
Former Executive

Smith [ph], on the overall, obviously, we're in an interesting environment in terms of home loan pricing at the moment. One of the things we're talking a lot about today is just our view that somehow, define the relationship between a bank and its customers by one rate on one product is really quite unique to the Australian environment. But obviously, it's the reality of what we're doing, particularly we take all it into account, we look at that as the general customer view as one factor in our pricing. We also look at our funding costs and that led us to make a decision that we made on Monday in a competitive environment. As it is today, home loans are not as profitable right now as they were but we've got continuing appetite to grow at a reasonable rate we're not credit rationing into the home loan book. In terms of the risk weighting on home loans, I think the number looks about right. In this environment, a lot of people are saying, aren't things getting a lot worse, unemployment's ticking up slightly? But if you just have a look at the overall picture of credit quality in our retail book, we're pretty confident that the risk weighting that we've got here is the right risk weighting.

Warwick Bryan
Former Investor Relations Contact

Brett?

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

Brett Le Mesurier from BBY. Ian, can you comment on what you can see now as the major constraint to your business and has that changed from the time you were a division head to now being group head?

Ian Mark Narev
Former Executive

The constraints, the categories of constraint are pretty much the same. I mean, we've clearly got an environment where -- although we want to keep working for the long term, we've got responsibilities for short-term momentum. And therefore, the natural ceilings on revenue growth can be a constraint on some activities. And we've got to keep watching that carefully. So we've got a commitment to keep investing. We are going to keep investing. But in an environment where funding costs are what they are, revenue growths are what they are, we do have some constraints and other degrees of freedom to invest in everything that we would want to do. I don't think that's significantly different from how it's been for the last few years, but obviously there's a lot of volatility around it. And that's something that we keep watching but we keep trying within the bounds of responsibility to just smooth over to keep the long-term view.

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

So your competitors don't bother you to much?

Ian Mark Narev
Former Executive

Look, our competitor -- we are in a competitive environment. I think if you just look at deposit pricing, we're in a competitive environment. Are they a constraint on what we do? No, they're not a constraint. We're obviously looking at what they do very regularly across all different parts of the business. We're also recognizing that as we go further into the future, the question of who are our competitors are starts to change a little bit in some parts of the business. So we look at what they do very carefully but we feel good about our relative competitive position.

Unknown Analyst

Just got a couple of questions on the way Ian always were able to -- could you provide some clarity around the modest increase in consumer loan and impairment expenses? Are you seeing any softness in specific buckets of the consumer loans? Or is it just a function of the softer economic backdrop?

Ian Mark Narev
Former Executive

Look, there are 2 aspects here and I might invite either Alden or David to add if there's anything I've forgotten. Number one is there's a bit of a business mix issue here. So although growth in home loans has been a bit subdued, growth in some of the peers lending and the credit cards has remained pretty good. They are good margin business. We're happy actually with the level of arrears we've got here but they are businesses which naturally will lead to higher arrears and some impact on the loan impairment expense. The other aspect we've got here is that, over time, you can see that the pattern of a normal retail book is that you see arrears go up and then sometimes, as arrears come down, the ramp goes into the loan impairment expense net to natural flow. And there's a little bit of that happening at the moment where we're seeing the loan impairment expense inflated a bit as a result of previous arrears, even at the same time as the arrears are coming down. But overall, the net-net of this is that we are comfortable with the way the retail book has had, it's performing strongly and as of today, the credit -- the overall credit quality looks good.

Unknown Analyst

In the stress slide, you actually showed that you're assuming a 1% cash rate. This is a crack of a question. What does that imply the standard variable rate would be?

David Paul Craig
Former Group Executive, Financial Services & CFO

Higher.

Warwick Bryan
Former Investor Relations Contact
That's all the questions we want to wind up. Thank you very much Ian and David, and thank you for attending today.