Question and Answer

Analyst

Thierry [ph] from South Cross [ph]. You've got a lot of growth coming from Victoria, and with the fact that Westpac is going to open up Bank of Melbourne branches, I mean, are you guys -- how would you respond to this? Is it going to make a difference to them?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Thierry, you're sharing that customers can't think for themselves, I'm pretty confident that most people would know that Bank of Melbourne is owned by Westpac, which is a big bank. We are a true regional bank that offers a true differentiated level of service, and I'm sure Victorians will see that as they do today.

Analyst

We've got Bal III [Basel III] coming down the line. I was just wondering how Bank of Queensland is positioned for that? And also the RBA is going to play a fairly important role in that. Do you think it'll be an even playing field or in a differentiated playing field we saw with the government guarantees?

Ewan Cameron
Former Chief Financial Officer

In terms of Basel III, obviously from a capital perspective, we think we're well positioned. I mean, the minimum guidance on the LCR [liquidity coverage ratio] -- ratio, the RBA have come out and said that they're going to support the banks in that respect for a fee, which is going to be a flat fee as far as we understand. So at this point it's unclear exactly what that fee is and what it means. But from our perspective, it appears like it's an even fee. On the next table, funding ratio, currently, we set around, based on our understanding of how the next table funding ratio is going to be defined. We calculated around 90%, so obviously, we've got a little bit work to do, and we're trying to extend our profile, particularly in Retail.

Operator

The next question comes from the line of Victor German from Nomura.

Victor German
Nomura Securities Co. Ltd., Research Division

First question, if I could just ask in terms of your margins, there has been about four basis points reduction in half from non-accruals. Are you able to give us an idea what sort of impact that we should expect on the full/half basis on that?

Ewan Cameron
Former Chief Financial Officer

Next half, there'll still be some headwinds, given that the uptick in non-earnings is taking place through the quarter -- through the half, up to around $400 million now. So I'd expect there'd be two or three more basis points impact next half.

Victor German
Nomura Securities Co. Ltd., Research Division

Okay. Because I would've thought that given the slide occurred in the later part of the half, that you, in fact, potentially could be more than four basis points?

Ewan Cameron
Former Chief Financial Officer

Potentially, we haven't got a firm number on that.

Victor German
Nomura Securities Co. Ltd., Research Division

And just also, if I can ask a question on capital, you were, I think, David pointed out that this potentially, a mini boom in Queensland in terms of restructure, in terms of rebuilding phase, which potentially could lead to improvement in your volume growth on the business side. And also, David highlighted this potentially for bolt-on acquisitions. How is that going to be funded from a capital position?

Ewan Cameron
Former Chief Financial Officer

We've included some sensitivity around the potential asset growth, and that's the reason we keep a buffer above our minimum guidelines. In the event that a significant acquisition came along, I think it would be expected that we need to look for additional capital to support that.

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

There are smaller acquisitions, particularly in that Vendor Finance and data finance space that wouldn't require capital immediately that we'd look at.

Operator

The next question comes from the line of David Shi from Morgan Stanley.

David Shi

In December last year, you reviewed all your commercial property exposures over $5 million, and since then, there's been flooding in the higher Aussie dollar, in effect -- which affects the -- disrupts the economic recovery in the region. I'm just wondering, are you still comfortable with the provisioning levels of these commercial property loans? And secondly, you mentioned that in the flood provision, it accounted for one impaired commercial property line. I was wondering, does it account for other large exposures?

Ewan Cameron
Former Chief Financial Officer

Yes. At the moment, we're comfortable with the level of provisions. Of course, as we said in the presentation -- I didn't quite understand your second question, David.

David Shi

So when you mentioned on the -- regarding the large provision -- regarding the large exposures, you mentioned that one of those exposures was an impaired exposure, of which, it was accounted for in the $45 million as part of this flood provision.

Ewan Cameron
Former Chief Financial Officer

Yes.

David Shi

I was wondering, the risk of that $45 million, does it account -- I mean, what does that taking account of? Is it -- I'm trying to take into account just collective provision for the flood as a whole or does that account -- try to account for any other increased risks in those larger exposures?

Ewan Cameron
Former Chief Financial Officer

The provision for the floods and -- that we made was for the floods in prevailing economic conditions. It was built up with non-information on that 900-or-so customers that we know are directly affected or indirectly affected by the flood and the weather events. And the results are a component in there for the expected impact of the floods is going to have on prevailing property prices. And that's how we built up the number. We are tracking the customer exposures and how they are developing. Obviously, it's going to take some time to know exactly what the risk is given that it's a different estimate. And any write-offs that come out of that group of customers will be written off against that provision. And we think we're being conservative. And to the extent that the provision is not required, of course, it will be used for other bad debts down the road, but we're not really in a position to release that provision or use it for anything else.

Operator

The next question comes from the line of Jon Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Just a question on asset quality again. If you look at the guidance, you're assuming that the asset quality issues were at quality one-offs. If you look at a lot of the other banks, which had significant impairment charges that tend to be elevated for a while, that it could bounce right back. So the common question, what gives you such confidence that this is going to happen? And secondly, when you answer that, can you have a comment on asset prices in Queensland, especially commercial and realty asset process post-floods? What's happening there? Are you starting to see those asset prices come down a bit? And a follow up question, just a quick one. It looks like the ATMs that you've -- the Bank of Queensland granted have fallen by that 500 during the half. Is there anything in that?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Okay, Jonathan, firstly, in terms of bad debt performance. Look, I think we've seen significant experience over the last couple of years as well. So from our knowledge, and we're all across our portfolios, we think that our bad debts will normalize perhaps to where they were about 18 months ago and obviously we've done a complete review of the portfolio and continue to do that. We've been hit with several large one-offs, and that's banking unfortunately. But in terms of the ongoing portfolio, I'm as confident as I can be in terms of the quality that sits here, and that's why we've got confidence, that we'll see bad debt levels return to what we call sort of what was normalized over the last 18 months. In terms of ATM numbers, we moved to a ready teller network earlier this year or late last year. So we're now part of the largest independent distributor of ATMs in this country. So our numbers have actually gone up rather than come down. So I can't give you the exact numbers on that. I'm getting frowned at in the office here. So I guess, I've just got that wrong. But anyway, look, we're part of a large independent network, BOQ and ready teller are now in partnership, so we've been able to provide more access to our customers in more convenient locations I think is the key.

Jonathan Mott
UBS Investment Bank, Research Division

Can you also just comment on asset prices? What's happening there post-floods? Are you starting to see asset prices falling in Queensland yet?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Look, I think it'd be fair to say yes. We're not involved on the Gold Coast in terms of high-rise development, and that's where there's particular pain at the moment. Particularly, I think there's eight new projects that have been completed and that heading towards settlement and that they have said that they will settle. And any property along the riverfront or river flood levels, I don't think there's enough experience today to say that those values have gone down. Certainly, where we've got customers that have been infected -- affected by the floods, as Ewan said, we've taken a fairly conservative approach to the valuations on those properties in the event that we end up as an origin position. So I think that's all covered.

Operator

Our next question comes from the line of Ben Zucker from CBA Equity.

Ben Zucker
CBA Equities

Just two questions really, related to margins and funding. In terms of the margin pace, there's obviously been a fair few moving parts this period and there's a quite a lot of support coming through the acquisition, as well as in asset repricing. Just wondering when you look forward to the next half, are you focused on or do you see the likelihood that there could be a bit of margin pressure returning again? And on the funding side, your comments around good progress on Retail funding. Do you expect to continue to see that as a priority and how would you describe your capacity, the securitization with some of the deals that have been done recently? And how willing would you be to use that as a source of funding?

Ewan Cameron
Former Chief Financial Officer

Yes, clearly, and as we talked about in the presentation, the Retail performance has been very strong, and it is a priority for the bank to increase the share from Retail funding. But that does come as a consequence in terms of a mixed impact on our NIM. And we do -- we have seen some deterioration in the NIM as a result of that. And it's a priority for us to continue that because it's a very -- we think, a sustainable source of funding. And as you can see in the upper -- results over the last few months, has been very strong for us. In terms of how much more securitization will do, look, clearly, as I mentioned, our goal is to kind of keep that share roundabout where it is today given the comments that we had from Moody's when they put us in negative watch. The bank needs to be careful about how much securitization it does going forward, and our preference, our favorable funding source right now is Retail.

Ben Zucker
CBA Equities

And in terms of -- in terms of the margin, with all the different dynamics for the support of things, this half -- next half, you see some pressure potentially coming back in?

Ewan Cameron
Former Chief Financial Officer

Yes, there is some pressure, and potentially between the impact of the non-earning assets, as we already mentioned and Victor already flagged, and the mix of retail, yes, there could be some pressure there. And we're looking for ways to offset that, but potentially around five, six basis points.

Operator

The next question comes from the line of Wes Nason from Citi.

Wes Nason
Citigroup Inc, Research Division

Just a couple of questions, if I could. Firstly, on the slide, I think, on Slide 11, when you talked about, I guess, an adjusted normalized cash profit $114 million. Just trying to understand does this include the $54 million that's on Slide 22 as to parade the various -- the write-downs that you took? Can you confirm that?

Ewan Cameron
Former Chief Financial Officer

Yes, it's basically just adding back the tax effect that impacted the $45 million and the $35 million that we flagged on the bad debt -- total bad debt page. Because really, we're not trying to be overly cute, but we're just trying to say, if you believe like we do that the flood provision was a one-off, and these large exposures are nature, non-recurring, and we feel pretty good about the other large exposure over $20 million. Then, the cash impact would have been $114 million, which is kind of the growth that we were expecting and the analysts were expecting six months ago.

Wes Nason
Citigroup Inc, Research Division

Sure, so -- and you mentioned, I think, you or David mentioned that you expect a modest reduction of that [indiscernible] in the second half, is that correct?

Ewan Cameron
Former Chief Financial Officer

Yes, and given the combinations of the provision and re-use taken on the commercial book, our knowledge of our large exposure accounts, the fact that we're carrying the flood provision against the Retail and SME customers was impacted by the floods and improving collections and delinquency performance on EF [Equipment Finance], which really contributed to the second half 2010 results, there is the prospect bad debts will fall modestly in the second half below the levels experienced. But at the same time, I assume that there's no further deterioration in economic conditions, or asset prices and -- it's really -- it's obviously a tough one for us to give very specific guidance on. But given those factors and influences and what we know today, it's our expectation is that it'll be a little bit below with where we've been trending in the last 18 months.

Wes Nason
Citigroup Inc, Research Division

All right. And I guess, just a follow up on that, I think, David also mentioned, that you're expecting provisioning to normalize, so I think roughly, where you were 18 months ago. Just trying to clarify what he means by that? Is that like a basis point of charge going forward or is it an actual provisioning number?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Yes, it's more of a charge. What we said is that we thought that our bad debts would start to normalize around the levels that we've experienced about 18 months ago. And that's what we mean. So...

Wes Nason
Citigroup Inc, Research Division

Right. Okay. So it's a dollar figure, you're talking about?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Yes.

Wes Nason
Citigroup Inc, Research Division

Okay. All right. And just one other quickly, if I could. Just on the dividend -- and now you'll write a payout ratio was over 100%. Can you clarify, was there are some discussions with that or either paying out more than 100%? And were there any issues that they said with that?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

There was discussion around that, and we decided as board to pay out $0.26. So that's the end of it.

Ewan Cameron
Former Chief Financial Officer

Yes, and I don't think it requires -- it doesn't require a regulated approval as long as we're not paying out more than what we've retained in the last 12 months.

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Comparing only, carrying costs that surplus capital in our position at the moment as well.

Operator

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

Michael Wiblin
Macquarie Research

Just a question, a couple of questions, if I could. Refinancing of the government-guaranteed debt that you've got coming up in October, do you have plans around that and how are you planning on refinancing that, whether that's a roll into more wholesale or use of deposit? And after that, a follow up question.

Ewan Cameron
Former Chief Financial Officer

It could be both. I mean, for us right now, if it fell due tomorrow, we wouldn't have a problem paying because of the surplus liquidity that we're currently carrying. $500 million is not a big roll for us. And we're looking forward to that roll because the all-in price I think it's 265 basis points. And we've done refinancing in the last six months in the market to that level, more around the 150 basis points. So that's going to be a positive contributor to the NIM next year. My hope is that we'll refinance that through a combination of Retail deposits and we'll start to -- we'll continue to issue in the long term markets to replace it. So I guess -- and I don't think it's either one or the other.

Michael Wiblin
Macquarie Research

Okay, and then, it's good to be able to talk about, I guess, the Insurance side now that, that's in the results. Can you just comment on the declines trends that you're seeing? There's been some talk on the Insurance side that with the state of the economy that we're seeing that there's some deterioration around claims? I mean, are you seeing anything there? Can you just give some commentary around sort of the Insurance claims sought?

Ewan Cameron
Former Chief Financial Officer

The claims issues has been fairly stable, half and half. The drivers of the claims in the St Andrew's Insurance business is a combination of employment-related and life, and we haven't seen any variability in either that would give us concern.

Operator

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

Andrew Triggs
Deutsche Bank AG, Research Division

Just a couple of questions. Firstly, how much of the flood-related provision you collected in collective per [ph] ? And secondly, having mortgages on the possession, do you have, at the moment, and how this changed the amount of Basel II?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Can you just repeat the second part, sorry.

Andrew Triggs
Deutsche Bank AG, Research Division

How many mortgages under possession do you currently have and how did that change of late?

David Paul Liddy

Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

I'm not quite sure of the number. I might see if Darryl can help us on the number. Roughly 100, and it's been moving up slightly.

Ewan Cameron
Former Chief Financial Officer

Yes, not much of that flood provision left to collect, I don't know, it's about $30 million, $35 million.

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

$35 million remain in the bank.

Ewan Cameron
Former Chief Financial Officer

$30 million to $35 million. Yes.

Andrew Triggs
Deutsche Bank AG, Research Division

So that means that some of the collective are written back?

Ewan Cameron
Former Chief Financial Officer

No, as we -- what we tried to do, and I think we've been pretty clear about this in the ASX releases, we've -- where at all possible, we booked a specific provisions in impaired assets as a consequence to the flood.

Andrew Triggs
Deutsche Bank AG, Research Division

So some of funds it's been directly booked in that specific rather than collective?

Ewan Cameron
Former Chief Financial Officer

Yes, as we -- we initially booked is $45 million, and as time have gone on and we've identified specific situations, we will offset that against the collective. As things are booked to specific and therefore, goes into impaired assets too.

Operator

Our next question comes from the line of Elizabeth Rogers from Goldman Sachs.

Elizabeth Rogers
Goldman Sachs

I just have a quick question with regards to post-flood reinvestment. At your trading update, you talked about the fact that had earmarked about $2 billion of new lending over the next 12 to 18 months associated with that rebuilding effort. How should we change on that number, are you still expecting a similar target level of growth from rebuild or has that changed over the last couple of months?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Yes, about $1 billion in the second half, Elizabeth. So a lot of reconstructions are already commenced but a lot is still awaiting insurance claims and so forth. But we expect that to accelerate in the second half.

Operator

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

Brett Le Mesurier
Axiome Equities

A couple of questions. Firstly, unimpaired lines, do we -- should we infer from what you've said that impaired lines that take such that when your next Pillar 3 statement comes out that we will see a reduction in them?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Bloody hope so.

Brett Le Mesurier
Axiome Equities

Okay. You talked about any -- your timing your credit standards. Have you done the analysis of what proportion of your current commercial customers you would not lend to under the new credit standard?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

No, we haven't done that review, but we review every account individually. All the major accounts are subject to a personal review with myself and Head Of Credit. Darryl Newton is the Chief Risk Officer; and Ram, the Chief Operating Officer. So we're pretty much on top of those. We've certainly got credit criteria and we're always looking to bank good credits, but I don't think that's an overview of our existing portfolio. We've had some bad luck, not bad credit decisions as -- unless we have taken those through two major hits anyway.

Brett Le Mesurier
Axiome Equities

And lastly, the spending duration of your wholesale, the duration of your wholesale funding, has that changed much over the last six months?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

No. Its obviously, we've got a larger percentage in term funding as opposed to short term, longer-term funding, but that was a lot of government guarantee debt that we've taken in over the last two and a half years.

Brett Le Mesurier
Axiome Equities

The average duration of your term funding hasn't really changed then?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

No. 2.4 to 2.3 years.

Operator

The next question comes from the line of James Ellis from Crédit Suisse.

James Ellis
Crédit Suisse AG, Research Division

Just a couple of questions, just as a point of detail, the non-interest income, there was a problem of property plant equipment of $2.7 million, just wondering what that related to. And then secondly, this might be somewhat hard to answer, what was the timeframe for the $30 million, $35 million residual on the front -- flood provision, whether that's one of two halves away before you know it was then, it needs to be moved to the specific provision or it could be really expect to pay it off?

Ewan Cameron
Former Chief Financial Officer

Yes, in the non-interest income there, the sale of assets relates to the Vendor Finance, the CIT business, where we have an operating lease book. And then at the end of term, we often sell that equipment, which results in a gain-in-sale. It's not accounted for as loans. In terms of the timing, I think it's going to take a while for a lot of the Retail exposure to work its way through, given that in a lot of cases, the customers affected applied for a two, three month payment holiday, and then obviously, you have to let that pass through before you see whether there is continuing stress with that relationship, which would then ultimately lead to sort of further closure of that account. So I think it's going to take 12 months to really kind of wind that down.

Operator

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

Brian D. Johnson
CLSA Limited, Research Division

Hi, gents, it's Brian Johnson. I just had three quick questions, but just an observation. Dave, just want to congratulate you on, at least, having tried to do something with Bank of Queensland, because I think before you got there, it was a very small organization and just wasn't going anywhere. So It's good to see some method has been put in to basically change it. But just three quick questions, if I may. The first one is that when you have a look at Slide 27, you talk about this new OMB remuneration system. When I had a look at the detailed results template, I'd see that the share of commission, that their share of the margin being paid out to the R&D has gone from 31 basis points in the second half that came up to 34 basis points. In the case Bendigo Bank, when their margin is basically coming down they flagged it going forward, they expect to basically call back some of that from the community branches. Can you run us through whether that 34 basis points includes the full run rate impact of that? Should we expect it to go up or down?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Brian, we're going to ask you a new-age banker, Ram Kangatharan to cover that. Ram's all over it.

Brian D. Johnson
CLSA Limited, Research Division

Ram do you want do that, then I'll go in another one? So..

Ram Kangatharan
Former Chief Operating Officer

Yes. Let me do that first, Brian. You've got to remember the Owner-Managers growth rates are far higher than the corporate branch growth rates. So as a proportion of the total book under management by the Owner-Manages that continues to increase. So you'll actually consistently see that, that share moving towards the owner managers. Now as we add more business into specially our BOQ National Finance for instance, which doesn't go through the Owner-Manager network as much, roughly 80% is outside of the network, you'll find that then starts to counterbalance and stabilize that number. Okay?

Brian D. Johnson
CLSA Limited, Research Division

So in the near-term, it's going up?

Ram Kangatharan
Former Chief Operating Officer

Well, you'll find that it plateaus in the next three years, because don't forget, in '07, we had like 25% type growth numbers. And they're all being amortized through the P&L on an average of five years. So it actually flows through in later periods, that higher growth number.

Brian D. Johnson
CLSA Limited, Research Division

Right. Okay. So the second one is for you, David, I know that you got a vigorous defense why Storm Financial is something we should worry about. But if you ever look at [indiscernible] ethic announcement where they clearly were targeting basically Macquarie and BOQ, could you give us an update, not so much on your spirited defense, but more on where we are up to on that particular matter at the present time?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Look, we're in litigation. As you're aware, there's court proceedings occurring, and that's all I can say. We -- our position hasn't changed, Brian, from what I've stated for the last two years.

Brian D. Johnson
CLSA Limited, Research Division

Okay. Now the final question I had is -- that's a little bit complicated and I apologize. Look, just -- when I have a look on Slide 8. I'd see that your core equity Tier 1 ratio is sitting at 7.7% , but we're about to lose 40 basis points of that when basically the subordinate are trying to the securitization comes off, which will take you down to 7.3%. You seem to be flagging to us a rebound in the growth particularly in the higher risk category. But when you have to look at that, presumably, after under Pillar 2, has some kind of buffer, as I put in over the bare minimum of 7, how can -- and my first subquestion is, how can you be so confident that you've got enough capital just to fund this increase in the organic growth rate?

Ewan Cameron
Former Chief Financial Officer

Yes, look, we're not aware of any additional buffer right now, since Harper [ph] haven't published anything. We plan and assume that $1 billion growth or so in the next half. As you can tell from our results, we've obviously been able to keep the capital flat during the last six months despite taking the charges.

Brian D. Johnson
CLSA Limited, Research Division

Well, you had that in the presentation. But you -- and you had a preference share conversion during that period, didn't you?

Ewan Cameron
Former Chief Financial Officer

Yes, but that's just moving from lower Tier 1 to Core Tier 1. So you can see that overall capital levels have been flat despite a depressed profit in the half. We are growing and we've organically generated capital, particularly as a result of the acquisitions we've done in particular, St Andrew's as it grows doesn't consume the same level of capital. In fact, it generates capital. And so when you add all that up, our projection for the half, when you add up assumption that will continue to do our DRP with the levels that we've seen in terms of participation. We should be sitting around Core Tier 1 of 7.4%, next half, which is it still 40 basis points above what we know has been the minimum, if you know any different, let us know, because we haven't seen that in the wire --

Brian D. Johnson
CLSA Limited, Research Division

Right now, the flipside on that is that when we have a look at that Slide 8, we've got capital deductions coming through. You've got the liquidity level, which has declined. You're saying that the bare minimum is 12%, but you're also saying that you have to do some more work to get the LCR and if heaven forbid that you had to raise the necessary, the funding ratio. What's the prospects of being able to continue to reduce that liquidity when you think about these looming capital -- these looming Bal III reforms?

Ewan Cameron
Former Chief Financial Officer

Well, the reason the capital was so high at the end of the last half was we just term the securitization on August 28, which stock a $1 billion or so extra liquidity and we managed liquidity around 14% to 15%, and we're higher than what we're managing right now. Obviously, in terms of the LCR, it's a different issue. Obviously, all the banks are materially under what the expectation around the requirements are and the answer is the RBA facilities that they're putting in place. I mean, it's a long way away. In terms of our ability to switch over the book when the time comes, we don't foresee any issues with doing that. The open question right now is what exactly is the RBA fee going to be for that solution that they've announced to the market.

Brian D. Johnson
CLSA Limited, Research Division

Okay, now the flipside is despite of that capital liquidity, but now if you actually flip out to Slide 15, you've said that the long-term debt funding duration is 2.3 [year], but it's actually come down from 2.4 years. That's actually a lot shorter than we actually see in the major banks in Australia. Can you run us through why you can run a shorter duration debt funding than the bigger banks?

Ewan Cameron
Former Chief Financial Officer

We've got quite a different mix of business than the major banks.

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

We told you Brian that we're not a major bank, and you should look at us a little differently than you do the major banks.

Operator

Our next question comes from the line of Matthew Davison from Merrill Lynch.

Matthew Davison
BofA Merrill Lynch, Research Division

A couple of questions. Firstly, just relating to the tailwind you've highlighted with Retail funding spreads improving, just wondering if you could put a bit more color or one-off vacation around that, and whether that can actually see the margin impact on your NIM from liabilities being positive next period? And then my second question just comes back to the provisioning in impaired levels. You're total provisions are about half you're total impaired assets, the major banks, sort about 100% or so. Just looking for a bit more color on the reasons why, and does it relate to Insurance around companies as stressed from the floods, does it just relate to your knowledge and the security of those exposures et cetera?

Ewan Cameron
Former Chief Financial Officer

Yes, I think the first question in terms of the Retail funding spreads, if you compare back to where we were six months ago that, and you look at the major banks and where they are currently issuing savings account rates at, it's probably about 50 basis points lower across the board. We haven't lowered to the same extent. We find that when you put savings rates up and down, it drives your customers crazy and really impacts the loyalty. We've taken them down a bit, and a couple of times in the last few months. So it takes time for that to come in to your average funding costs, particularly when you're issuing in the term deposit market. So we do think that heats come out of the market a bit, and overtime now, that'll flow in. In terms of the second question, what's that?

Ram Kangatharan
Former Chief Operating Officer

In terms of the coverage, don't forget with the majors they have a mix of unsecured and secured, so that ratio for a fully-secured impaired asset level is actually pretty good.

Operator

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

Richard E. Wiles
Morgan Stanley, Research Division

David, you're growing lines of deposit [indiscernible] the system but that's all coming at the moment from the IMBs [ph] outside of Queensland, and mainly the Victoria and New South Wales. The Queensland gross product does break down to 5% in 2012, do you expect [indiscernible] line growth and get back more than 10%? How would you expect with between Leasing SME and Housing, and how long can the pick up last from the points and reap up to build? Finally, are you confident that if you do see that strong line growth come and be continue to fund it with deposit growth?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Yes, look, the deposit growth side is not just outside of Queensland. There's certainly been deposit growth in Queensland. The lending growth is probably more solid outside of Queensland currently. And as I said earlier, we're starting to see some normality come back into settlement levels. And clearly, there will be increased activity here in Queensland, which we're ideally seated to take advantage of. And as far as we're concerned, we put $1 billion away in terms of growth and we can carry that within our current capacity.

Richard E. Wiles
Morgan Stanley, Research Division

So David, do you think you can get double-digit line growth in 2012 even if...

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Well, I don't think you're going to see line growth return to the hay days. So currently line growth is significantly lower than it was last year and the year before. So we're not expecting line growth to continue to outperform. What we'll do is outperform in our own market as a result of activities here. And we've proven, over a number of years, Richard that the OMB model is the sales generation model. Our main focus, obviously, remains in Housing, but we are diverting a lot more of our resources into the higher-margin businesses through the Equipment Finance, the Debtor Finance and CIT, and certainly heading into that Vendor Finance space, now that's Australia-wide business not just Queensland.

Richard E. Wiles
Morgan Stanley, Research Division

So if there's any news on how the rebound will affect -- if the rebounding claims will affect the growth relative growth rates of Leasing estimates in Housing?

David Paul Liddy
Former Chief Executive Officer, Managing Director and Executive Non-Independent Director

Well, look, I think it's good news for growth in equipment finance space, because there's a lot of equipment that needs to be replaced. And just new equipment needed just to meet demand, and it's quite significant. So the mining booms already happened here, we're not being players in the mining equipment space. I think we probably should be. But if you look at just the basic equipment finance needs for rebuilding in a place like Queensland, they're quite significant. Debtor Finance business, I think, is an ongoing cash management tool for small businesses, and that's got growth potential in it. The Vendor Finance space, we're already seeing growth in those areas, and the Housing market, as I said, where 60%

of our book in Queensland, we're more dominant obviously, here in the state. And we hope we'll pick up from the recovery. And that's not going to happen overnight.
Okay guys, well, that's all the calls on the line. So again, thanks very much for joining us this morning, and I look forward to seeing many of you in the state. Go with us next week, as with Ewan, and we're going to have a cup of tea and a scone.