Question and Answer

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

So perhaps any questions from the floor? Okay, we'll go to the phones.

Anthony Rose
Executive Officer

I must have put them to sleep.

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

I know. It was a long one, Anthony. Yes, very good.

Operator

The first question comes from Jonathan Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

I just had a question, looking forward on your capital ratios. The bullet [ph] target is around 10% to total Tier 1, not core. And you're actually at that level, but if you look forward and, hopefully, your stats should probably start to match up with cash profit going forward and if risk-weighted assets are pretty subdued, with the relative hit [ph] continuing to runoff the impaired assets, you're going to probably break through the top of that range over the next 12 months or so. So, with that in mind, what would be the implications for firstly the dividend payout ratio going forward; and secondly, the DRP?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Yes, as you know, Jon, we did revise the DRP discount back and the whole payout ratio discount is a matter for the board rather than for management. But we have had the -- as you said, the statutory profit and the cash profit, there is a differential being the legacy items particularly. We like the fact that we will be growing strong capital and it would be a great problem or great question for us to take to the board having to strengthen our capital ratios. But it'll be a decision they will take at that time and we've always been -- always waited for that to occur rather than flagged it to the market.

Operator

Your next question comes from Ed Henning from CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just a couple of questions. On the restructuring came through above the line in the second half, is there anything on that going forward, is the first one?

Anthony Rose
Executive Officer

No, the bulk of that, as I said, was the really under-clubbing of the amount we took in the first half. It ended up being more extensive and expensive for us than we had anticipated at that time. And there's a little bit of BAU normal redundancy activity which, as we called out, historically had been normalized and that's not something that we think warrants normalization going forward.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay, fantastic. And the second one is can you just touch on just the -- I guess the accelerated roll-off in the impaired assets that you talked about, the property with another about AUD 30 million rolling off towards before Christmas, hopefully. Is that something you're just going to continue to hopefully accelerate in the next 2 halves?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Yeah, I mean the idea is to actually -- as we said was make sure the balance sheet's as clean as we can. The opportunity to exit impaired assets is one that we won't turn our back on. These are pretty large exposures that we're moving on. So they actually make a substantial difference to the bank as you've seen, what we've coming through, a very small well-secured impaireds, which we've pretty much brought out of the branch network. That, as you'll see in the second half, will start slowing.

Operator

Your next question comes from Andrew Triggs from Deutsche Bank.

Andrew Triggs
Deutsche Bank AG, Research Division

Stuart, just a question around the [indiscernible] you mentioned. Obviously, you've got quite a low headline rate, and a different approach to the traditional sort of SVR with a package discount approach. Just interested in what's sort of -- whether there was a return on that part, do you expect to add? And it's seen in the broker channel, I think you suggested you would be offering that product there?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Yes, I mean the broker commissions match those we give the owner managers. So the economics are pretty stable across both platforms. Certainly, we're happy to send an application form out to you, Andrew, if you do want more detail. So I'll just get your address afterwards. What it does do is it just makes it really easy for the customer to understand what rate they're getting. When you look in the market, you get a different rate based on the size of the loan you get, how well you can negotiate a discount. And our view is that banking products should be simple. If you walk in through the door, you should get the rate that everyone else is really getting, but no-one's prepared to say. So the economics on the Clear Path loan are actually pretty much the same as an SVR, but we're actually making it quite obvious what the rate you should be negotiating to is. So what we focus on this is the economics are the same, but it's complete transparency about the price that everyone should be getting in a home loan.

Andrew Triggs
Deutsche Bank AG, Research Division

It also seems that the fees on that product are quite low. Does that plug [ph] materially into the returns, or is that where you think the industry is going anyway?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

The fees are coming off. You'll see there's a monthly fee that goes in there, I think it's AUD 10 a month, versus some of the annual fees which are shown up and it's pretty much recognizing that this is the way things is that fees are going to become harder and harder to come by in most accounts.

Operator

Your next question comes from Anthony Hoo from Nomura.

Anthony Hoo
Nomura Securities Co. Ltd., Research Division

Could I ask a couple of questions? Firstly, on your targets for FY 2015, including that is ROTE of 13% plus. I'm just wondering to an extent is this driven by earnings versus any change in capital/risk weighting.

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

It's predominantly earnings.

Anthony Hoo
Nomura Securities Co. Ltd., Research Division

So you're not assuming…

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

No.

Anthony Hoo
Nomura Securities Co. Ltd., Research Division

Okay. Just the second question as well on your impaireds and on the levels of new impaireds. And looking at the impaireds as opposed to smaller exposure under AUD 5 million, it looks that that still is reasonably high compared to the last half. Are you able to give us some insight into what's driving that?

Anthony Rose
Executive Officer

Look, it's a mix of both retail and SME exposures at the smaller end. Stuart called out the sort of clean-through, the exercise that we've done with the branches and bringing all of that activity forward. And it really just demonstrates that we are still in a multispeed economy and that is continuing to drip through at the bottom end. That tap hasn't run off, hasn't stopped to the extent that maybe we would have liked. But it is where it is at the moment. And I think we're a long way ahead in the early identification of those exposures than where we were this time 12 months ago.

Operator

Your next question comes from Andrew Lyons from Goldman Sachs.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Just 2 queries about your margins firstly. You've got your deposit to loan ratio up to 68%, and as you know, it goes within your target range. Looking forward, does this, coupled with your ratings upgrade, give you some flexibility on deposit pricing? And I particularly make that point, just given that across most products, you're sort of 20 to 30 basis points higher than the majors. And then just secondly, just given the strength of your margin in full year '13, and particularly in the second half versus your outlook, is there now an element of conservatism to your full year 2015 target or does it really just reflect the fact that you're pretty cautious with regard to international pricing trends?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

I'll deal with the second question and then I'll pass it back to Anthony. It's nice a year later for people to think we're optimistic on our targets, because we're -- or conservative on our targets, because I think a year ago, we're optimistic. So it's a nice change. Look, we're going to stay with the '15 targets. If you looked at our coming-out NIM last year, we sort of had an average NIM in the second half of 1.64%, but we actually closed out at 1.59% and we're up at 1.72% in the end of the second half. So there's still a fair bit of market vol, which could affect things. Probably at the end of next year, we'll sit down and have a chat with the Board about whether we should review the targets and go from there. But at this stage, we're only 1 year into our 3-year plan. So I think it's probably a bit early to start revising out again. Anthony, do you want to deal with the first one, or do you want me to deal with it?

Anthony Rose
Executive Officer

Look, I think yes, there is opportunity, obviously, in the deposit space and the rating does give us that flexibility. We have called out that 65% to 70% range and we will be looking for opportunities to source funding, where it is most efficient for us in margins. So your point's well-made and there is opportunity.

Operator

Your next question comes from Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

I've got 2 questions. Firstly, in relation to the loan loss guide 2015, you expect to get 20 basis points from 32 basis points currently. I'm interested in the composition. On Slide 6 to 38 of the appendix, you show that housing currently has a 12 basis point loss rate and commercial has a 98 basis point loss rate, and BOQ Finance is at 72 basis points. To get to 20 basis points in 2015, can you give us some color on what trends you would expect in those 3 different loan categories?

Anthony Rose
Executive Officer

The 12 basis points is obviously for the housing book still well above rest of the market and we expect our housing book to perform, you would -- a single-digit, well and truly is a single-digit category. That'll be a big driver of that outcome. The BOQF book is actually performing at a pretty solid level. So that's likely to be the sort of level that it sits at. There's further opportunity clearly in the commercial book experience.

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Yes, I don't think the portfolio composition is going to change much in 2 years given where the asset growth is at the moment, Richard.

Richard E. Wiles
Morgan Stanley, Research Division

Yes. So we can sort of back-calculate what you'd expect from the commercial, if we take into account your comments on housing and BOQ Finance?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

Well, it obviously depends on what your model spits out.

Richard E. Wiles
Morgan Stanley, Research Division

Yes. And my second question relates to margin. You mentioned that the asset payout rate should be tailed with your margin in 2014, which is a company-specific issue that the other banks obviously don't benefit from. Can you comment on deposits; do you think that'll be a tailwind or a headwind? And also, just a comment on the level of competition you're seeing in the market, deposit market generally at the moment?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

The deposit market's still quite competitive. I think what you've seen in the second half through the margin is we've actually been looking pretty closely at the whole deposit portfolio. And as for the pricing, we've adopted particularly at that expensive end and started running it down. Given our ratios are pretty much sitting in the middle of a target of 65% to 70%, it does give us a bit more, I suppose, flexibility to how we play in the deposit market. But it's still fairly aggressive out there. We're still seeing some fairly large prices paid for significant sized deposits, but most of our deposit base is pretty much under AUD 250,000 portfolio, which is the right place for us to play.

Operator

Your next question comes from Craig Williams from Citigroup.

Craig Anthony Williams
Citigroup Inc, Research Division

Basel III IRB is the future ambition, and I note your Slide 31 notice a difference between your mortgage risk weights to some of your peers of how it creates an industry competition issue. You've highlighted, though, in your slides today that your loss arrears levels are sort of sitting at 2x the majors at the moment, and I think if you look at your bad and doubtful debts on your mortgage book, I think at 49 basis points in 2012, that would have been close to 10x the major banks' level and you're still running at 12 basis points around 2x system level. So should we assume much of a benefit in housing risk weighting under Basel III, accordingly, given your recent loss history in your modeling? And when you take into account operational market risk and capital charges, given your sort of recent legacy issues on overcharging fees, et cetera, can the market expect material reductions in capital overall as a result of the transition to Basel II -- sorry, Basel III?

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director

I'm not sure whether there's going to be -- I've seen any capital releases from any institutions as a result of accreditation. I mean we're still probably about 3 years away from moving that, Craig. So the change in the management over the last 12 months will, hopefully, and we think be shown through for the next 3 years, which will be the platform for a number of the systems and the modeling that'll be undertaken. So, certainly, if you're looking at 2012 as a benchmark year, then the comments you're making are right; there will be differentials. But what we've been trying to show in the last 12 months is we've actively managed the positions that we have had and we're moving towards what we would see is a more normalized position. And I think you've also got to overlay that there has been a geographical concentration in Queensland, which has seen a higher level of unemployment and property volatility, which has impacted on some of those loss ratios. Anthony?

Anthony Rose
Executive Officer

Look, I think the other point is the 49 basis points that you called out in the housing book previously, that also includes a lot of credit losses that arguably we found ourselves in because of poor just general practices. So putting in a new practices framework and a new risk appetite and our new lending criteria and as the book actually turns into that, we -- in the modeling, you would identify those as specific subsets of that. So that doesn't necessarily need to get applied to the whole portfolio in the go-forward. Clearly, you'd need to hold some capital back for -- in your models for the residual risk that might still be there.

Operator

Your next question comes from T.S. Lim from Bell Potter.

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

Just wondering what's happening in WA? I think in the past, there were some issues with brokers at the bank. Are you seeing progress in WA right now, given that 8% of the loan book comes from that space?

Stuart Ian Grimshaw

Former Chief Executive Officer, Managing Director and Executive Director

Yeah, T.S., sorry, you're not here today. We usually see you up here. So we'll catch up later on. WA is probably -- it's a unique situation for us because virtually 1/2 the branches are corporate versus owner managed and as you've seen in the past, some performance of the corporates hasn't been any way near where the owner managers are. We've actually aggressively went into manage the talent of that space and we are now having some pretty good mortgage origination out of our corporate network and previously, it has been trading I suppose at a break-even to slightly negative loan -- net loan growth. We've actually turned that around and now it is growing pretty well and particularly through the corporate network which is pleasing. The broker pilot that we implemented about 6 months ago has been initially a learning experience for us because we actually started on the ground without BDM, business development managers, and they were fairly hard to find in the West. Once we had put 1 on the ground, then we saw a change, but the commission structure changed quite quickly with a number of banks increasing their upfront commissions by probably close to 50% from where it was. And also the complexity of our product made it very difficult to compete against some easy ones. So how we've changed that, we've got BDMs on the ground. We've expanded in New South Wales with those learnings and we have a simpler product in place. So the West has been a pretty good story over the last 12 months and the management team, under Matt Baxby, have done a terrific job.

Operator

Your next question comes from Ed Henning from CLSA.

Brian D. Johnson
CLSA Limited, Research Division

It's Brian Johnson. I have 2 questions, one for Anthony. Anthony, have you been able to crunch out what you think the LTR figure between the liquidity facility would do to profitability? Can you just give us some metrics on what you think it might do?

Anthony Rose
Executive Officer

Yes. There are a lot of moving parts in relation to that, Brian, and there's still a bit of water to go under the bridge between now and 2015 as we transition the book from the composition of liquid assets that we have today to what it would look like going forward. And then, there's also how do you factor in what pricing changes might occur in the market more broadly. Look, I think one of the things we would call out is that our degree of sophistication, if you like, in our liquid asset investment portfolio is probably at the lower end of maturity compared to some of the other institutions and we do think we've got capacity to -- we hold a much shorter book than the rest of the industry. So we do think that there's capacity within the new framework to provide some lengthening, which comes with additional credit spread attached to it. We think there are a number of levers and don't see ourselves as -- at any competitive disadvantage relative to the rest of the industry as these changes are implemented.

Brian D. Johnson
CLSA Limited, Research Division

But, Anthony, is there -- based on -- do you think assumptions configured now so there'd be no impact or there would be a negative impact?

Anthony Rose
Executive Officer

Look, it's a question I can't answer. The comment would be that we don't think we are in a competitive disadvantage to the rest of the industry players as this rolls through. Now, if the industry decides that it's happy to absorb additional costs of the facility in and of itself without any repricing benefit, then we would be -- expect to see the same experience that everybody else incurs.

Operator

There are no more questions from the phone.

Stuart Ian Grimshaw
Former Chief Executive Officer, Managing Director and Executive Director
Okay. With that over, I'd like to thank everyone for the interest and we look forward to talking to you afterwards and thanks very much for listening in today.