Question and Answer

Warwick Bryan
Former Investor Relations Contact

Great. Thanks, Ian. Thanks, David. Just a few ground rules. I'll just repeat them. Can you please identify yourself, wait for the mic, 2 questions each. I know we've got media on the line, so that I [ph], again, happy for them to stay there, absolutely, but if they could just hold their questions until the media briefing at 2:00 this afternoon. So let's go. Richard Wiles?

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley, and I've got a couple of questions on costs. Firstly, in Slide 15, you pointed out the reduction in spend on core banking. I think the productivity initiative spend has gone from $280 million a year ago to $380 million. Does that give you confidence that your pipeline of cost savings will continue to grow in the future? And secondly, on the write-downs, $68 million software write-downs in this half. You've had a lot of initiatives in recent years. Today, you said that Kaching is effectively redundant. Is there the risk that you'll continue to have software write-downs in future periods?

Ian Mark Narev
Former Executive

On the 2 subjects, from the productivity perspective, this is a major focus to the organization at management level, and indeed, at board level. So at the board meeting that we had yesterday, and bear in mind, this is the board meeting at which we discussed the results, there's a lot on the agenda, the board talk about half an hour to get its quarterly update on productivity, did what it normally did, which is hear from Robin [indiscernible] about the broad progress of the program and heard from individual group executive about what's going on in their business. So group executives ensure that they come pretty well prepared for that discussion of the board. And they expect and get a high level of scrutiny. I'm really happy with the way the program is going. It's still early days. The momentum that we've got at the moment is about where I had hoped it would be. It's going to require a lot of ongoing management focus to keep up this level, but that's absolutely our goal. And if we execute well, we will continue the productivity savings. So this is, by no means, the end of the journey. I think, hopefully, the end of the journey will be after I've gone. Secondly, on the software write-offs, I mean, the $68 million, really, what we had -- for the last couple of years, we've had a policy where small projects that are under $10 million are expensed, not capitalized. And we went back in the project portfolio and we had a look at smaller projects which had been part of the previous expense policy, which was -- some of them were still capitalized, and we really took the opportunity to align the previous investments with the current policy. So while we'll always follow the accounting standards in terms of how we treat capitalized cost in terms of future benefits, what you're seeing here is not part of a trend. I don't know whether you want to add to that, David.

David Paul Craig

Not on the software write-off. But I think it's just worth noting, Richard, that number that you've quoted is productivity and growth projects. By far and away, the majority of our investment is in growth for the future, not in -- we're obviously investing in productivity, but it's a small portion of the productivity and growth.

Warwick Bryan
Former Investor Relations Contact

[indiscernible]

Victor German
Nomura Securities Co. Ltd., Research Division

This is Victor German from Nomura. Just a question on deposits, or 2 questions. If I look at the last 6 months, you've lost a little bit of deposit market share. Just wondering to what extent it was a deliberate strategy to take advantage of wholesale markets versus just pricing being quite tight in that space. And maybe if you can talk about the medium-term strategies to arrest that market share losses. And also, just a question on the comment that David made about deposit competition or deposits taking about 4%, I think, from profitability over the year. Are you able to comment on the half-on-half differences and how much deposits were down half-on-half and to what extent that was driven by lower cash rate?

Ian Mark Narev
Former Executive

I'll let David talk about the half-on-half thing in a minute. I mean, in terms of deposits, on both sides of the balance sheet for quite a period of time, you know that we've talked about needing to balance between volume and margin. What's really pleasing in terms of the deposit performance, particularly in the Retail Bank, really quite across the book, is in the mix of deposits, and particularly transaction accounts are really strong growth right across the business. So no, we don't have a deliberate policy to lose market share on deposits. What we are doing is, number one, making sure that in contemplation of the new LCR environment, we are rigorously differentiating between valuable deposits and hot deposits in the way that we seek to get them in the businesses. And as a result, what we're seeing here, again, particularly in the Retail Bank, but right across, is good growth in the deposits which are high margin. And we're willing to cede a bit of share in some of the lower-margin hot deposits. And that's something which we would expect to continue as part of our strategy. Do you want to talk about the half-on-half?

David Paul Craig

Yes. Well, sorry, I'll clarify that. But firstly, just on deposits, if you look on Page 13, household deposit market share, which is the sticky, really valuable deposits, we've grown market share. We've grown market share in transaction accounts, which, again, are sticky. Where we've let a little bit of market share go is in the business side of the book, where there are some hot corporate deposits and we favored one wholesale funding of short hot corporate deposits, and that's a deliberate strategy. Can you just clarify your other question?

Victor German
Nomura Securities Co. Ltd., Research Division

Yes, so the other question is to what extent the deposit pressure that you're seeing on margins comes from lower interest rates as opposed to competition?

David Paul Craig

Oh, most of it's low interest rate. So it's the low interest rate environment is most of the thing. There's a lot of competition, absolutely. But it's primarily being in this low interest rate environment, and I know ANZ called that out yesterday as well.

Warwick Bryan
Former Investor Relations Contact

It's Andrew at the back.

Andrew Hill
BofA Merrill Lynch, Research Division

Andrew Hill from Bank of America Merrill Lynch. Just wondering in terms of capital, you've called out your strong capital position relative to banks globally. I wonder if you could share your thinking in terms of the DRP and neutralization there, how you've positioned yourself there. And a related question was just around the payout ratio and franking credits. You're now at around $850 million in franking credits. Does your thinking around the payout ratio going forward, given you have that healthy franking balance -- are you more inclined towards a higher payout ratio going forward because of that?

Ian Mark Narev

Former Executive

Well, if I take the second question first, I mean, we've got a very clear dividend policy, which is we pay between 70% and 80%. And we can see that, that is a sustainable policy and we'll continue to do that. We're obviously very mindful of the franking credits note, so we do seek to get those back to our shareholders or get value for them -- for our shareholders as much as we possibly can. But yes, clearly, we have a sound amount of franking credits. On the question of the DRP, we look at capital positions forecast, balance sheet growth forecast and trends, and we make sure that we've always got adequate capital to meet the needs of both of our shareholders and our customers, and so we've chosen this time to let the DRP run.

Warwick Bryan
Former Investor Relations Contact

Craig down front and Jon [indiscernible].

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi. I suppose a bit of a follow-on question to what Andrew was asking about there with the payout ratio. At current levels of profitably, your CET1 is probably headed to very close to 9% in 6 months' time. You've elected to stop repurchasing the DRP this half. So APRA's introduced a D-SIBs charge and has been looking closer at op risk, it seems too. So how should we be thinking about the required levels of CET1 capital that CBA needs to run itself on now from an APRA perspective? And second question, other than credit costs, what, if anything, is there [ph] on the balance sheet settings, et cetera, doesn't sort of, perhaps, feel sustainable about this result?

David Paul Craig

I'll let Ian answer the second question, but I'll take the capital question. So look, by any measure around the world, we're obviously one of the highest-capitalized banks in the world. We're still clarifying rules with APRA, so they're not -- it's not over, and since we had a D-SIB announcement that -- and then they've talked to as you would know there about expecting that banks will probably run smaller buffers and so on. But there's still clarification needed there. And in particular, there's a financial system inquiry looking at the competitiveness of banks, the relative capital measures, how we're regulated and so on. And I think this is a very important topic to be covered at the financial system inquiry, so we're mindful of that. In the meantime, we've looked at our forecast, what we think is going to happen to credit growth, what we think is going to happen to other areas, and we've made sure that we maintain our normally conservative settings.

Ian Mark Narev
Former Executive

In terms of your second question, what doesn't feel sustainable, I mean, our position is nothing feels sustainable. It's the -- that's the approach that we take into the next half, that we've got to work to keep the result going. Against that backdrop, yes, I mean, the 16 basis points of credit costs, it's clearly low. It's below the long-run economic loss. Now if we look at the trajectory at the moment, arrears and just general upgrades and downgrades, et cetera, there's nothing we're seeing at the moment that suggests that's about to turn around rapidly. But clearly, as you've identified, if we're sitting here over the next 10 years, not every half is going to look at 16 basis points. Beyond that, there are 2 things we'd probably call out. Number one, I think the Markets business had a terrific half across our Treasury business, across the small amount of trading stuff that's done in the Institutional Banking & Markets business. It was an excellent half. And while we're very confident in the people that we've got there, I think we would never say you're going to repeat that every time around or that the sales numbers behind that are good. Number two, we've had to position the Wealth Management business, which is going really well, where 89% of the funds are ahead of the 3-year benchmarks. That, again, is a result, I think, of some good people doing some good work. But that, combined with the prevailing market conditions, is going to mean those things are always a bit difficult to repeat, so those will probably be the top 2 beyond the credit costs.

Warwick Bryan
Former Investor Relations Contact

Jon?

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Just a question on the corporate lending and also, to some extent, on credit cards. And just looking over to Page 41 of the presentation, you highlighted that the business bank grew credit at 5%, and the institutional bank also at about 5%, so very strong growth there. And I know you're going to call out there was great service provided to the customers and it's an ongoing initiative. But given the outlook for the economy is pretty good, better now than has been for some time with the right cuts coming through and the attractive spreads that you can get in a lot of lending compared to what you could a few years ago, has there been a conscious decision that maybe you should be trying to grow that part of the balance sheet at this stage of the cycle, and pretty decent margins?

Ian Mark Narev
Former Executive

If you go back to the strategy presentation that we did 2 years ago, we called out growth in Business & Institutional Banking right back then as something we were interested in doing. And even that wasn't news, because if you go back to Ralph Norris' first strategy update in 2006, he called out Business Banking as one of the goals. So there's nothing new in the focus on Business Banking. It's being driven by trying to improve the front-line service, get the footprint right, get the underlying technology right. And yes, we think that the ability, our ability to grow above market is a result of those things. Now in terms of opportunities in the current market, we've got a pretty strong view here that we've got to be through the cycle lenders. And therefore, our credit settings don't tend to vary too much based on what the prevailing environment might look like for the next 6 to 12 months. So we would expect to -- certainly, my expectation is that our Business Banking teams would be, given our current market positions, they would be able to grow above system on the basis of things we've focused on for the long term. But you're not going to see any significant short-term changes in strategy to take advantage of short-term market conditions.

Warwick Bryan
Former Investor Relations Contact

Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Credit Suisse. Just a follow-up question on what Richard Wiles was talking about in terms of capitalization of expenses and technology and innovation. Everyone, I think, understands that core banking platforms, they last a long time, so you can amortize those over a long period of time. But what you've highlighted today is that front-end innovation, they don't last for very much as what core banking platforms do. So are we now looking at that your rate of capitalization is going to be lower, your rate of amortization of investment expense going to be higher going forward and get a bit more of an indication around what those quantum of numbers are going to be, because it, as you say, it's a significant sort of change in what has been said previously? That's the first question. Second question, on expenses, FTE, down 2%, I think this period or on the year, a larger increase than what we've seen from CBA recently. Are we likely to see that type of trend of FTE continue going forward?

Ian Mark Narev
Former Executive

Let me take the second question first, then I'll answer the first one partially and hand over to David. On the FTE, it's very important -- our position on this is absolutely consistent, and it is we do not and will not have targets for reduction in the number of people. That is not the way we're managing the institution.

As a result of what we've done with productivity, yes, there have been some roles which have required fewer people. Bear in mind that about 3,000 people decide to leave the group of their own volition every year, just on normal attrition numbers. Now if you look at the trend last year, what happened because of some of the seasonal aspects of FTE, we take on new graduates, et cetera. In the second half, we grew FTE numbers a bit again, and that may well happen this time around. So while we watch this carefully as an indicator, we're not managing to a target, and what certainly you're not seeing here is a deliberate effort to get more people out of the business, although as part of the productivity initiatives that we're seeing right across the group, you're likely to see a improvement of efficiency, which is going to require fewer people doing the same tasks before we adjust for growth. On amortization, there are obviously accounting standards which govern how you capitalize and how you amortize. The #1 thing to bear in mind is when you look at the capitalized software of all the major banks, which are give or take pretty close, ours includes the full amount of an implemented new core banking system. So in terms of the amount of capitalized software that we've got on the balance sheet at the moment, we feel pretty good because it includes this banking state-of-the-art SAP system. There's not a major change in the way we can look at these things in the future. What I did call out is to say that for the last little while, we said anything under $10 million, we should just be expensing. Now David can talk about whether under the accounting standards, we would have cause to capitalize some of those things. What's important to us is that we keep a management discipline of not just growing capitalized balances for the sake of it, because it sometimes feels like you're spending money on a credit card, and that's something that we keep watching, but I certainly wouldn't be calling a trend of saying amortization balances are going to be going up as a result of the technology investment.

David Paul Craig

Yes. So to answer this another way, firstly, I think if you look at the big 4 banks, we're probably now at the lowest level of capitalized software. We view capitalization as a bit of a drug, so you've got to be very careful about it, and that's why we have this nothing under $10 million even gets -- we don't even look at whether it should be capitalized or not. We just write it off. Similarly, unlike some of the other banks, we write a whole regulatory spend straight away. If you look at apps like Kaching, we write that -- those sort of small developments off straight away. We don't capitalize those sorts of things. Yes, core banking is being amortized over 10 years, but everything else is being amortized over -- pretty much over 3 years or less, and we've got to be very careful about that. Now we did call out in the full year result last year that we expected the investment spend written off this year would be about $100 million more than the prior year. That was because we could see this deluge of regulation coming, and we've got no intention of capitalizing that, so we flagged that, that would happen. Now in total, our investment spend is consistent and will be year-on-year, so $1.3 billion a year. We're determined to keep that up. But in this year, in particular, a higher proportion of that $1.3 billion will be written off as we go because it's regulatory in nature.

Warwick Bryan
Former Investor Relations Contact

Andrew and then Scott. Thanks.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

It's Andrew Lyons from Goldman Sachs. David, perhaps 2 questions for you. Just firstly, your comments on asset quality sort of throughout the presentation are pretty positive. And then on Slide 37, you note that the economic overlays remained at elevated levels. You haven't released any of that. Can you maybe just provide a bit of an update on your thinking around that firstly? And then just secondly, very quickly on capital, it appears that your Bankwest non-retail portfolio lost advanced accreditation. Can you maybe just give us a bit of background on what was the driver behind that?

David Paul Craig

Sure. I'll let Ian handle the second question. The first question on credit quality, look, all the indicators are that it's improving. And I think, if anything, that'll continue through the second half of the year.

Nonetheless, collective provisions are about a provision for the whole of the book for the whole of the life of the book. And from our point of view, the biggest single indicator of problems is the unemployment rate, as a leading indicator. The unemployment rate is still edging up inexorably. And so we're just cautious, and I think Ian, in his outlook, would have said we're cautious about that and about indicators. You'll always find that we're going to be at the conservative end of things, and so we're saying, look, do we feel that the economy is significantly better today than it was 6 months ago? No, and the unemployment rate's going up. It's about -- it's bumping along. It's about the same. So don't see a compelling reason to release the economic overlay yet. Now we look at that every single 6-months period, and we'll obviously look at it again come June.

Ian Mark Narev
Former Executive

On the non-retail accreditation at Bankwest, as part of the advanced accreditation that we got from APRA, we agreed to follow a bunch of different process steps in terms of the non-retail credit aspect of the portfolio. We didn't follow all those steps. That was something we should have done a better job as a management team on. As a result of that, with discussions with APRA, they did take away the advanced accreditation for the non-retail part of the book, and we can reapply for that in 18 months' time once those processes are fixed. What I would say on that is that as we've gone back and look about whether the failure to follow any of those processes had any follow-on in credit quality, the answer was no.

Warwick Bryan
Former Investor Relations Contact

Scott?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. Firstly, on the growth through the home loan channel, Slide 98 shows the split between the proprietary channel and the broker flow. Good performance last half through proprietary, a bit weaker this time around going through the broker. So just some thoughts on your different channel approach, whether it's Bankwest versus Commonwealth Brand or whether it's different type of product going through the broker channel that's creating that growth.

Ian Mark Narev
Former Executive

We might let the man who runs those channels answer that question. Have we got a mic for Mir [ph]?

Unknown Executive

Thank you. Look, I guess, overall, we're very pleased with the home loan performance. I put that in the context of in the second half, we were up 1 basis point. So first half of this year, in terms of calendar, up 1 basis point. We're up 18 basis points for the full calendar year. That's in the context of certainly increased competition in the second half of the year. And then if you also incorporate Bankwest in the first half of this result, who gained 9 basis points, so all up for the half. We're up 10 basis points in a environment of increased competition. I think when we strip out, let's say, flow and stock, so we think about fundings, we're actually very pleased with the fundings performance in both channels. But particularly, in proprietary, if I look at branch, it's more than 20% growth on prior corresponding period. I think what's interesting, and when you look at the actual balance growth between broker and proprietary and you see proprietary slightly below system, it's largely a function of our repayment profile, which I know a number of you have commented on in the past, that's -- that you could put down to a few factors. Firstly, it's largely a reflection of our customer base. It's also that we are, and you'll see in the disclosures from I think September last year, if you compare all of the banks, we have 79% of our customers ahead on their home loan repayments. That dips down to, I think, 53% for Westpac customers. We're the least dependent on the broker channel, so 62% of our funding comes through proprietary. Structurally, what that means is that we have in the broker channel, which we're least -- less dependent on relative to the market, higher LVR, which generally leads to low repayments, higher proportions of interest only. So structurally, that actually gives us a faster repayment profile in our proprietary business, which is a drag relative in terms of balance growth. But when we think more broadly, particularly from a flow perspective, we are very pleased. And overall, as we manage the portfolio in conjunction with Bankwest, a 10-basis-point increase in share in a market of increased competition, we're very pleased with.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And the second -- sorry, the second question, just following on, I suppose, also related to Retail, so maybe not get too comfortable. On the introduction of positive credit reporting, thoughts on whether you're going to participate, whether you've got the systems to be able to handle the data flow.

Unknown Executive

Look, we're certainly participating, and we'll be fulfilling our obligations. We're investing in that capability. Obviously, we're very mindful of the broader impacts and how that regulation is implemented. I think the adoption will, as it should be in the market, take some time, and we will make sure that we're ready as the market evolves.

Warwick Bryan
Former Investor Relations Contact

I'll take one more question from Mike, from the back, and then we'll go to those who have been patiently waiting on the phone.

Michael Wiblin
Macquarie Research

Mike Wiblin from Macquarie. Just a question maybe for Alden. I think we were here 6 months ago and we were talking about changes in mortgage risk weights that potentially could come about, and you were saying that you were comfortable that there weren't going to be any changes. The Canadian regulator recently maybe spoke out of school and said that they were a little bit worried about their sector and the changes as part of this Basel investigation into the harmonization of inputs. Are you still comfortable, Alden, that there are going to be no changes there? And also, what do you think, if anything, the impact on the major banks might be?

Alden Louis Toevs
Former Group Chief Risk Officer

We don't know of anything leading us towards extra regulation or tighter regulation from an APRA perspective. So I think it's steady as we go in that particular regard. The loss-given-default floor in Australia is 20%, and that is higher than anyplace else. So we think that, if anything, people will come more towards us than we're going to have to go towards them. Does that answer your question?

Michael Wiblin
Macquarie Research

Yes. [indiscernible]. I just had one other question about RWA growth versus loan growth. Yes, how long can that persist [ph], that gap because RWA growth is still a fair bit lower? I mean, is that driven by optimization? I mean, what's going on there?

Alden Louis Toevs
Former Group Chief Risk Officer

It's just a mix issue. The relative growth in the home loan portfolio creates that effect for the most part, and so that would be the major driver of the difference in terms of the growth rates of risk-weighted assets versus total assets.

Warwick Bryan
Former Investor Relations Contact

We might go to the phones now. Just a quick apology to those on the phones, who've had a slight technical glitch, but we're back online. So Matt [ph], thanks for being so patient. You're on.

Unknown Analyst

A question on [indiscernible]. You've adjusted your planned profit margins down. Does that now capture the structural experience variations? And given that we've seen -- or have further experienced deterioration in the half, what are you doing with respect to price to address that margin decline? And should we expect any improvement in margins now going forward?

Annabel Fitzgerald Spring
Former Group Executive of Wealth Management

We did adjust the planned profit margin.

Warwick Bryan
Former Investor Relations Contact

Matt, it's -- sorry, it's Annabel Spring.

Annabel Fitzgerald Spring
Former Group Executive of Wealth Management

Sorry. We did adjust the planned profit margins down for exactly the reasons that you suggest. And then if you see the next line on the reporting, our experience has been more positive than we expected. So as we look at running the business, and obviously, there are many parts of the Life business to talk through, we have seen slightly better lapse experience in the retail business than we expected, and we think that's actually stabilized now and we're seeing slightly better loss experience as well. So I think that is a matter of just adjusting our expectations downwards and then being a little bit positively surprised.

Unknown Analyst

I also have the same question as Andrew did with respect to the Bankwest revocation, if I could take it a step further. Has APRA changed its stance when it looks at giving you accreditation because now you've got part of the portfolio which is accredited, i.e., the mortgages, and a component that hasn't? And could that, therefore, mean some of the regional banks get an easier path to accreditation because they may not have to meet the non-retail component? Or is that just a compromise situation that APRA and CBA have come to?

Ian Mark Narev
Former Executive

It's difficult from our experience to extrapolate to APRA policy. Our experience there was a retail accreditation on a non-retail [ph] part. The non-retail part, as I said, was subject to specific process steps. We didn't do a good enough job of following those. So that's where the changes come in terms of the Bankwest accreditation. I wouldn't extrapolate that from anything other than APRA is a very rigorous supervisor and makes sure that you do what you say you're going to do.

Warwick Bryan
Former Investor Relations Contact

Back to the phones, Brian Johnson from CLSA.

Brian D. Johnson
CLSA Limited, Research Division

Two questions, if I may. The first one, can I go back to the slide where you show that the APRA core equity Tier 1 is 8.5% versus -- sorry, is 8% versus you guys sitting at 8.5%? When you have a look at that, the one thing we can reasonably suspect is that the 8% is the bare minimum. We've got reforms coming on conglomerates, presumably at some point. We know that Basel were looking at credit market op risk. Presumably APRA ran a buffer -- a secret buffer in the PTR [ph] regime, and also management run some kind of buffer over and above it. I'd be interested, David, what are the chances over time that we see you basically increasing that target? That was the first question.

David Paul Craig

Well, I answered the first question, I thought pretty clearly before, on any measure, whether it's APRA or any other measure around the world, we're one of the highest-capitalized banks in the world. There are discussions going with APRA about detail on exactly what they mean by the way they want things implemented. But in the meantime, we have a financial systems inquiry that's going to look at this question of why the Australian banks have so much more capital than anyone else.

Brian D. Johnson
CLSA Limited, Research Division

Okay. The second one, David, you referred to -- or Ian might've referred to the fact that the 16-basis-point loan-loss charge is below what the expected loss would be. I was wondering if you could share with us about what you guys think the expected loss across the cycle would be on your current portfolio. And then I'd also be interested to get a feeling for what's driving these -- the low expected losses for CBA. Is it the probability of default? Or is it simply that the loss in event of default is basically declining as we see asset values rising?

Ian Mark Narev
Former Executive

We'll give you Alden on that one.

Alden Louis Toevs
Former Group Chief Risk Officer

The calculations that are required for expected loss are revealed in the general reserve for credit losses, and so the amount of extra top-up that we have to do each quarter or each half is relatively modest. That says that right now, given the quality of our book, the expected loss calculation, which takes into account loss-given default and probability default, is about where the quality of this particular book at this particular time would be in terms of current provisions versus expected loss. So we're about in the equilibrium. But the quality of the book is pretty high because of the quality of the economy. So we don't expect very much change because of that until unemployment or similar other driver creates more quality deterioration in our book. The stability of our particular book is enhanced because of the high degree of collateral that we take in our commercial book, plus the collateral that underpins the home loan book. So the driver of our results here are very, very high-quality loss-given default statistics with normal probability default statistics.

Ian Mark Narev
Former Executive

The other thing I'd just add to this, Brian, this goes to Jon's question about Business Banking, in terms of the way that our business performance is assessed internally, there's an equal weighting between profit after tax and profit after capital charge. And profit after capital charge adds back the current loan impairment expense and then substracts it through the cycle loss number. And what that does make sure is management sticks to the discipline of doing good lending which is going to survive through the cycle, and that doesn't just make hay while the loan impairment sun shines.

Warwick Bryan
Former Investor Relations Contact

I might go back into the room. Thanks, Brian. James Freeman?

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. Just on the cost side. If I look at the half-on-half cost growth sort of running at 5%, your salary expense or staff expenses are up 6%. If we look at then the jaws that you delivered, it was only 1%. And if I actually back out the normalization -- or sorry, the extra trading revenue that you created, it was flat. I mean, do you really think you're actually doing enough on the cost side of the equation when you've got some of your competitors targeting 2% to 3% jaws and you guys are delivering closer to 5% on the expense side?

David Paul Craig

Well, we can argue later about how you got the mess of that number, but I don't understand it. In terms of how the jaws actually look, we are very happy with how we're going with the jaws. And you got to understand, we manage the business for the long term. We're making sure we're doing structural things to get expenses down. And then when you're looking at a business which is delivering 8.5% revenue growth and you're seeing that run rate go through the half, to the extent that you've got discretional things which are not going to be repeated, you obviously err on the side of investing for the long term. I would love to keep up the business for the long term, which is delivering this kind of revenue growth and this kind of expense growth. If we were in an environment where we suddenly saw a rapid scale-back of revenue, as we've seen before, we think we can easily keep delivering positive jaws, but we wouldn't do stupid things for the long term in order to do that every half. But that is not a problem I'm even remotely concerned about at the moment.

James Freeman
Deutsche Bank AG, Research Division

Right. Just -- my second question is just on the trading revenue side. If I look at the sales numbers, this is on Slide 26, the sales numbers have been pretty flat for the last 3 halves. We've obviously seen a big increase in the trading component coming through in this half. If I have a look at the VaR numbers, they've also almost doubled in the last 3 halves. Just be interested in terms of your risk appetite in that trading book.

David Paul Craig

On the sales numbers, I mean, first half '13 versus first half '14, we're seeing a difference of about 10%, which doesn't look flat to me, unless I'm misunderstanding what you're...

James Freeman
Deutsche Bank AG, Research Division

Sorry, sorry, I'm looking at $289 million versus $293 million [indiscernible]...

Ian Mark Narev
Former Executive

So I'm looking at -- well, year-on-year, I'm looking at $267 million versus $293 million. In terms of trading, again, in terms of value at risk limits, et cetera, I mean, we just don't use these as levers to get short-term profit, and we do a minimal amount of this. So one thing that we won't be drawn into doing to try and get extra revenue in a half is loosen those limits and take a punt on doing better on the trading side.

David Paul Craig

Yes, and I think if you look at the VaRs of the other banks, you'll find we're right at the very conservative end. We're not a high-risk-taking bank.

Warwick Bryan
Former Investor Relations Contact

Brett?

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

Brett Le Mesurier, BBY. You talked about the improving credit scenario, but there is one bunch of numbers that are deteriorating, being the commercial past-due loans not impaired. Can you comment on what the reasons are behind the large deterioration that's going on there?

Ian Mark Narev
Former Executive

I'll hand it over to Alden. The short answer is it's a technical issue, not at all a credit deterioration issue, and Alden can now give you a bit more detail on the longer version of the answer.

Alden Louis Toevs
Former Group Chief Risk Officer

It is exactly that. As we implemented the core bank modernization program, it gave us a better look through the portfolio, and we've seen some things that are technically in arrears that could come into that bucket, that are being handled as they normally would in the normal course of events. It shows no particular sign of deterioration in the overall portfolio. So it really is just a technical issue of a period-over-period. That cleans up over the next little while.

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

Could you give us an indication of how the trend is, then? Presumably, it's improving. The June number was probably higher than the December number. Would that be right, if you had the same process?

Alden Louis Toevs
Former Group Chief Risk Officer

Yes. The evolution of this is really between June and now, and so we'll come back down towards the June number.

Warwick Bryan
Former Investor Relations Contact

No further questions from the room? If everybody's happy, we might call it a day. Thank you very much for attending.

Ian Mark Narev
Former Executive
Thanks very much.