Question and Answer

Andrew Bowden
Head of Investor Relations

One of the microphone -- I'll let you choose this one. Start off with Richard.

Richard E. Wiles
Morgan Stanley, Research Division

Gail, it's Richard Wiles from Morgan Stanley. You made the comment on deposits, you're going to continue to grow above share, or grow share above system. ANZ and NAB had both said that they are committed to increasing the quality of their deposit franchise. CBA says it wants to protect shares as the market leader. Is there the risk that in falling rate environment, the deposit rates come down at a slower rate than the standard variable rates. Your deposits spread, compression accelerates, and that falling rate environment is actually bad for margins?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Richard, you're spot on. There's no doubt that we can expect in this super intensity of competition around deposits that the price intensity might, will drive deposit rates not coming down at the same rates as mortgage rates come down. We saw that in November, December last year. As you know, mortgage rates came down 50 basis points, and deposit rates on average came down 25. So that's being the biggest impact on margin without a doubt. And I don't see that actually letting up. I don't see that letting up. Having said that, I think the overall reduction of the cash rate will be a good thing for the economy, and will stimulate some confidence, and will certainly help customers again get their degearing going further, and to feel themselves to be in a better position. But this is the competitive war zone that we're in, is around customer deposits. For us, we recognize that we're coming from a culture, particularly in the Westpac brand, we will have more of a lending culture than a deposit culture. We've seen quite good improvement just by tilting the focus of our bankers in the field, changing what we measure, changing what we reward, and making sure that it's deposits first. With every single customer, it's deposits first. We've got a lot of our own customers. And Jason, you may want to say something here. We've got a lot of our own customers who are -- actually, customers that have other business with us, but we don't have their deposit business with us, so that's a first priority for us. And we'd like to grow in that basic transaction side of things, and savings side of things. Jason, you may want to add some comments?

Jason Yetton runs our Westpac RBB.

Jason Yetton
Former Group Executive of Westpac Retail & Business Banking

You've summed that up well. The heart of our relationship banking strategy is the main bank relationship and the transactional relationships. To put a bit of context to the Westpac RBB result, we had deposit growth of over 5% for the first half and lending growth at 2%. So we're certainly seeing a shift that way. But in our own margins, we're seeing lending margins go up about 5 basis points; and on the deposit side, go down about 8. So that's part of a contraction on the noninterest margin that Phil has already covered. For me, it starts with the transactional side, and you'll see a lot of focus on that because we know that customers will consider their main bank for future needs. And at the heart of our relationship strategy is how deep you can grow products per customer. We know where customers have their transactional banking business with us. They are, on average, 2.5x higher in revenue than someone who doesn't, and we also know they're 3x more likely to consider buying a mortgage, or their wealth insurance, superannuation business with us. So it's a pretty compelling argument to say, it starts with transactional, after that, the rest of the business, they'll generally give your main bank a shot.

Andrew Bowden
Head of Investor Relations

Craig?

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi. I have to ask this question, given I asked a question of net earlier

along these lines. But when SIPs was announced in 2010, you declared that costs and benefits would be captured above the line in cash earnings. In last year's REM report, the group changed your long-term incentives programs to be wagered away from 100%, I think, TSR on LTI towards a mix of cash earnings and TSR. So in light of your election to take the supply change costs today below the line this half, I wonder whether we as analysts are witnessing a shift towards a new standard called comp-based earnings rather than the cash based earnings. Certainly the optics on George's and EPS would look less flattering without that adjustment. So can you walk us through the justification for electing to take this cost below the line today? And how do you delineate between what's in the amount of cash earnings?

Phillip Matthew Coffey
Former Chief Financial Officer

So I think I can answer that question. Look, you called out in the ASX, the principles that we used to decide whether or not there'd be cash earnings adjustment or not, and that's what we want to see then. We've been very consistent in terms of applying them. As you called out, SIPs has been taken above the line. In fact, we've taken over $150 million of restructuring charge above the line in the last 3 halves. In this instance, there are some one-off establishment costs. And consistent with the principle that we used around -- that we would back them out of cash earnings if they were not recurring, if they were significant [ph] in one-off, and because they were not going to feed into the voice [ph] of liberations around dividend, then that justifies taking them as a cash earnings adjustment. I'd also call out that if you looked at our statutory results and cash earnings results over the last 2 or 3 years, they're almost identical. So this is not been kind of a one way exercise where cash earnings is always above statutory results. Some periods, they're above; and some periods, they're below. So I think all we can do is try to be consistent, to be transparent, Craig, and I'm sure that the board sees that, and has to be comfortable with that, and makes that decision on that basis.

Andrew Bowden
Head of Investor Relations

Jon.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Got a question on the comment within the St. George division that has probably got wide ramifications across the group, where the business impairment charges, and you then see the impairment -- the impaired assets had higher charges against them following more conservative reassessment of security recovery values. Now when you look at what you're seeing in some of the regional banks, some of the mortgage insurers, it's becoming a bit more of a theme where the banks are going, "Well, we can't really sell that asset for what we thought. House prices still keep going down." How sensitive is this? And is this something that we should start to be thinking about, if asset prices continue to track down, impairment charges could come under pressure going forward?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Well, I think our purchaser valuations, all the way through the crises-- we've continued to turn the handle on it. And it's -- officially we assist, regulate the valuation. So it's not as though over a long period of time, we didn't revisit revaluations and say, "Gosh, they've come down." And there's a range of benchmarks. There's actual properties that are sold. Benchmark value themselves have become very, very conservative. And we sort of turned the handle on the portfolio as a whole. I mean, Phil, if you want to add anything to...

Phillip Matthew Coffey
Former Chief Financial Officer

No, I think that's exactly right. I mean the reason it's probably more apparent in St. George than others is because it does go to commercial properties, probably one of the assets where you're seeing that revaluation requirement for security valuation, and then provisioning on the back of that. As Gail said, we really try to keep our valuations very current, and we will talk about provisions where they're required. I think the thing to not -- it's obvious [ph] that the overall book value is still improving, notwithstanding some of that valuation impact. And you can see that in the business impaired to -- or business stressed to TCE in St. George along with the group -- right across the group. Overall, business has improved.

Ben Zucker
Commonwealth Bank of Australia, Research Division

Ben Zucker from CBA Greece. Can I just -- picking up on your comments about deposits as a war zone, and clearly a big focus area. I guess I'd just be interested in a bit more of your thoughts about how you're balancing margin management and volume, maybe outside the target areas, because you talked a bit about target areas, and how you want to be above system. But how do you balance that off the other side? And how do you think about the risk to margin compression and the parameters around that?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Look, I think we've done a reasonable job over the course of the past 6 months of managing that. So managing the amount of lending we do, and making sure that we're doing more deposit raising than lending, and trying to get it in a category in a way where we're not competing at the top end from a pricing point of view. So as you see, our margins were only down 6 basis points for the half and 5 if you exclude treasury and markets-related. So I think that was -- a managing the scenarios, working to get more on the way of transactional banking, working to get more in particular segments, such as migrant banking, such as social sectors or the particular sectors that are deposit-richer that we go after. And not all deposits are price-sensitive. We've done quite a lot of work to really better understand, which segments are particularly priced segments -- price-sensitive. There will always be some 25% that will shop around, and they'll move to the best online rate. Well, there will always be that, but we've got a lot of customers that actually are not that price-sensitive. They want a good price. They want an appropriate price. But they like their relationship with the bank, and they like the history with the bank. And for those ones, making sure that we target there properly, too, particularly, as you do rollovers of TDs and so on. So it's a -- we have become a lot more smart and thoughtful and focused from a deposit -- from a product management point of view and a distribution point of view in managing this side of the balance sheet, but it is a balancing act.

Phillip Matthew Coffey
Former Chief Financial Officer

Can I just make an additional comment to that, which is, you also need to look at the kind of asset mix as well as another driver. There's lots of drivers in our margins, clearly. But asset mix for us has been actually a headwind on margin for about the last 2 or 3 years. Gail has talked about how we have wound back commercial property exposures. You've seen our credit card balances have been very subdued in terms of the growth. So they're probably 2 of the assets which actually have the highest underlying margin before impairments, and that's had a margin drag on us. Now, we've got our concentration on commercial property back, so we're in a position where we can start to grow again, and grow in the places that we want to grow. And you saw that for the first time in the last half, where we just started to have an uptick in commercial property balances. And similarly in cards, as we worked through the rundown of the old version [ph] companion card, so that's -- well not companion card, but card, that's actually -- that sort of worked its way through as well. So I think you'll see -- and some of the target areas that Gail has talked about will actually give us an improvement in asset mix, which is one of the things that will help to offset some of these other drags that you've been talking about.

Andrew Bowden

Head of Investor Relations

Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Credit Suisse. Just in relation to your key metrics on Slide 5. If I was to pick out a range on those, you've got deposits ahead of system; expense income ratio down; revenue per FTE up; dare I mention it again, but deep customer return up 5 basis points. All of those would lead me to believe that your return on equity should be rising as well. Yet I know you said it was a modest decline, but it was a 50-basis-point decline over the half. Could you, first of all, give us some more color around what's driven that change? And then give us your view on where you think that, that could actually move to? Can you arrest that decline going forward?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Let me start, and then Phil add to this. I mean the biggest impact, and it's not just the last half, you have to think about several halves, actually. But the biggest impact is the way we've grown our capital, and so you just have to look at the size of the equity base, first half last year, second half last year, and first half this year, and how that has grown. And if you allowed for that back of the envelope, ROE would be about 16.5%. So if you kept the size of the capital constant, the base constant, and you allowed for that, the ROE would be higher. So that's one major impact. Another major impact, again, not just this half, but over several halves, could have been in the fact that we've strengthened up funding profile. There's liquid assets, way up, longer-term funding. So that's had a drag and an impact on ROE because it costs more to actually do that. So those are 2 factors. Again, I think we've -- there are some ways through this restructuring, on the capital side, we're just about there. I mean we feel very comfortable with where we place on capital relative to the start date of 1 January next year and have degrees of confidence, certainty about where we place. And so at some point we can stop with this ever-increasing capital base. So certainly, we are expecting and targeting an ROE that's higher than it is today. Now there will be leads and lags on this, but we would be looking for an ROE that's in the sort of 15% to 18%, 15% to 19% range over time. But certainly, that's what we should be doing, and it's about targeting those right segments, getting the revenue growth in those right segments, managing this balance of those 4 quadrants as I discussed, and getting to steady stage on funding, and getting to steady stage on capital. Phil?

Phillip Matthew Coffey
Former Chief Financial Officer

The only thing I'd point to is actually that average ordinary equity was up 5% in the half, 10% from 12 months earlier. So clearly that is the drag that Gail has referred to. And that capital has been deployed to boost capital ratios as opposed to take on additional risk now. As Gail mentioned, as you get to the point where you feel more comfortable about your capital ratios, there's less need to do that, and there's more chance to actually then either get a better return on the capital that you've got or only raise capital when you're going to be deploying in the business. And that's really the major driver about why we're looking for a better ROE.

Andrew Bowden
Head of Investor Relations

Brian?

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Just one thing I don't understand, Phil, is that if we're to go back to the first half result last year, we were told that rising software amortization would create a 2% increment in the cost base in 2012 and 2% in 2013. When we go to the FY '11 result, the 2012 was still up 2%; 2013 had come back to 1%. In today's presentation, it's up 2% in 2012, and there's no comment about 2013. If we have a look at basically, the amortization charge in this half, it's actually declined to about $120 million, $140 million, which would imply a forward credit 2% headwind. It's got to gap up to about $250 million in the second half. Does that imply that the 1% that we used to hear about in 2013 is actually a higher number, like should we be looking at the half-on-half run rate in that rising software amortization with this half being the aberration? Or should we be looking at it on a full year basis, because it starts to really eat into all the productivity savings that we've been hearing about? And just one further question, if I may. Is that if you have a look at Westpac, Westpac structurally has got the highest gap between core retail deposits and upper [ph] loans of any of the banks. In this environment, we always hear a lot of talk about deposit pricing. But at the end of this, is there a scenario where actually the quantum access of deposits actually means that Westpac has to limit its asset growth and actually grow well below system for an extended period of time?

Phillip Matthew Coffey
Former Chief Financial Officer

I'll tackle the first one. So I mean I think you're right. We've try to call out what's happening, the amortization charge actually has been slower than we expected when we commenced the SIPs at the end of 2010. It turns out that very big technology projects don't always deliver exactly as you'd expect. I don't know if it surprises anybody. But the quantum of the spend and therefore the quantum of the impact on expenses is at actually what we'd expect. We will see an uplift in our amortization expense in the second half, both the SIPs and other projects. So I think you need to think about it as a total project spend, and we've shared that in the ASX document. And you should expect that, that increment in '13 will be 2%. So it's not 1% -- I hope I didn't say 1%.

Brian D. Johnson
CLSA Limited, Research Division

You did disappear half-on-half in the disclosure.

Phillip Matthew Coffey
Former Chief Financial Officer

Well I don't think I intended to say 1%. I certainly-- I've always thought it would cost us 2% to expense growth rate in '12 and '13. And '12 has been delayed a bit. But overall, you should be expecting that, that's the kind of expense growth impact that we expected from that set of investment projects, and that we are looking to ensure that our productivity initiatives across the company are set up to ensure that, that doesn't give an unacceptable level of expense growth. And I think we've been pretty consistent about that, and we're looking to deliver to that.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Look, we don't see any scenario at the moment that says we actually have to constrain artificially or below system our lending growth. We're actually in a lower system growth arena right now, which is helping us all in terms of the deposit side of things. And I expect it to remain a relatively low system growth period for awhile. I think those days of very high system growth that we had in the early 2000s and the late 1990s, I mean those days are behind us. So we expect continued low overall credit growth, so that's point number one. Point number two is that it is a balancing act, and I think we've shown that we're doing that. Even this last half, we stood away from some of the more expensive pricing that we'd run on mortgages in that first quarter, and so that actually, we won't compete. We're not going to offer those kind of discounts and we won't compete. So we were happy in that scenario, trading off growth with return to actually stand away from that. And then we put a particular focus on changing the culture around deposits going off to our own customers for their deposits, tilting to segments that are more deposit-rich. So it's a balancing act. But I don't think that we're going to be landing [ph] up saying, "Gosh, we've got to dial down growth." We're getting the growth where we needed, and then we've become a lot smarter of saying, "Let's go after those segments that actually are less balance sheet-intensive." So wealth, superannuation, insurance, transactional banking, foreign exchange, all those areas of focus for us are very rich, too.

Andrew Bowden
Head of Investor Relations

Victor?

Victor German
Nomura Securities Co. Ltd., Research Division

Victor German from Nomura. In a way, just following on from that previous question. If I look at your multi-brand strategy, just interested to hear, have some metrics and observation in terms of your expense growth in St. George, actually it was quite well-contained and in fact, declined. Are you investing enough in that multi-brand? Do you think you need to do a little bit more? If you maybe can give us an investment profile in building up Bank of Melbourne. And also -- going back to your previous comments around growth, at what point do you think you'll be able to achieve superior earnings growth delivered by that multibrand strategy? And can you actually afford that, given your somewhat underweight [ph] position in deposits?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Okay. Well a lot of point in there. Let me sort of start off with a comment about Bank of Melbourne. Is that first one?

Phillip Matthew Coffey
Former Chief Financial Officer

Expense growth in St. George, I think.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Look, I mean I think our expense growth in St.George is excellent. The investment that we put into St.George has actually been in Bank of Melbourne. Now, I think we've done that in a very managed way, and we're leveraging as you can see. In fact, I'm always a bit bemused when people go on about the multibrand as a high-cost model. You can't see that in the numbers. I mean the numbers show that we're managing that in a very managed way. We're leveraging the core systems, the core operations, the core products, all of that off St.George, the St.George group and Bank of Melbourne. So it's not a high-cost model at all. But we're getting the revenue relative to that costs. So that's where the investments has been in St. George over the last while. I think you're right to call out insufficient investment into St.George, the brand. So what we did is we made a call about investing in Westpac RBB, and we did that. And you can see the benefit actually coming through last year and this year, and we expect that to flow through into the balance of this year and next year as well. So we made that call. We then made a call that we would invest in Bank of Melbourne, and we've done that. And we're beginning to see the uplift, and you'll see more of that. You're right to call out what we've done with St.George is actually some restructuring around lease mortgages through brokers and lease commercial property, but we haven't put enough investment in, not I don't want George Frazis to get too excited by my comments here. He's smiling in front of me. But we do need to put a bit more investment into St. George, the brand itself, over the next period. I suspect it will be the local model in a light fashion, so more business bankers into our branches, a little bit more focus on sales intensity and training and so on, and in the business banking side, in St. George, too. So there will be some more investment, but it will be at a much more modest size to the investment that we put into Westpac. Overall, our portfolio of brands, you always going to find that some are doing a little better than others, really happy with Westpac, the brand. St.George, we've discussed fully, there are some elements of it that are strong. But it needs to pick up, particularly in the lending side, and particularly on the top line. Bank of Melbourne, very happy with it, off to a good start. And the bank is just a steady as you go kind of brand. It's very stable in its environment. It's got absolutely unbelievable impairments. I mean something like a $60 million impairment charge this half again. It just has a rock-solid credit quality. But it's not sort of shoot the lights out from a revenue point of view, it's a stable brand and a stable economy.

Victor German
Nomura Securities Co. Ltd., Research Division

So do you expect that strategy to deliver your superior earnings growth relative to your peers over medium term? And at what point should we start seeing that?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Well, what it does for us, we focused on, as you've heard me say, on mortgages. We want to retain our share. We've got 1 in 4 mortgages within Australia. We want to optimize that portfolio, continue to improve the return out of that portfolio, which is what we've been doing. But very happy with 1 in 4 in mortgages. Deposits, we want to grow our share. We've got about 23% market share in deposits, but we'd like to get more in some of the high-value deposits. So we like to grow and have a better mix of deposit business over time. SME, we've got about 20% of the market within Australia in both lending and deposits. And we think all of our brands pay to SME, all of them. So there's a great opportunity for us as we put some investments in, as we've done in Westpac Local to grow our SME. What does multibrand do for us? It gives us the opportunity to go and win more customers. That's what it does. Because there are a range of customers, as we know, that choose St. George over Westpac. If we didn't have a St.George, they wouldn't choose a Westpac. So it gives us an opportunity to win more customers, and then make sure that we're actually getting the uplift that we want. And then in our Institutional Bank, with our capabilities and foreign exchange our capabilities in financial markets and so on, they've got all of those brands that they can deploy those products and services too, just as our wealth business has, all of those brands: Bank of Melbourne, BankSA, St.George and so on. But increasingly, we think we're going to be a bit smarter in saying, "Right, let's talk about West Australia or let's talk about Melbourne, let's talk about Queensland." How do we best deploy this family of brands we've got against the competitors to best get the revenue outcomes that we're looking for and the growth that we're looking for? And that's part of the benefit of an AFS construct.

Phillip Matthew Coffey
Former Chief Financial Officer

Can I just add one comment, Victor? Absolutely superior and sustainable earnings growth, outperformance is our target, but multibrand is just one element of our strategy. So it's wrong to say all that we're showing is a multibrand strategy, and that's the only element to achieve that goal. And I think Gail's endeavored to show you quite a lot of other elements that need to be delivered to be successful in our strategy. Do we think it's an important component? Yes. But is it the only means to that goal? The answer is no.

Michael Wiblin
Macquarie Research

Mike Wiblin from Macquarie. My question is just on Page 70, just looking at LMI, quite topical given the Genworth presentation out the other night. Question really, I've got 3 parts, given throughout commentary there, do you expect the cash earnings to continue to compress from here as we roll through? And can you talk a little bit about the loss experience? I also wanted to know on the retained business, whether you've got any reinsurance on that? Or that's sort of sitting on Westpac's books? And are there any plans to sort of further derisk from here?

Phillip Matthew Coffey
Former Chief Financial Officer

So maybe I'll have a go. I don't know if you want to top off. So the biggest impact on the LMI return in this half was in fact the decision we made in the middle of 2009 to no longer take on board in the bank's underwriting risk. LMI insurance for loans where the -- where the loan devaluation was 90% or above. And we made that decision, because effectively, we said, "Look, there are certain risks that we want to keep as a company, and others that we're happy to see someone else take on board." The way that revenue is recognized in that book basically is accounted for to match the expected claims profile. And lo and behold, the first half of 2011, you actually see revenue take quite a distinct dip from what you've been accounting for up to now. That's the reason that we're seeing a lower return on our LMI book. Claims are a little higher, but really not the reason for what you're seeing in terms of earnings. If you look at the profile of revenue recognition, the largest part of that decline has already taken place. So it took place in the half. It continues to decline a bit, but at a much reduced gradient, if you like, than what we have already recorded in the half. In terms of reinsurance, actually, there's quite a detailed description of that in IDP, so can I report you to that. It actually highlights the way we think about managing the risks in the LMI book. We're quite comfortable with managing some of them on our balance sheet, on our sheet. And in part that's because we're really comfortable about the origination risk that we have in mortgages that the bank originates. But it's good risk practice to share some of that risk out, and you can see that in the deck, and there's no intention to do any changes to that. And we're very happy with the reinsurance model that we've got. On that I probably pinched off your lines there.

Unknown Executive

If you go to the -- the IDP on Slide 100. We actually have the insurance claims there, so for the last 3 halves, and you can see it's not -- it's quite a small number relative.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Do you want to add anything to that or is that it?

Unknown Executive

Okay. I think as Phil said, the above 90% we've already pushed over to Genworth so that's off ours. On the under 90%, we've re-shared that with 4 different reinsurers. So we have 20% with Genworth, 20% with QBE and the risk split with another 2. I think what Genworth had been calling out in their numbers is exposure to Queensland. In our less than 90%, we've only got about a 21% exposure into Queensland, and of that 12% is in Brisbane, about 6.5% across the East Coast, and a small amount of that on the Gold Coast, so we don't have the same concentration risk in the under 90% into the Queensland area. When you look at the loss rates, it's important to think about the amount of the premium that we've pushed out, so the loss rates is actually, the losses as a percentage of the outstanding premium. And what you've had period-on-period is losses have gone from $10 million to $12 million with the premium base, because we've pushed our premiums out to Genworth, we've gone from 50 now down to 35. So the biggest increase in the ratio is actually the lower premiums because more business is now being written by Genworth rather than an increase in the claims.

Andrew Bowden
Head of Investor Relations

Next, Ben.

Ben Koo
Goldman Sachs Group Inc., Research Division

Ben Koo from Goldman Sachs. Just a question on the Institutional business and also just maybe get a little bit further down the size to business banking. Can you just talk about the margin trends and institutional margins, it seemed like they were down this half, and there seems to be funding is being called out in addition to accounting impacts. So I just want to get a sense of what the outlook is for that? If you just continue to see competitive effects or if it's largely stabilized in terms of the underlying trends? And then if you could just give a comment on just a little bit smaller business size on the SME segment, if we're seeing much competition or compression in that segment as well?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

I think it's a great question for you Ralph. Why don't you pick up on the institutional bank.

Ralph Graham Waters
Former Non Executive Director of Westpac New Zealand Limited

In terms of the margins in institutional bank, clearly they were down on the half, and that is reflective of the increased liquidity that we're seeing coming out of since the European money was contributed by the Central Bank, and really has changed the profile again. The Europeans had pulled out quite considerably from this market, and that did allow the margins to stabilize over the previous half. With the liquidity back in the market now and more importantly, the capital markets reopening, has meant that the -- our customers have a couple of opportunities to go for their financing needs. Firstly, they can come through the institutional bank and us as a facilitator and an intermediary, take them into the capital markets, and that has driven the pricing down between the 2 markets. Those are pretty close to in-balance at the moment. So that means, I would say, that the margin compression we've seen has stabilized for the moment, though the competitive landscape is likely to stay intense. The Europeans pulling out made the first way of a difference. We saw the Asians come in for a little bit, and now we've got a more balanced market again.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

And on the smaller end, it really matches the same story as we had the whole of last year, and where the volume growth is, and where the opportunities are really relying, so those sectors that are connected to mining and commodities, engineering. So the faster-growing sectors of the economy is where there's most opportunity. Health is another one that's got good opportunity, some areas in agri have got good opportunity as well.

Andrew Bowden
Head of Investor Relations

James?

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. I just wanted to ask about the customer deposit-to-loan ratio that you've increased quite substantially. What is the target number in which you'll start backing off on deposits? And is it growth at all costs? Or are you prepared to be the bank that will actually put some pricing discipline back into the deposit market?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Well it's definitely not growth at all costs. I really hope that -- that's sort of part of the point of saying, it's a balancing act, and we look at all of those aligned, whether it's strength, the growth, return. And we seek to manage those in a tight, coherent way. And that certainly what we have tried to do over the course of this past 6 months, it's definitely not growth at all costs, but it's going for those segments and those customer bases that are perhaps less competitively focused on price, and making sure we win our own transactions out of our own customers, all those sorts of things. We haven't actually externally put out a particular issue. We'd like to increase it from where it is. And so you can expect to see a steady improvement. But again, there could be some leads and lags. It could be some periods where it plateaus a little and some periods where it steps up a bit. But in this environment where credit growth is low, where system credit growth is low, this is an environment where we would expect to get more structural shift. So this is an environment where I'm putting the asset on the teams out there and say, go and actually make sure, you shift those culture to deposits, and grow this deposit base. Because we've got a very sizable customer base across our various brands. Let's go and get them. Bank of Melbourne is a great example. They started out with their business case being more lending-focused in a traditional way of sort of a startup. And we said, "Sorry, wrong, get the deposit." So they've grown the deposits by 16% in 6 months and are 4x market share. So that's the shift that we're trying to bring about, but it will be managed. It will be disciplined.

James Freeman
Deutsche Bank AG, Research Division

I appreciate that but I mean there's also an environment deposits are being ridiculously bid for by all 4 banks, so I think Richard made that point. Is now the right time to be -- I mean you're saying leads and lags, is now the right time to be actually focused on increasing it when you're paying 5.8% for a term deposit at the moment versus a lending, a housing loan at almost 5.9%? I mean the mass on this does not make a lot of sense. You're saying it comes with the margins at the moment, I'm just curious as to what point does that the...

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

I think it is the right time to focus in it because we're in the scenario of lower credit growth, where system credit growth is lower, where we're going through the cycle of customers degearing, deleveraging, more caution, I think it is the right time. Phil, I mean you may want to talk a bit more about the overall funding task and approach that we're taking here. But it is -- it's managed, is the best way I can say. We're really as a team, Phil and I, Curt, the whole group executive, it is a huge area of every week focus.

Phillip Matthew Coffey
Former Chief Financial Officer

We've highlighted on the initiative for the industry, it's how well you can actually achieve growth and what margin impact, and I think we're trying to make sure that we manage that trade-off. The trade-off is actually no different from lots of periods in the past, but it's pretty acute. And I think you're seeing in the results how some banks have addressed that trade-off. I think our result is not a bad one in terms of getting that balance right. In terms of other funding sources, I think one of the things that we had got in our strength -- obviously what we've been doing in the term markets, and we have a very large pool of potential in that covered bond market. Now we're not going to go off and issue all of our covered bond capacity on day one. We've been quite, I think, disciplined about that in the last 6 months. But that is an opportunity for us to actually raise what will turn out to be quite cheap money compared to even term deposits. And so we'll be looking to astutely use that over the coming period as well.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

I think we've done a reasonable job as well in the last -- I'm going to say, the industry has done a reasonable job in the last 6 months or so, better explaining the dynamic in nature of how we fund ourselves and the costs of those various funding elements. And that there's not this nexus between a cash rate move and how pricing flows through on the lending side. So I think we've done a reasonable job. We need to do more of that. Because ultimately, the balancing act also includes repricing on the mortgage side and repricing on the business banking side and the lending side. And that's part of what actually gets you into the balance.

Andrew Bowden
Head of Investor Relations

I'll take one question from the phone from Matt Davidson.

Matthew Davison
BofA Merrill Lynch, Research Division

Gail, you've given the deposit performance a big keep today. But I guess if we go back to Slide 14, we can see that the at-call deposits have fallen by $8 billion, and I think yourself and Jason have talked about the need to win that transactional banking side of the business. So I'm just interested if there's any specific reasons you can call out for that performance on at-call deposits this period, and whether it does reflect any slippage in the business transactional banking space where I think one of your peers is making a lot of noise about their technology advantage in that space?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Look, we have had a very deliberate focus on growing our TDs, and there's regulatory reasons for that. That's about term funding and stability of funding and better matching the profile of our funding with our lending. And as you move forward into the new stable funding ratio scenario that we all know is coming, and yes there's a lot more details we've yet to ascertain with regard to that. But absolutely no, the term funding is more valued. So that's been a deliberate shift. It's more valuable for us. With regard to -- on the call, does that include online?

Andrew Bowden
Head of Investor Relations

Yes, this is everything.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

I mean online is a very hot and not sticky element, or potentially not sticky element, and so we're cautious about online. We certainly want to make sure that we don't actually -- that goes to your earlier point, James, we don't want to make sure that we're pricing at any costs on online. So we're being much more thoughtful and cautious about competing at that really hot end of online. We really focused on TDs, focused on basic transactional savings side. And as Jason knows and the team knows, more to do on that every day transactional banking piece. Some of the -- in Rob's business, there are transactional banking pieces, a strong component of what we do, and our business deposits has been very strong. So that's an area where we're doing well. That's an area where we think we can do better. So I wouldn't say I'm claiming -- your opening remark there was that, I'm saying we've done well in deposits. I'm not really. I'm saying we've done an okay job of growing our deposits ahead of system, and we've done an okay job of funding our lending growth with deposits and we're doing an okay job of shifting the culture of our organization more towards deposits. I've been talking about this in all of the 4 years that I've been here, it does take time. Cultural change like this takes time. And we are getting there, steadily but surely. But the level of focus, resource and attention we have on this has stepped up enormously.

Matthew Davison
BofA Merrill Lynch, Research Division

And just on the online, if we strip that out, would you say you're still holding share on the transactional side? Or would you acknowledge any slippage there?

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director

Phil, do you want to help me with that?

Phillip Matthew Coffey
Former Chief Financial Officer

I think as absolutely expected, we've actually grown share in -- particularly in business and institutional, transactional. Some of that business, at-call is actually a switch from at-call with some of it, it's actually at 11 a.m. as well, into term deposits. And so that differential actually kind of exaggerates how much is going on. And when you get a chance to read through the ASX in the divisional commentary, we talk about this switch is taking place between at call and term deposits. But I think Gail's last comment around rational pricing, if we think 5.6%, 5.8% term deposits for 6 months is irrational, what about 6% at-call? So that is one, where we've absolutely said, "Look, we'd rather see if we can get some more normality in the yield curve, even at these elevated pricing, and so we have definitely been comfortable shying away from some of the most price-sensitive online at call office.

Andrew Bowden
Head of Investor Relations

Okay. With that, look I might call things to a close, we're right on the [indiscernible]. But thank you, and good afternoon.

Gail Patricia Kelly
Former Chief Executive Officer, Managing Director and Executive Director
Thank you. Thanks, everyone.