ASX Announcement

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Suncorp APS330 Teleconference Transcript

Attached is a copy of the transcript from the Suncorp-Metway Limited APS330 Teleconference held on 6 May 2010.

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Corporate Secretary

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Patrick Snowball: Good afternoon, and thank you for joining this brief teleconference call to accompany the release of our APS330 disclosures. I appreciate the time you're putting aside because I know it's an extremely busy time for all of you. I'm joined here today of course by David Foster, the Chief Executive of Suncorp Bank; and also for the first time by John Nesbitt, our new Chief Financial Officer.

John's appointment completes the appointment of all my senior management team other than the HR position. John has made a rapid start to his appointment and has already announced and positioned his senior team, including for the first time an appointment of a Group Chief Investment Officer.

Today's release covers our APS330 regulatory disclosures for the Bank, which obviously includes both the core and the non-core businesses. Over the past 12 to 18 months, the non-core bank has occupied a great deal of management time, and I guess your time too. This is entirely understandable given the seismic shift that has occurred in the operating environment, and the magnitude of change that we've implemented within our banking business.

But now, we have a discontinued non-core bank which is fully funded and is being carefully managed through a responsible run-off process. Run-off is being achieved ahead of expectations, and the bad and doubtful debt expense for the quarter is significantly below the run rate charge we have reported over the last 18 months.

Obviously risks still exist in terms of the lumpiness of the non-core portfolio, and we could and maybe should expect variability from quarter to quarter. However, I'm pleased to report that this last quarter is consistent with our expectations and corresponds to what we told you at our half year result. Our impaired asset balances are flat, but as importantly, new impaired assets have reduced considerably.

We remain confident that the non-core book is provisioned appropriately, and as it runs off the level of uncertainty reduces. This allows us to have greater confidence in the ability to repatriate a substantial sum of capital to the Group, and David will go into more detail on this later in the presentation.

Moving forward now through to the full year result and beyond, we feel it's appropriate to move a proportionate amount of focus to the core sustainable franchise. The core bank is the go forward position of Suncorp Bank. David will be focusing on the core bank in a presentation to an equity investor conference tomorrow and we will be releasing the full text of the presentation to the ASX.

Following on from that, we'll be back talking to the market again only two weeks later with our General Insurance Investor Day, and then our Life Insurance business will provide a strategic update towards the end of June. We then have the Group full year results in late August and this will be accompanied by a brief strategic update at Group level.

But before I hand over to David to run through the detail today, I want to take a minute to provide you with my thoughts on Suncorp's unique business model and where Suncorp Bank fits in within that mix.

So to slide 3 -- Insurance, Banking and Life are all core to the Group's business model. The Insurance division is a leading player, with the Bank and Life Insurers supporting the Group as focused, growth businesses.

Each of our businesses is uniquely placed in their markets. Our GI businesses control their brands, their pricing, their manufacturing and distribution. Our Bank --the only A rated

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regional bank -- leads a second tier banking structure that Australia needs and consumers want to support. And in Life we are finding a profitable niche in a consolidating market. The combination of these unique businesses results in an entity that we believe is collectively worth more than the sum of the individual businesses. I know that you've probably heard that from Suncorp before but I believe that over time we'll be able to demonstrate this.

While each of the five divisions have end to end accountability for outcomes, they each benefit from the other and all generate value and savings from being part of the Group. Significantly, aggregation of central services at a Group level uses scale to drive down costs while initiatives like the Group Customer Data Program give each division access to sophisticated market and customer data across all brands. There are also benefits at the business unit level, with the Bank for example, gaining both capital and credit rating advantages from being part of the Group.

I will obviously highlight and expand on this in two weeks time. So, with that, I'll hand over to David to take you through the detail of today's APS330 release.

David Foster: Thanks very much, Patrick.

I'd like to start with deposits and assets in the core bank, which is slide 4 of your pack. Our total deposits growth has been strong and has exceeded system for one, three, six and twelve months. We've seen retail deposits grow to $26.4 billion at 31 March, leading to further improvement in the deposit to core lending ratio which now stands at 71.8%.

You will be aware that our target range was 60% to 70%, so we are at a very comfortable level and now our attention is focused on increasing lending growth in our core markets and returning to system growth levels.

Core lending assets remained relatively flat over the quarter but we have seen an improvement in volumes via the lending pipeline which is expected to translate into lending growth in core markets over coming quarters.

As you can see from the graph in the bottom left corner, Suncorp did historically perform well relative to system in terms of housing lending. The GFC forced us to focus on deposit growth rather than the asset side of the balance sheet but now that our deposit targets have been met we believe that we can revert to more normal lending growth levels.

So now to the non-core book on slide 5, and assets have reduced by $3.1 billion year to date. This was a pleasing reduction and ahead of our expectations by about $900 million. Total facility limits have been reduced by more than $4.5 billion, year-to-date.

As we've been saying for a number of months now, trends in the refinance market are improving, particularly in the sub $30 million market, in line with the improvement in the economic outlook. But we are also now starting to see the emergence of positive signs in the market for refinancing of selected larger exposures.

So now to credit quality and I'll address the core bank first, which is slide 6.

You'll notice in the graph at the top left of this page, that we've experienced an uptick in retail arrears, albeit off a very low base. This change reflects an increase in mortgage arrears over the last quarter, on the back of a continued hardening of interest rates and the removal from the system of the benefits of government stimulus payments.

Despite this uptick, the mortgage book remains in excellent shape and has stabilised in April. We have had a reduced share of new business in a market heavily weighted to first home

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buyers in the past 18 or so months. The recent increase in unemployment is now reversing and has a positive trend bias. Of course, any new loan of greater than 80% loan to value is mortgage insured which places us in a good position and we would expect very limited losses in the retail housing book.

The bad debt charge for the third quarter increased due to collective provision charges resulting from deterioration in credit risk grades of the SME/Commercial and Agribusiness portfolios, consistent with this stage of the bad debt cycle. This illustrates the forward looking methodology introduced at 31 December as very little of this charge would have been evident under previous methodologies.

The year to date charge on an underlying basis remains low at 23 basis points of credit risk weighted assets. This is after normalising for the collective provision methodology charge write-back that we spoke about at the half year result in February.

Moving now to non-core credit quality, on slide 7.

Impaired assets remained flat over the quarter, with an increase in balances offset by the realisation of the Babcock & Brown Power debt.

The key components of the bad debt charge for the third quarter were:

- A reduction in collective provision as several exposures moved from watch list to impaired.
- The consequent increases in the specific provision were partially offset by the removal of BBP
- While the write off was substantially the finalisation of BBP exposure.

This resulted in a non-core impairment loss for the quarter of $83 million which, as Patrick mentioned earlier, is a run-rate significantly lower than we've reported in the last 18 months. If we look at the downward trend we experienced in the first half compared to the peak in the 2009 year, it's pleasing to see the third quarter losses demonstrating a further continuation of the trend. We are cautious however of paying too much attention to any individual quarter given the variability that can result from the lumpy nature of exposures and the timing of movements in particular accounts, however, the overall trend is positive.

So moving to slide 8, the Bank continues to hold a conservative liquidity position whilst it manages the non-core run-off with a prudential liquid asset ratio at just under 18% at the end of March. This is before factoring in on-balance sheet RMBS repo capacity, providing substantial protection against an industry-wide shock scenario.

All of the Bank's lending is supported by retail deposits, long term funding and capital. The utilisation of short term wholesale markets is lower than the Bank's holding of liquid assets.

Non-core run-off has exceeded projections and deposit growth momentum has continued to strengthen the balance sheet position over the quarter. As you can see at the bottom chart on the slide, the non-core portfolio is fully match funded across the expected run-off profile with excess long term funding in the short term sufficient to cover the next significant maturity tower in December this year.

There is no requirement for the Bank to complete any term funding for the remainder of the calendar year, however we will look to take advantage of issuance windows to maintain a market presence and further strengthen the Bank's ability to absorb impending regulatory change.

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So moving to capital on slide 9. Risk weighted assets contracted by $1.2 billion over the quarter due to the non-core portfolio run-off. There has been a solid increase in AFT1 of approximately 30 basis points over the quarter, and the Bank is now at a ratio of 6.57%.

Tier 1 and total capital ratios also increased and they remain at very strong levels of 12.5% and 14.2% respectively.

There's been significant discussion in the market around potential capital that can be released from the Bank to the Group as the non-core portfolio runs off. There's just under $1.5 billion in shareholder equity backing the non-core bank, and this comprises around $1.06 billion in adjusted fundamental tier 1, $215 million in capital supporting regulatory AFT1 deductions, and a further $190 million held as an Equity Reserve for Credit Loss.

The amount of shareholder equity that will be available for release to the Group will be subject to a number of variables, being:

- the non-core profit before bad debts over the run-off period,
- the actual write-offs compared to the balance of specific and collective provisions, and
- the net tax expense or benefit of these two factors.

The timing of the realisation of excess capital from the non-core is subject to further variables, and these include:

- the achieved run-off profile;
- the timing of realisation of impaired assets; and
- the degree to which capital buffers may be required to be held against potential concentration of lower credit quality exposures in the residual book over time.

So as you can see, there are a number of variables and, of course, any discussion around capital is subject to the potential impact of regulatory change.

We will be providing you with a further update on these variables at the full year result. So on that note I'll hand back to Patrick.

Patrick Snowball: Before we go to the phones for questions, I should give you a quick update on the progress of the weather events across the country in February and March in our general insurance businesses. Across the Group, Cyclone Ului, the Qld and New South Wales flooding and the Melbourne and Perth storms resulted in nearly 100,000 claims. Our people, across the brands, performed exceptionally well in responding to this multitude of events, clearly demonstrating the benefits of our scale. Whilst there was a significant financial cost, our losses have been limited by the catastrophe and aggregate reinsurance covers we have in place.

We have around $190 million of capacity remaining in the aggregate program which means that, even if we were to experience another major event between now and 30 June our losses will be limited to $10 million.

I have already recognised John's arrival, but in welcoming John to the Group, I certainly want to publicly thank Clayton Herbert for the role he's played in the interim, and we look forward to his continuing contribution to the role of Deputy CFO. In my view he's clearly been the man of the match in helping hold the whole business together over the last 12 months, and we owe him a significant debt of gratitude.

So with that, thank you. I'd now like to hand to the phones for questions.

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Ross Curran (UBS): I have noticed you've had a tick-up in impaired assets in your hospitality loans and in construction and development. I was wondering if you'd talk about those two increases, what was behind them, and particularly the hospitality one where you haven't taken a specific provision against it. What is your thinking there?

David Foster: I think as a general rule across the quarter there's nothing systemic that we've seen in the movements, whether it be watch list to collective and then collective through to impairment or specific provisions.

Certainly we, as you know, have a reasonable exposure to the pubs and clubs sector on the commercial side of the book, and in terms of the movement into impaired assets there was only one movement of what we characterised as large exposure of the quarter, greater than $50 million. That was a $68 million commercial property exposure, which has repatriated itself to a performing asset post-date.

So, it was nothing systemic just a collection of a number of different exposures.

Ben Koo (Goldman Sachs): I just wanted to just get some clarity as well as in relation to the non-core run-off which is running a bit ahead of expectations and also your comments about how you're looking to grow the core bank now. Can you just give us a feel, with the run-off in the non-core, do they tend to be the higher margin loans so we're still expecting a negative margin trajectory for the core business? And for the core business where you actually have a lot of deposits, is that benefiting from deposit margins right now, then soon you'll start to lend that out into mortgage growth?

David Foster: So firstly to the non-core. As I mentioned, one of the variables around it is the shape of the run-off of that book, and if you look on slide five, there is a view of period to period movements by portfolio, which has been reasonably consistent in terms of some reasonable reductions in the property investment portfolio as well as the development portfolio.

As an overall mix, the leasing book and the development book would tend to be higher margin businesses as opposed to the property investment or corporate banking business, so as we've seen consistently it will just depend on the mix of that going forward.

But potentially to answer your next question at the same time, we flagged at the half year that the outlook for our NIM would be in the core bank a fairly stable outlook, and in the non-core book, driven by a number of those variables, we thought it should be reasonably stable, but probably with a downside bias with a few of those moving parts around the mix of run-off, and if there was any further contribution to impaireds.

But I think on the deposit side of things, there's certainly been less erratic competition than we saw at the back end of last year with a couple of the majors weighing in, but I would still say that the competition for deposits is still intense, but is now more localised and sporadic in terms of timing - but we are still seeing all players chime in and chime out at different times.

T.S. Lim (Southern Cross Equities): Could you give us a feel for where the extra impairments are? I mean, are they in Queensland or in New South Wales or other states?

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David Foster: As I mentioned before, the movement was quite widespread across a number of sectors and a number of exposures. There was only one large movement in the period which was a greater than $50 million exposure of $68 million which was a commercial property in Victoria. But as I mentioned, that's subsequently repatriated itself. So there's not any underlying trends. If I comment on the property sector which might go to your answer, I think we're seeing, as a general rule, improving conditions in Victoria, followed by New South Wales which has stabilised and is starting to show signs of improvement. Queensland is the laggard in terms of that comparison with probably another three to six months to run before we start seeing the corner turned in terms of commercial property.

But as we've talked before, Gold Coast is obviously always a hot topic but we have less than a billion dollars of our exposure on the Gold Coast. So we're not seeing anything systemic in terms of increased issues in any particular state; it's just across the board in this last quarter.

Arjan van Veen (Credit Suisse): Just a question regarding the refinancing appetite for selected larger exposures starting to emerge. Can you just elaborate on that a little bit in terms of whether you're seeing specific ones actually refinance, or just trying to see a bit more interest, and then maybe on top of that elaborate a bit in terms of whether the run-off rate you see in the first quarter has continued into the last month and a bit in the current quarter we're in.

David Foster: In terms of the refinancing, as I flagged, and we flagged last time, most of the activity tended to be in the sub-$30million category. What we have seen, and continue to see is a bit more activity in the higher levels, and that's on a few fronts. So, for performing assets we are seeing some activity, certainly in corporate banking, from domestic banks expressing interest.

Likewise on the property side, on performing property assets we've started to see some movement there. That's been from both domestic banks, predominantly the Victoria based banks, as well as some offshore institutions. So we have seen some Asian and other countries engaged there.

And then on the non-performing assets, it's a bit of a mix of predominantly the investment banks, et cetera, expressing some interest there, and we have seen the bid to offer spreads close, but we're just scrutinising those on individual deal basis.

So, and in terms of most recent trends, we're still seeing that activity flow through to April, and I think the only piece which is an ongoing issue for us is subject to what happens in Europe and so forth, if that provides uncertainty to markets then that could cause some slowing. But, we're still getting positive feedback in momentum at this point.

John Heagearty (RBS): Just two quick questions if I could. The first is, I was wondering do you have a specific target for any of your capital ratios at the moment? You had some back in June, but they sort of seem to have moved a little bit.

Patrick Snowball: I think that the underlying targets we set are still there, but obviously you are seeing a strengthening in the balance sheet, and a strengthening across the business, so you will see those ratios improving.

I think that we're obviously looking at two aspects of that. The first is relative to the market, but secondly, exactly where are they going to land in the new regulatory environment? So certainly you will see us continuing to strengthen the balance sheet as this next stage in capital requirements unravels as well.

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John Heagearty: Okay, so nothing really specific then on, say, AFT1?

David Foster: No.

John Heagearty: Just secondly, could you explain the slight decrease in provisioning in the quarter considering the NPLs stayed pretty flat?

David Foster: Well I think you've just seen some of those movements worked through, John, in terms of obviously we wrote off BBP, which was a contributor during the quarter. We saw some assets move through out of the watch list into the impaired bucket and be specifically provided against.

As we've seen over the recent period the aggregation of the watch list and the impaireds been stable and certainly things like arrears rates continue to be stable and improve within that book.

So it's again just working that cycle through and watching those assets work their way through the various stages.

Brett Le Mesurier (Axiome Equities): The size of the watch list, do I gather that since there's transfer out of watch list into impaireds that the watch list is actually going down?

David Foster: Well as I said the aggregate of the watch list and the impaireds has been stable.

Brett Le Mesurier: Okay, the runoff that you're experiencing is that all due to customer repayments or are you selling some loans?

David Foster: It's a combination of factors, Brett.

Brett Le Mesurier: Can you give me a sense as to their relative proportions.

David Foster: Certainly the great majority is customer activity rather than debt sale.

Brett Le Mesurier: Okay and lastly, at your last result you still had about half your development finance book, if I remember correctly, potentially having draw down. What proportion of your development finance book is still having draw down?

David Foster: I think the proportion that we talked about last time was about 30% not completed, not commenced, which we didn't think would move too much and that's been pretty stable. We had about 15% in market with half presold and that trend has continued and then the balance was at various stages of construction. So the overall pie, as you can see in the slide five, has reduced but the relative proportions probably haven't. There may be a little bit more on the not completed albeit we have been successful in cancelling limits so that the actual splits haven't changed an awful lot.

Nigel Pittaway (Citi): Okay, two questions if I may. First of all just on the core bank, obviously flat assets during the course of it, I pick up your point, but it's improving since. Can you just sort of maybe explain the dynamics that are causing that improvement?

David Foster: I've just split out the housing and the business portfolio a little bit differently. So on the housing side it's really a combination of factors about re-energising and

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reactivating the direct sales force to ensure that they're more proactive in generating business, so that's certainly occurring.

We're supporting that by advertising campaigns. We haven't done a housing campaign for probably 18 months to 24 months, so that's certainly kicked off in the last couple of months.

In addition, we've re-engaged in a more proactive way with the intermediated market. I think I might have shared at the half year that that intermediated volume had reduced down to about 25% of our housing mix new business. In the normal course, when we were growing at above system, as we've presented on one of the slides, that was making up more around 45% of the business.

So we've certainly had a lot of interest and excitement from that sector historically about us re-engaging so we've been doing that in the last couple of months.

So all those things are in train. We've been activating them pretty well since February, and are seeing a good build up of our pipeline both across the direct channel and the intermediated channel.

Then if I move on to the business side, that's a real combination of factors. Again, just proactivity, advertising, marketing and in addition to that we've been bulking up our resources. We're putting on a number of new relationship managers and bankers around the country and I think on both counts, obviously to help regain momentum and so forth, we've had some programs around product offers and staff incentives et cetera to get everybody aligned in a balanced way.

I guess someone may well ask a question around what happens with deposit growth, but it is very important in doing so that we maintain that momentum that we've got on deposit growth as well. It's not an either/or, we'll be doing both.

Patrick Snowball: Nigel, it's Patrick here. David's going to be talking a lot tomorrow about what our ambitions are for the Bank going forward, but the short answer to your question is the word 'confidence' in that really by the year end our staff were confident that they knew they were part of the Group and our customers were confident that the Bank had a future. Of course, the team had been focusing a hundred per cent on deposits during that period of uncertainty, as it were, the flash and bang time and then getting that confidence converted into actual transactions has taken time.

But certainly it's a really good trajectory and David will be talking about that tomorrow at the Macquarie conference.

Nigel Pittaway: Then just maybe just one other question. Are you able to say anything about the rather large agricultural exposure that you were hoping would be dealt with in the near future?

Patrick Snowball: Well it has been raining, quite a lot.

David Foster: I think the only thing I can probably say there, Nigel, is that obviously, as Patrick alluded, the environmental conditions have been very positive so there's plenty of water for I think up to five years which is positive and, likewise, they had a favourable outcome in terms of a legal proceeding around water rights which also provides more certainty. So there's still activity on that front progressing but I would stress the point, which I did make at the half as well, that we're very comfortable and have a conservative provisioning for that particular exposure.

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Mike Wieblin (Macquarie): Just a question on the newly impaired assets in the non-core bank -- can you just give some colour as to the likely margin impact there going forward? Obviously it's going to be on the down side. And is the last half a good indication of the likely NIM impact on the non-core bank?

David Foster: Mike, I think as I mentioned before there was certainly some movement on that basis. What we've seen in previous halves is that we obviously had significant increases in the impaired assets, sort of $700 odd million last half, with nothing going out the back door.

This quarter we've seen a stable level in aggregate levels of impaired assets and there is the ongoing prospect that we'll be looking to hopefully get that overall level down in coming months.

So, as I mentioned before in terms of the NIM outlook for non-core, we don't have an expectation of any step changes that we saw in previous halves so we have a relatively stable outlook subject obviously for the mix of runoff but potentially there's some down side bias but not a step change that we've seen in previous periods.

Mike Wieblin: Just one quick follow up question. The risk weighted asset growth on the core book appears to be a lot more than the headline growth, around $100 million versus $400 million. Is that just around the downgrade of the assets in that book?

David Foster: No, I think we've obviously had that but the other change in the period was the securitisation unwind during the period which we called out at the half.

Danny John (Sydney Morning Herald): Just a couple of questions; one in terms of the run off on the non-core book. Are you looking to revise the timetable in regards to the sort of getting out, in effect, if it continues to accelerate at the level that you've sort of seen if the economy improves? Secondly, just in terms of returning to the mortgage market, do you see yourselves being fully deposit funded or, you have mentioned about the need probably to, or if you need to, to go in and do some wholesale funding, but you're obviously keen to make sure that you can fund that as cheap as possible and even possibly reduce your rate to be a bit more competitive?

Patrick Snowball: I think if I can just start on the speed of the run off. It's a story of many parts in that there's a danger if you do it too quickly, i.e. leave money on the table. Also, if we do it too quickly we could end up with hanging funding out there which would be expensive.

We're trying to get all the balance absolutely right and therefore that trajectory you're seeing. If there are opportunities we'll take them but likewise there may be periods where we put the foot on the ball.

David Foster: Yes, we've obviously had a couple of very positive quarters in terms of gaining momentum there so, as Patrick said, there's a number of variables to monitor so we'll just continue to monitor that over time, but we certainly have derisked that portfolio substantially by match funding it already. So it gives us some flexibility on that front.

In terms of re-entering core lending growth and particularly mortgages, certainly we've got a good track record historically of growing at or around system; and as you've pointed out we've done all the heavy lifting in terms of getting the balance sheet in shape with our

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deposit to loans ratio in excess of about 70%. And we've got very high levels of liquidity that gives us a lot of flexibility now to re-enter that market, which we're doing and we'll endeavour to be as competitive and get that volume back to 1-1.3 times system.

We're very comfortable around our existing position to enable us to do that.

Danny John: Patrick, you mentioned about capital. The prospect of returning capital from the non-core bank to the Group and therefore to other operations of the Bank or the Group that may require it, do you have any time to go there in terms of a capital return?

Patrick Snowball: No, if I start with John Story's statement at the half year where he basically talks about any excess capital being returned to shareholders, I guess it's the route and the speed which we take and, of course, we've already mentioned a certain amount of the uncertainty that exists in that timetable.

Certainly you could see a situation where if the non-core book runs off in a certain way, you might require a disproportionate amount of capital toward the back end, because of the type of risk you're holding. But secondly, once the capital is repatriated to the Group, then we would look firstly to the regulatory environment as to what capital we required, and of course we would then in parallel take into consideration holding any surplus capital on the balance sheet.

Of course, from a chief executive's point of view, that's a very unattractive option because we've got to earn a return on it. So I think what we're signalling at the moment is the increased confidence that there will be a repatriation. We're talking about substantial amounts. But at the moment we really wouldn't want to get committed to the timing because both of economic and regulatory factors.

Stewart Oldfield (Baillieu Stockbroking): Just on the arrears in mortgages, the tick up there -- is that an outside of Queensland story and a broker story? Is there any themes there?

David Foster: Well probably just a few things to give you a little bit of colour there, Stewart. I think just to reiterate the point that I think when comparing with last period really we've seen the rate rises offset by the government's stimulus. And I think from the data that we have on the industry, when we include our impaired data and add that to the mortgage arrears, we're certainly below industry average and off a very low base. As I mentioned, the numbers have stabilised in April.

But to give you some colour specifically to your questions, they tended to be loans originated back in 2008. At origination they had a loan to value ratio generally in the 70% to 90% range, so they're well secured; and obviously as I mentioned all loans over 80% are mortgage insured anyway. It did tend to be driven more outside of Queensland than within Queensland, so we haven't seen the same trend to the same extent within South East Queensland or Queensland more broadly. And certainly given our position and experience in that portfolio, we certainly don't expect these to result in losses ultimately.

Stewart Oldfield: This might be a left field question, but are you expecting some sort of retail deposit insurance scheme to be introduced between now and the end of next year?

David Foster: Well I think there's certainly discussions underway with the industry body, as well as the regulators, to pre-empt the October 11 shutdown of the government guarantee of deposits, and recognition that given the profile of that guarantee that more than likely there'll need to be something to replace it. But that's a work in progress.

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Mark Hancock (Precept): I just wanted to clarify, with the business loans that are still happening, could you just explain what categories you are actually still open for new loans as opposed to the segments that are in run-off?

David Foster: Certainly our focus is in the SME market and sort of small to medium end of commercial banking. And we have a substantial presence particularly in Queensland but also in selected markets outside of Queensland in agribusiness, which we've got a very long history dating back to 1902. So those are the key focus areas on the business side. And we've got strength in various industries, particularly in the agribusiness side which we're looking to continue to grow in.

As I mentioned before, in terms of the initiatives on the business side of things, we're putting in some new bankers in the SME and agribusiness area to add expertise if we need it in particular new sectors that we're looking to expand into. Likewise, we've got a number of existing lending centres supporting our business lending in various parts of regional Australia which we're converting into full service centres to provide transactional and personal banking services all to enhance the proposition. So a number of things underway to grow in that core SME and medium end of commercial and certainly agribusiness.

Mark Hancock: So you wouldn't participate in some sort of syndicated loan to a new infrastructure project in Queensland, for example?

David Foster: No.

Mark Hancock: And you wouldn't be doing loans above $5 million at all?

David Foster: The appetite within the core business bank tends to be limited to around about $30 million, as a general rule.

Mark Hancock: And can you just comment on interest margins in the run-off? They contracted sharply in the last period. Are they showing further pressure?

David Foster: No, at the half we saw two main drivers of a step down in margin in the non-core. One being the impact of the increase in impaired assets, and the other large contributor of that reduction was the roll through of the matched funding that we'd undertaken during the course of the calendar year utilising the government guarantees so that we de-risked the business. So those were the two large contributions. As mentioned, I think our outlook in general terms for both the core and the non-core book is relatively stable in terms of margins, obviously subject to the mix of run-off with potentially some downside bias in the non-core, but we don't expect any step changes as we saw for our last half.

Patrick Snowball: Okay, well thank you very much everybody for dialling in this afternoon. As I said, I know it's an extremely busy time for you all. As I stated at the outset, the non-core is tracking in line with our expectations, and it's now obvious that we've been through the high watermark in the bad debt cycle. Despite this, risks remain given the lumpy nature of the portfolio of assets. But this uncertainty is diminishing.

Accordingly, we're getting increasingly confident that the Group will benefit from a significant capital repatriation from the non-core bank. This means the appropriate amount of management time should now be refocused towards the core bank, and David and his team

have plans in place for return to system levels of growth in our core markets over the course of the year.

I look forward very much to updating you all then on the significant progress that we've been making on the General Insurance business as well as the Bank in the next couple of weeks. Thank you all very much. Good afternoon.

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