Question and Answer

Operator

[Operator Instructions] Your first question comes from Jarrod Martin from Crédit Suisse.

Jarrod Martin
Crédit Suisse AG, Research Division

Nice to see a clean NAB result. Something that hasn't been commented on over the last couple of decades, long may it continue. A couple of questions around dividend and capital, and thanks for providing the payout ratio guidance of 65% to 75%. Can I understand -- and I understand that's it's a Board decision. But is it more important to have a consistent payout ratio or a consistent absolute dividend so that you'd be willing to actually move around within that range to have consistency of dividend? Or is it about the actual payout ratio? That's first question.

And then the second question, core equity Tier 1 range, 10.75% to 11.25%. Midpoint of that is 11%. Are we really seeing now that unquestionably strong, you want to be at 11% because given what's happened in guidance through the pandemic, you really don't want to dip below 10.5%.

Ross Maxwell McEwan
Group CEO, MD & Director

Thanks, Jarrod. Thanks for those questions. Let's start probably with the range itself. We've set that range in the medium term while we bring the organization back into what is a more normal condition. As I've said on many occasions, there are still some impacts of COVID we've got to see customers through and therefore, the bank through. But we will -- we accept that 10.5% is unquestionably strong. We'd like to hold slightly higher than that for this bank so that we can operate well and not have to dip below that number. This is really extenuating circumstances. So that's why we set out the range. It is a medium-term range.

On the dividend, I would rather stay within the range and get consistency within the range rather than fix a number. I think this bank and many others got itself caught chasing after everybody else holding the dividend payout at a level that was probably a little bit unsustainable, and we constantly ended up diluting our shareholders with more and more shares. That is something that we have the opportunity now to get out of that habit. And the first thing is let's use the capital for growth.

That's, I think, what our shareholders would want to do. And where we can't find good use for that on an organic basis or an acquisition basis, we're going to give it back. But that will be over a period of time, and our preference is to give it back by reducing the share count of the bank. So I think you're seeing us cautiously moving towards a lower shareholder count, number count. But we will stay within the range rather than a fixed dividend number. Do you want to go on, Gary?

Gary Andrew Lennon
Group Chief Financial Officer

Yes, I might just add a couple of things. And Jarrod, you sort of touched on at the start. Of course, it's going to be subject to Board discretion. And what that's really saying is about the circumstances. So we're not using this range as a brick walls side there. It's a hard range. It's going to depend on the circumstances. And for this dividend payment, we're a bit below the range because of the particular unusual circumstances, writeback in CICs. So there will be that flexibility, but it's really just to give yourselves and the market a view of how we're thinking about what the appropriate range is with that focus on sustainability.

And on the capital range, look, it is a fair question on -- the requirement is 10.5%. We've said it at this stage for a period that that's 10.75% to 11.25% with a bit of recognition that there's still quite a bit of uncertainty out there. Now over time, that could be revisited if we think we could actually sensibly and safely run a slightly tighter buffer. But it's -- we think, for this point in time, that's the appropriate range to work to. But it is always -- I'd like to bring in one back that it's -- the requirement is 10.5%. It's not 11%. It's not 11.25%. And these are just judgments about how much buffer you need.

Operator

Your next question comes from Andrew Triggs from JPMorgan.

Andrew Triggs
JPMorgan Chase & Co, Research Division

Gary, I just had a question on the drivers of the top-ups in FLAs for aviation and housing. Could you talk a bit more on both of those areas? Why add to provisions in the mortgage book, given what's happening in house prices? And what's assumed on the aviation book in respect to the return of international travel? And hence, the sort of the outlook for further top-up if there's a delay in, I guess, reopening of global borders.

Gary Andrew Lennon
Group Chief Financial Officer

Yes. So look, thanks for the question. And clearly, on the aviation portfolio, as we continue to progress and the commentary around when borders are going to reopen, yes, the -- all the commentary seems to be that it's going to be later rather than sooner. But no one's in a rush to open the borders in the short term. And that has really informed as well as the other degrees of uncertainty around what we're seeing currently on how the virus is spreading around the world, the rates of vaccinations, potential mutations.

So all of this just adds to that uncertainty, which is of concern for that sector. And so that is downside risk. So we're not saying that, that sector can't work its way through it, but clearly, the risk factors are increasing. And that's what really drove us for this half. Again, we think the settings are pretty conservative. Over the portfolio to date, we haven't had defaults. They've been able to manage through it. But the longer this goes on, the more that you consider that there will be risks that airlines will get themselves in trouble. So that was driving the top-up in aviation. Whether there's more required, look, we think that was a prudent and appropriate top-up, so hopefully, no more required but we'll just have to wait and see on the circumstances.

On housing, we really -- it's really the story of the -- on average, the economy is doing well. On average, house prices are going up. And on average, our housing portfolio is doing quite well. It's about the tails. It's about that there still are parts of the portfolio. As you've seen, customers come out of that deferral portfolio. There's been a reasonable number of those customers now flow into NAB Assist and a reasonable uptick in 90 days past due. So we are really focused on the riskier areas of the housing portfolio, and that led us to provide a top-up particularly with still a degree of uncertainty in the next quarter or 2 on how the economy is going to play out post stimulus being released or reduced. So that's sort of the first important point on housing.

The second, if you do go -- I think it's Slide 78 or something around there. There is a slide that just shows you the level of collective provisioning on housing period-on-period. So when you just step back from just the FLA component, the overall elective provision we have on housing, it's just a modest uptick for the period. So from a coverage perspective, it's actually quite stable. If you don't just focus on the FLA component, you focus on overall.

Andrew Triggs
JPMorgan Chase & Co, Research Division

Thanks, Gary. And just on capital. Obviously, all the banks have a very sizable services now. What do you need to see? What does the Board need to see with respect to -- what are the triggers to announce uses of that capital returns? Is it -- did you need both APRA -- the final APRA rules and also sufficient certainty that the economy has turned?

Ross Maxwell McEwan
Group CEO, MD & Director

Well, I think certainly, we will be looking for consistency in the economy turning. As [the fed] said, we've still got some concerns about certain customer groupings in the marketplace. And you are seeing situations overseas with recurring difficulties with the pandemic, which is terrible to see but -- so we're just taking a cautionary approach to this. And as the years go by, if we can't find opportunities to use this capital for growth in the business, we will give it back to our shareholders. So -- and that's what we're clearly signaling today. With the levels in the medium term, we'll get back down to, but look, it will be dictated by what's going on economically here and with an eye to what's going on overseas as well.

Gary Andrew Lennon
Group Chief Financial Officer

And I'll add to that, a couple of points, Ross. On the -- well, you mentioned best use of capital, and we're seeing it in March, and there's good momentum into April, which I'm sure Ross, you'll pick up as well. It's -- the best use of that capital is to have a growing business, which we're very focused on and how do we continue to be focused on that.

In terms of the other points, look, every 6 months, as we get better and more clarity on how the economy is really going, how some of these factors are playing out, I think that helps bring forward those type of decisions on when buybacks are appropriate. It really does help when your pro forma starting point is 12.75. Like there's a lot of room to move here in terms of making some of these decisions. And given that, I wouldn't be thinking -- I wouldn't be taking away that, "Oh, we have to wait for the unquestionably strong new capital rules before we can do anything on buybacks." So yes, no, that's not how we're thinking about it. Obviously, buybacks are all subject to APRA approval, but that's not, in our mind, a key constraint really because we have so much buffer over our target range.

Operator

Our next question comes from Andrew Lyons from Goldman Sachs.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

Just 2 questions, 1 on asset quality and 1 on the margin. Just firstly, on asset quality, your delinquency trends, which were up materially in the half, do seem somewhat at odds with what peers have reported, where their delinquencies haven't yet moved. They have seen hardships increase, and they're expecting those hardships to leak in delinquencies over the course of the second half. Can you provide any background as to why there may be differences in how that's being reflected and just the extent to which you expect further leakage from those loans being managed by NAB Assist going into delinquencies?

And then a second question just on the margin. Slide 21 highlights your expectation that lending margin was flat overall in the half. Could you perhaps just break that out in a bit more detail just between the benefit of repricing versus the drag from the front book, back book and mix, which is clearly going to continue into the second half?

Ross Maxwell McEwan
Group CEO, MD & Director

Gary, maybe if I take the first one, you take the second. Andrew, just on the asset quality. You'll recall -- well, you may not recall, but we didn't allow personal customers to go into further deferment after the 6-month period of time. We did an assessment of each one of those, which, therefore, means that we put them back into our normal operating environment of -- would roll into for 30-, 60-, 90-day deferral buckets, and that's what's happened. So we're probably, I'd say, 3 to 4 months ahead of the rest of the industry because of that approach because many of the others, I think, let them go have instant deferral rollover. We chose not to do that.

So that's pretty much the reason why our asset quality is showing through at the moment. We do see that coming down as we deal with each of these customers that Gary has given you some numbers on what's showing through. I can say that new customers going into that -- those buckets has drastically reduced. So it's really around the deferral -- the customers that had deferral that have moved in there.

And as I say, we'll be ahead of the industry on that because of the way we chose to treat those customers. We thought it was better that we actually had that conversation with them after 6 months and to fill up and just automatically roll them in over. And Gary, do you want to...

Gary Andrew Lennon
Group Chief Financial Officer

Yes. And on that -- look, so clearly, it should be timing, but let's wait and see how it works out with our peers. On the margin question, I can unpack a few of the items there. So in terms of the benefit that we actually flagged last half from the previous period home loan repricing, that benefited us about 3 basis points through lending margin. And then there's -- we probably had another basis point in David's business of repricing coming through CIB. And the impact of competition mix, et cetera, is about 4 basis points. So that's how you end up in your net square 0.

And on the impact of low rates and the benefits from funding and deposit costs. So the impact of low rate for us this period was 6 basis points. And that was really offset by 7 basis points of funding and deposit cost benefits to give that net one. So that just gives a bit more flavor of the components of the NIM drivers for the half.

Operator

Your next question comes from Victor German from Macquarie.

Victor German
Macquarie Research

Two questions from me. One on costs and one on business lending side. So on costs, obviously, completely understood why you've given 0% to 2% cost guidance at the half. I'm just sort of mindful of the fact that we have progressed through the year, there's only 5 months left. If there's any way maybe for you, Gary, to kind of outline the reason for keeping that 0% to 2% rather than narrowing it a bit given you're significantly past through the year. What are sort of some of the assertiveness that perhaps drive that outcome in costs?

And the second question on business lending. I noticed on Slide 11, you highlighted business lending growth and monthly changes. It started to pick up again in March. We've seen some early green shoots before and may then quite eventuate. If there is anything that's kind of in there now that gives you a bit more comfort that we will actually see some pickup in business growth? And also with respect to your new bankers, you put on 500 new bankers. You're obviously preparing for growth. I'd just be interested in how long does it generally take for those new bankers to actually sort of breakeven and become profitable for you?

Ross Maxwell McEwan
Group CEO, MD & Director

Yes. I'll pick up on each of those. On the cost, look, we are maintaining good control over our cost base. There is some -- there are a number of increases that automatically comes through this year. For example, if we have a good year, we do want to resume bonus payments back into our senior themes, which we took out for our very senior team was 0 last year. That's just not sustainable long term. And if the business performs as it is today, we will be wanting to make payments across the board to all those who are eligible. So that's what we have to put in, where it wasn't there last year. So it's quite a large number that flows on through. But we are taking -- looking at good control over our cost. We also have investment slate this year that -- so far this year, we've only spent about $500-odd million. Gary, I think we've got about another $700 million...

Gary Andrew Lennon
Group Chief Financial Officer

Correct.

Ross Maxwell McEwan

Group CEO, MD & Director

$750 million to flow through on our key projects that we are funding. I think that's actually a good sign for this business and the fact that we've had control over what's gone and to get the results out of those projects that we run. And so that will kick up in second half. So between those 2 numbers, you will see us in that 0% to 2% range but good control over it.

On the business lending, you're seeing our results on -- in the pack here, March was good, but it was building to March. And I will say that April was better than March. So we are seeing the momentum building in the business bank but also in our personal bank as well. So I am optimistic, if the economy stays in good shape, that we will be a major beneficiary of that because we are the largest business bank in Australia.

And we're out there very active. We're not distracted. We have 490 more bankers and associates and operations team working with customers. It takes about 12 months odd to get a banker right up to speed. They usually come through from our business associates into a banking role. So it's not as though they're starting from scratch. And we have momentum. It is certainly the friend of NAB right now, and I expect that to continue across the business. As I said, April, it wasn't just 1 month, March. April was a good month volume-wise for us as well.

Victor German
Macquarie Research

Can I just -- sorry, just push my luck with this cost. I completely understood everything you say. It makes a lot of sense, Ross. I'm just trying to get a sense for the difference between 0% and 2%, the $150 million. Is the key kind of moving part there is those bonus payments that you're referring to? Or is it some of the cost save timing that you're not kind of certain about that this will happen in the next 5 months? And if they don't happen in the next 5 months, that will happen in the next period, and therefore, that cost reduction will come through in first half '22?

Ross Maxwell McEwan
Group CEO, MD & Director

Look, we said the investment of about $700 million to $750 million coming through in the second half actually gives us benefits coming through over the following 3 years. So that's why we're putting the money in. So that's certainly one of the big ones that wasn't in, in the first half. We have an increased investment spend coming in second half. And we have put more provision in for our bonus structure because the bank is performing. Then I'll pay if it performs and I won't if it doesn't. So we are getting performance out of the bank across the broad spectrum. And that bonus pool was much smaller last year than -- based on the results. So those are 2 items. But the investment flows through into what the business starts to look like in 2022 and '23. Because the 19 programs, we are funding our future value-creating for this bank. And as I've said to you before, those are the ones I'm focused on, on a fortnightly basis. They're the ones that deliver for the bank long term.

Gary Andrew Lennon
Group Chief Financial Officer

Victor, just 1 final point is -- it's a quality problem to have, but we're hoping off the back of the momentum we've seen in recent months that, that could drive some volume-related expense uptick as well, somewhat difficult to forecast. But if we do have volume levels continue, what we're seeing in the last couple of months, which would be fantastic, then there will be some pressure in the back office that we'll have to -- maintaining our processing times might require a bit of additional support and cost in there.

Ross Maxwell McEwan
Group CEO, MD & Director

We're certainly -- to Gary's good point, we're certainly seeing that coming through with volumes up 45% in personal and well and truly up in our business bank. So we need to maintain the service levels.

Operator

Our next question comes from Brendan Sproules from Citi.

Brendan Sproules
Citigroup Inc. Exchange Research

I just have a couple of questions. Just firstly, on the Corporate and Institutional Bank, you've sort of just explained the growth that you've been able to get in your business bank. I was wondering what is the outlook for growing particularly risk-weighted assets in that business that, therefore, drives revenue.

And then my second question is just on the home loan momentum that you've developed pretty much over the 6 months, as you showed on Slide 12. I guess with investor applications looking like that they've started to improve, is there any reason why you can't grow at system or above in the second half given your improvement in turnaround times but also the fact your pricing seems relatively competitive with other players in the market?

Ross Maxwell McEwan
Group CEO, MD & Director

First, let's start on the home lending. And Gary, you can probably comment on the corporate and institutional. I'll make a comment and then feed over to you. Just on home lending, we do believe we'll get back on to system or slightly above over the -- in the next 6 months. It has been a long, solid build to get back into that position. And you're seeing from the chart here, we're getting there. I did make a call with the team around what was happening 12 months ago, and we backed out of a lot of the enormous cash back that was being paid in the marketplace. And others jumped into the space and grabbed the market share at that time. It's quite interesting to see what it's done to them. And we're actually now able to claw our way back, but it's really through the service delivery that we're offering and our service proposition is getting better and better. We're not finished by any stretch of the imagination.

So I think we'll be back on system. The question is whether we can grow greater than system. The big thing for me is holding pricing discipline, and that's what the team under Rachel and Andy Kerr, are doing very, very well. And we're getting a reputation of being better on the service delivery, which we'll build. So consistency is what you need in home lending, and we are building that. We've got a lot of complexity in our home lending process that we're working through over the next 2 to 3 years to make it much simpler. Therefore, costs will come down. And we believe volume is up. So in a good path and momentum again is our friend in this area, but it's consistency that helps.

On the Corporate and Institutional Bank, we are doing more work off balance sheet, and I think that's going to be important. So I don't see any real movement in the risk weightings allocated to our Corporate and Institutional Bank. We believe they can grow with services that do take some of the assets of customers off the balance sheet when we get the fee income, which serves customers well and will serve ourselves at the same time. So I think around these current levels, we're reasonably comfortable. The business is going well. If I step right into the issues of COVID and we have, I think, created a very good service reputation in the marketplace, which will stand us in good stead and pleased with the performance of it in a pretty competitive marketplace.

Gary Andrew Lennon
Group Chief Financial Officer

Ross, on that -- on CIB, absolutely. So it's had a good strong track record for quite a number of periods now on focusing on having a high-quality relationship model. But reminding everyone that the strategy for CIB is disciplined growth. It's not outright growth because we all know that some of the ROEs and margins in the top end of the business can be challenged. And we've built up some real muscle over many, many halves now of having that disciplined growth. So it's not -- growth in itself is not the goal. It's making sure it's quality growth.

David and the CIB team would absolutely love to continue to grow for the right business and for the right returns for that business. And that's been a continued focus on that. So we'll see how that plays out. And that's how in more recent periods, you've seen that really stable return to risk-weighted asset measure, which just demonstrates constant focus on making sure that we're dealing to the right customers. We're getting the right margins. We're getting the right returns and not just chasing balance sheet growth at the expense of low ROE or because of low ROE business.

Operator

Your next question comes from Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

I have a couple of questions. One is on the medium-term cost targets. And the other is another one on mortgages. So I'll start with the medium-term cost target, the less than $7.7 billion by '23 to '25. Can you tell us what cost savings are factored into that, why the target isn't more ambition -- isn't more ambitious? Is it because you achieved $1 billion of cost savings under the 3-year plan you finished last year so further cost savings are harder to get?

Ross Maxwell McEwan
Group CEO, MD & Director

And the second question?

Richard E. Wiles
Morgan Stanley, Research Division

And the second question on mortgages. I mean you talk about improving momentum. I think the whole system is improving. I'm not sure that we're seeing a lot of it at NAB that gives us confidence you'll get back to system. And Slide 64 shows the real problem is in the investor space. It was down 7% year-on-year and 3% half-on-half. So can you explain, please, Ross, why you're struggling in investor and why you're confident that you'll get back to system? Is it because you think you'll turn investor around?

Ross Maxwell McEwan
Group CEO, MD & Director

I was certainly first off. On that one, there's been less in investor. The investor applications have dropped from 34% to about 29% of applications coming in. First home buyers have moved up from -- despite everyone saying it's hard to get a first-time buyer into the marketplace, they're now 16% of the applications we're taking of the owner-occupiers. So it's a pretty strong push in the owner-occupiers while investors have sort of been less prevalent in the marketplace. So there's some changes there. We know that investors will come back. And as they see the conditions right and as -- where they see they can make some money out of it...

Richard E. Wiles
Morgan Stanley, Research Division

But Ross, in the last...

Ross Maxwell McEwan
Group CEO, MD & Director

Richard, you're going to have a chat to us in 6 months' time as to whether we've built some momentum. Our stats are certainly showing that we are. And I'm confident that the team are doing the right things to build that momentum. But I don't want to see us do this boom and bust carry on. We've got to build a machine here that actually works well consistently. It isn't forced on pricing all the time. And that's what Rachel and Andy Kerr and the team are building with one mortgage factory rather than 4 of them that we had, and that's why I'm confident we'll get there. But it's got to be consistency.

And if I see small growth, I'll be very happy. If I see large growth, I wonder what we're doing again. So it's going to be consistency. But well -- look, let's have another chat in 6 months' time to see how it's going. I see the numbers on a weekly basis and confident we're building in the right direction and quietly getting it.

Gary Andrew Lennon
Group Chief Financial Officer

It's during COVID. Richard, we did change some of our risk settings and their pricing was probably off where the market was, and that got corrected in the most recent quarter. So we feel like we're back in market on investor now, not playing over the top, but you've got to be back in market. And that will take a little while to flow through. So there's some early positive signs. Whilst we've been doing well on owner-occ, there's some early positive signs on investors now starting to come through, which hopefully will develop through on the second half.

Ross Maxwell McEwan
Group CEO, MD & Director

Yes. So Richard will have another chat in 6 months' time and see how we're going. It's certainly a focus for the bank. But I want consistency. I don't want great leaps up and down on the -- in the space. That's what we're building.

On the medium-term cost, look, we have said less than $7.7 billion, and that's the target we're going for. There is a balance here that I'm putting in place of getting the business moving again and building momentum. That's just important as reducing the cost. It's not as much as just saying there's $300 million or $400 million to take out. There's cost going into our business all of the time through some wage inflation, some supplier costs, technology costs, cost of fraud, scams, cost of anti-money laundering. This is not a business that is defined by a cost structure from 5 years ago. There are new costs coming in that we have to bring into the organization. At the same time, reducing ourselves to back to that 7.7% is a pretty big ask. And that's what we're concentrating on, but I think it's a good balance.

And there's many costs coming into a banking sector in a very highly regulated market. And quite rightly, we've got to get this bank, along with all the banks, safe and secure for customers. You just need to look at what's going on in the scams, fraud-type area and cyberspace. These are hundreds of millions of spend going on in these areas, and we need to take those into account as well. So I'm pretty comfortable we'll get ourselves to below the 7.7%. It will be hard work and -- but we're on with a good program of work.

Operator

Your next question comes from Brian Johnson from Jefferies.

Brian D. Johnson
Jefferies LLC, Research Division

Congratulations on a very clean result. Just 2 questions. And I apologize. I think Jarrod asked a great question on basically the dividend. Today, you've actually expressed the view that there will be volatility in the loan loss charge, and you're committed to a dividend payout ratio. Ross, I just want to feel, would that mean that it would be quite acceptable to have a decline in the dividend should the loan loss charge rise?

Ross Maxwell McEwan
Group CEO, MD & Director

Well, first off, I think we're starting in a very good position, Brian, not starting at the top of the range for a kickoff and giving ourselves room to -- if the conditions are right to build into that range. But there will always be volatility within that range given other factors that impact on us and the industry.

So today, we're giving it the range. We're telling you we've got good levels of capital. We're saying that one of the ways we'd quite like to give a bank if we can't find growth opportunities is through buying back our own shares. And I think we've given pretty good indications of -- yes, we're a dividend-paying organization, and we need to get back to it.

Gary Andrew Lennon

Group Chief Financial Officer

What I'd add as well is that if you take our preference, we'll be -- we put the dividend out there at $0.60. So it would be nice to see that modestly progress over the period of time. That would be a nice trajectory for our dividend, and we've retained a lot of flexibility to be able to achieve that. And that includes some thinking -- future thinking around what more normalized loan losses may look like in this environment. So we've considered that as part of our modeling. Now if those loan losses are significantly higher than what we're modeling as more normalized, then us and the Board would have to step back and reassess whether that does mean in conjunction with how much capital we have, where we're at, does that mean we have to then step back from the bonus to stay within sort of our guidance range or form others -- some others' conclusion.

So the whole point is it's going to be dependent on the circumstances. There's no -- there's not going to be any formulaic approach to it. Quite feasible what you've said, but we'd have to consider all the factors.

Brian D. Johnson
Jefferies LLC, Research Division

Can I have a go at translating that into analyst speak? So you're saying a 60% to 65% pay as whatever the payout ratio is, modest growth in the dividend and any surplus capital that you generate would be applied in some kind of share buyback on a regular basis. Is that what you're saying?

Gary Andrew Lennon
Group Chief Financial Officer

So that would certainly broadly be the direction that we're traveling. Yes. Now -- and you missed one important piece, which is best deployment of our capital is to grow. So we'd like to go there first. But if we feel like we've -- that there is excess over growth that we have to provide capital for, then, yes, what you've said is reasonably accurate. Yes.

Brian D. Johnson
Jefferies LLC, Research Division

Great. The next one, Gary, is just when I have a look at the slide on the replicating portfolio, which I think is Slide 21, you've got $274 billion of deposits in a very small font on the right-hand side that you say or at or near 0, but you've only got $57 billion basically hedged. Is that -- so you've become progressively more and more unhedged. Is that correct? And what does that mean? Tactically, what opportunities does that give you going forward?

Gary Andrew Lennon
Group Chief Financial Officer

Yes. It very much depends on the type of deposits as to which ones you hedge and which ones you don't hedge. So that's the higher quality, stable deposits. And then -- and it is a particularly relevant issue in the current time as we've been giving such an influx of core account deposits about what's the appropriate liquidity status to provide for those, how long are they going to stay around for.

Once you form that conclusion, then we have expanded our hedging to cover what we think is quite a prudent level of increased sustainable deposits. So that's where it's coming from rather than any change in policy decisions, it's really about this unusual inflow of significant levels of deposits and trying to work out degrees of stickiness of those deposits.

Brian D. Johnson
Jefferies LLC, Research Division

Gary, does this give you the opportunity to move from cash into 5-year bond rates, which are now more attractive yield, which lessens that replicating portfolio drag going forward?

Gary Andrew Lennon
Group Chief Financial Officer

These are the sorts of things that we're considering different options on, yes.

Operator

Your next question comes from Ed Henning from CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just on the SME business, you've touched a lot on the growth outlook. Can you just talk about the NIM outlook with elevated competition out there? And also on the growth slide -- on the growth -- on Slide 37, agriculture is really strong. Can you just talk about that? Is that just a change in peer appetite? And is the growth you're seeing through SME largely in agriculture at the moment?

Ross Maxwell McEwan
Group CEO, MD & Director

Well, first -- thanks for the question. I'll do the SME piece, and Gary, then maybe you can probably take the NIM piece. Look, the agricultural sector is very strong. Both the export prices across a broad range of commodities is very strong. And then the weather conditions have been great for growing. So the farmers are having a good year after many badges, and you're seeing that reflected through into farm prices and what they're spending. And what happens in the agriculture sector, as you and I know, in good years, they pay back loans. They do development on the farm. And then bad years, they draw down on their loans. So right now, we're seeing a lot of loan growth, but at the same time, big pay downs as well from many, many farmers who are doing very well. So the book, we don't see, will grow that dramatically but we're seeing a lot of activity, and that's what you see often.

But you're also seeing Regional Australia growing very strongly. I think COVID has meant that some people have moved out of the cities and gone to regional areas, and they're growing. People are holidaying in Regional Australia. And so we're seeing the Regional Australia and the agricultural areas are very strong, which works towards our strengths because we're big in those areas. But it's also -- you're seeing growth across all of the SME sectors. People are back to business. Confidence is very high. And some of the highest levels and confidence we've seen since the surveys are running, which usually means people borrow money to develop their business. And we're seeing it across the board that's building.

Gary, do you want to talk about NIM? Because there is pressure. I mean, it's a very competitive market in that particular area. Do you want to talk about the factors that are influencing what's happening in NIM in that area?

Gary Andrew Lennon
Group Chief Financial Officer

Yes. Absolutely. So look, the few components to give you some thoughts how to think about going forward -- and that's why we put out the 3 basis points from the low rate environment as the estimate of that impact in the second half. I mentioned previously the first half benefit we've achieved through lower deposit and funding costs. Look, we're pretty confident there's going to be further benefits flowing through in the second half. 7 basis points for the first half was more than what we thought. And I suspect the second half won't be as strong as that, but it won't be 0 either.

So it can be somewhere in between those numbers, hopefully enough to at least cover the low rate environment, but that's what we'll need to work through. And then the more regular housing, front book challenges around competition, mix issues. So they will all continue that we'll try to manage as best with disciplined pricing. It will be a headwind. We'll try to mitigate as much of that and then look for opportunities where they exist across our business portfolio for sensible repricing, particularly where it's low-margin business.

Operator

Our next question comes from Matt Ingram from Bloomberg Intelligence.

Matt Ingram

I just wondered if we could drill down a bit into the housing loan growth. So I mean, we've talked a couple of times about system growth perhaps in the second half. But I just wondered, you've got a pretty competitive 3-year fixed out there. I just wondered if you could give us your thoughts on what you think the cost of capital might be now and whether you're still comfortably above that, lending at that 3-year fix given your marginal cost of funding.

Ross Maxwell McEwan
Group CEO, MD & Director

Well, certainly, we believe we are well above the cost of capital. Otherwise, I won't be writing the business and -- but it does come back to making sure you are in the market, pricing-wise, and ever cost structure yourself that can sustain it. And across all of our book, we still believe we are making money across all fixed and variable rate margins. Gary can talk to you about the funding cost on that.

It's a competitive market. And we -- our view is just the -- on the pricing, and we came off pricing 12 months ago. We know what happened. We're back on the pricing points at the moment, and our service levels are pretty good, and we're rebuilding. But Gary, if you want to have a chat about just the funding cost. But at this point, we don't plan to write any business that doesn't make us a good -- a reasonable return on our capital.

Gary Andrew Lennon
Group Chief Financial Officer

Yes. So we're still very comfortable. That's a good business to be writing. And the premise of the question is right. It's when you look at what's occurred with our marginal funding and deposit costs, the ability to reprice that down, that has been a very favorable tailwinds that's supporting some of this pricing. You include that nearly $15 billion of TFF that we're going to have available. That will be higher cost pre-COVID issuance that will be maturing for a TFF at 10 basis points around that at $15 billion. So there's quite a decent number of tailwinds overall. Once you add that to funding costs applied against that category, it's still comfortably above cost of capital.

Operator

There are no more questions. Over to you, Sally.

Sally Mihell
Head of Investor Relations

Thank you. I'll just pass back to Ross for a couple of closing remarks.

Ross Maxwell McEwan
Group CEO, MD & Director

Look, thanks very much for joining us for this investor call. I'm personally pleased with the efforts my colleagues made over this period and the momentum that this business is building, but we need to stay focused on executing our strategy. We said it 12 months ago, we're executing against it, and we're quietly seeing the results coming through, which you've seen our build in momentum. And I'll say again that April was a very good month on momentum for us and across our books. So we're -- well, I think we're doing the right things, but we need to be here helping Australia recover from COVID. And we're the biggest business bank, and we're certainly going to play our part in it. We just need to keep getting the basics right so that we keep giving you nice, clean results.

So I look forward to catching up some time, and a big thanks to my colleagues for the work they're doing on getting this bank in pretty good shape. Thanks, Sally, for organizing the session as well, well done.

Gary Andrew Lennon
Group Chief Financial Officer
Thank you very much.