Question and Answer

Operator

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

Jarrod Martin
Crédit Suisse AG, Research Division

Can you hear me?

Alan Docherty
Chief Financial Officer

Yes.

Jarrod Martin
Crédit Suisse AG, Research Division

Thanks for the disclosure today. A couple of questions. First of all, just around capital. In your first half result, you sort of spoke about wanting to be above the 10.5% level for the majority of the year, so 7-plus months. We've heard other banks talk about eating into buffers to a certain degrees. And obviously, APRA have come out with their comments on that. So I just wanted to sort of get your updated thoughts on whether you're willing to actually eat more significantly into the buffers? And that sort of goes in conjunction with your RWA inflation scenario sort of 90 to 170 basis points. Over what time frame do you expect that to emerge?

Alan Docherty
Chief Financial Officer

Yes. So Jarrod, look, I think in terms of the capital [sortive], we talked about, yes, we provided that sort of how we think about [sortive] back in the February result. The current month that we're reporting on is always going to be at the sort of lower end of that [sortive]. We obviously were carrying a lot of surplus capital into that dividend payment, which is part of the reason we neutralized the DRP. As we look ahead, there's a couple of things, I think, on organic capital generation. We've got structural advantages there in terms of the franchise capital generation.

And so we'll continue to see that sort of steep rebound in the [sortive] in each period. And we've also announced that increase in the expected uplift in capital, the 67, 77 basis points of inorganic capital. So our focus is very much ensuring that we continue to manage that capital very carefully, and we'll put some disclosures on the background at international CET1 and remain one of the most highly capitalized banks in the world. And we're going to continue to focus on managing our capital very carefully.

Jarrod Martin
Crédit Suisse AG, Research Division

And the extent to which the RWA inflation, over what time periods do those scenarios -- is it going to emerge? Other banks sort of spoke about it at sort of a 2-year cumulative impact.

Alan Docherty
Chief Financial Officer

Yes. We've modeled -- I mean they are the peak trade RWA impacts that we've -- like peak RWA intensity that we've set out. We've modeled the impact out over a 5-year time frame. You'll tend to see the cyclical highs happening earlier in that stress scenario, dependent on the length of the stress or, obviously, the baseline, the RBA baselines scenario. There's a sharper rebound in calendar 2021, whereas it's a longer downturn and the prolonged downturn scenario. So they're the peak level that you'd see, but that'd be over -- derives over a sort of, more like a shorter time period, and the baseline, a longer time period and the prolonged downturn.

Operator

Your next question comes from Jonathan Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Question for Alan, if I could. And it just goes on the risk-weighted assets. And you talked about it to some extent. We've seen the market risk-weighted assets and interest rate risk in the banking book up sharply. But if you look at the credit risk-weighted assets, it seems like a bit of a random number generator coming out quarter-by-quarter. If you look at the first quarter, it was up 1%. The second quarter was down 3%, and now it's back up 3%. So we're getting a lot of volatility in these numbers coming out. So why are we getting this such intense volatility quarter-to-quarter in your credit risk-weighted assets? And how do we have any confidence in the scenarios of 90 to 170 basis points that you're having -- that you've told us when you are seeing such wild volatility quarter-to-quarter on your underlying credit risk-weighted assets?

And a follow-up question, you mentioned that you didn't like the answers coming through on your market risk and you just cited risk in the banking book so you want to improve the models. Isn't that kind of counterintuitive that you don't like the results, you build another model?

Alan Docherty
Chief Financial Officer

Now let me cover on both of them. So on credit risk-weighted assets, we did see -- I mean, we've seen volatility on credit risk-weighted assets in the current quarter, very similar to what you see more broadly across the rest of the market. So we've all seen wider credit spreads, particularly in the March month. And that translates through credit risk-weighted assets in terms of the credit valuation adjustments, it's all very consistent.

We've obviously seen foreign exchange volatility within credit risk-weighted assets. We've seen very little in the way of credit quality deterioration in the period. And we've seen -- I mean, the main driver of increasing credit risk-weighted assets this period was in the volumes that we've seen and, as I pull down, on the combination of really strong growth in residential mortgage lending and also our business and institutional banking and then in supporting clients liquidity needs during that March period. So I don't -- I disagree that the credit risk-weighted assets, we're seeing wild volatility. I think we're seeing what we'd expect to see in credit risk-weighted assets.

On traded market risk and IRRBB, I mean, really the point I'm trying to make, Jon, and we're always trying to improve the risk sensitivity of our models. We run very low levels of traded market risk and very low levels of interest rate risk within our markets and treasury businesses. And so we were disappointed, frankly, with the inflation and the risk weighted at those 2 risk types that we've seen in the quarter, and that's -- have warn other in terms of the risk sensitivity and accuracy of those models. So we are continuing to do the work that we need to do to make them more reflective, we feel the underlying risks that we run in our business.

Jonathan Mott
UBS Investment Bank, Research Division

So you still have confidence in all the models because it does seem a bit strange when this is such a key driver of your capital position and the strength of the bank. Yet, you don't have confidence that the models are producing the numbers you expect. It is a bit of concern.

Matthew Comyn
CEO, MD & Executive Director

Yes. But Jon, I mean, I guess I'd separate in between. As Alan said, the credit risk-weighted assets are performing exactly the way we would have expected. There's just different compositional elements that are driving some variation over periods. I think, particularly, in market risk-weighted assets, if you look at that, I mean, clearly, there's a lot of volatility in March. That had probably a disproportionate impact to what we would have expected. I think we'd all acknowledge that was quite a different sort of period than what we've seen before. We're working to make sure that the models are accurately reflective of the underlying business risk that we're taking. And then interest rate risk in the banking book similarly just given our sort of positioning in our customer-funded deposits and the composition of our balance sheet. In some ways, it's natural that we're holding a slightly higher interest rate risk in the banking book versus peers.

But there is some volatility across both of those numbers. And if you look at even the reporting across peers over the same period, you see some quite a bit of variation across the different institutions. And so what we're trying to do is make sure that we've got models that are delivering outcomes that are predictive and reflective of the underlying risks that we are or aren't taking. And in particular in areas like markets, it's not a big part of our business. And so clearly, I think there's some work for us to do to better reflect the underlying risk that we're taking, given much higher volatility.

Operator

Your next question comes from Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

I have a couple of questions, please. Firstly, Alan, you mentioned that you expect some of that high-risk weight movements to unwind in the next quarter. You talked about HQLA reversing. Could you perhaps talk a little bit more detail about credit risk-weighted assets, IRRBB and market risk, which of those do you think can reverse? That's my first question.

And just my second question relates to the provision top-up for COVID-19. On Slide 10, you indicate that $860 million is in the consumer book and $640 million in the corporate -- is in the corporate book. Why is consumer higher? Is it because of your assumptions around house prices? Or is it reflecting concerns about consumer secured lending exposures?

Alan Docherty
Chief Financial Officer

Yes. Let me start with the capital. And I'm obviously not going to attempt to -- we don't provide guidance on risk-weighted assets. But let me just unpack some of the drivers that we've seen across the different risk types and what we're looking at. So within credit risk-weighted assets, that's obviously going to be a function of what we see in terms of the broader performance across the economy and not just the quarter ahead, obviously, the months and years ahead, depending on the shape of the recovery. I think one particular aspect would be the credit valuation adjustment, which as I called out, that's affected by widening credit spreads with our counterparties, you'd expect, I guess, similar to the HQLA, given the tightening credit spreads, that particular item, which had some recovery.

And then with the unpacked traded market risk -- I mean, there was a couple of moving parts within traded market risk. One aspect of traded market risk capital is the market risk that we hold against the funding valuation adjustment. That funding valuation adjustment is sensitive to CBA's own credit spread, it's also sensitive to the underlying drivers of derivative mark-to-market, foreign exchange and interest rates, for example. And so you'd expect to see -- you've seen some positive mark-to-market that came through FVA and the period, that's sort of due to the directional moves that we've seen in CBA's own credit spreads and also drove some of that underlying increase in risk-weighted assets and traded market risk. And again, you've seen some reversal of both CBA's own credit spread and also the direction of the Aussie dollar since the end of March. So some of those factors. And obviously, they will continue to move around between now and the end of the year, but they are the key things that we'll be looking at from a traded market risk perspective.

Matthew Comyn
CEO, MD & Executive Director

And maybe, Richard, to start. I guess as we thought about, particularly the bottom-up build, and as you've seen on Slide 11, if you think about sort of the downturn scenario, which, as Alan said, is based largely on the RBA's forecast, there's some elements that they don't forecast like house price index. And then we've taken a more prolonged downturn. Of course, we're hopeful. We're going to do everything we can to support a faster economic activity and restarting the economy, but prudent to plan for a more significant -- if we think about the way the bottom-up build lands to deliver the $1.5 billion, it's broadly in between those 2 scenarios.

And so then within that, what we've done then is, as Alan said, is basically go through on the retail book, look at each of those assumptions. And even within those assumptions, arguably, unemployment isn't the only proxy that we need to look at as well because we're expecting a large reduction in the participation rate. We've seen forecasts for expectations of about, like, 20% reduction in hours worked. So of course, there's a number of vagaries in actual measure of unemployment. But as you put that through and at a granular level, both by occupation code and by more at-risk segments, depending on where they are, both geographically, you'll see we provided updated guidance in terms of where the state of our overall home loan book, which is both a very well secured and a huge proportion of customers that are well ahead.

And then on the unsecured, it plays through the same sort of assumptions into unsecured. And what we've seen and we expect will continue is, people are reducing their exposure on consumer finance and paying down debt there. We've carefully modeled that. And as you would expect, we thought carefully about what sort of origination strategies we want to have in place on the unsecured side at this point in time. And so basically, when you drive that all through on the -- from a bottom-up perspective, it delivers the numbers that we've outlined, as you mentioned. But I mean, to Alan's point, I wouldn't want to overemphasize any sort of false precision. We've certainly done very detailed work bottom-up, using a lot of different variables and then come at it from top down, but we can make sure that we will be precisely incorrect with our assumptions.

Alan Docherty
Chief Financial Officer

And just the only add to that, Richard, if you look at the way we previously disclosed consumer and corporate collective provisions and you look at the relative weighting of our lending portfolio and the relative weighting of our collective provision, you'll see actually it's a very similar weighting in terms of the overlay that we've applied across both the consumer and corporate books. So we feel we've taken up appropriately conservative settings in that bottom-up analysis across both portfolios, retail and nonretail.

Operator

Your next question comes from Brian Johnson with Jefferies.

Brian D. Johnson
Jefferies LLC, Research Division

I had a few. The first one is, Alan, I'd just be intrigued. APRA on 7th of April, up until that date, they've been saying all the banks had surplus capital. And then all of a sudden now they've said the banks should be extra cautious on basically the dividend and subjected to a stress test. I'd 2 questions. Given the inconsistent messages that are coming from the regulator, does that actually pose a challenge in managing the business? The second subset of that question is, can you update us as to what APRA are actually telling you how to stress it when you decide the dividend? So 2 questions on that, and then I have a few others as well.

Matthew Comyn
CEO, MD & Executive Director

Why don't I start, Alan, and then you add to it. So BJ, look, I mean, from our perspective, in terms of the way we would work through various stress scenarios with that further nothing inconsistent with that nor is there for us to be in regular dialogue. I think like many parties and you would say, for a prudential regulator, better to be conservative about what the economic outlook would be. We have been and will continue to be in regular dialogue with APRA through this period. I mean through a whole range of different ways, everything from how do we best manage the payment deferrals to what are -- what's our outlook for stress within the economy, outlook on risk-weighted assets and, ultimately, impairments as well as what our common equity Tier 1 would be. So whilst I think the nature of the guidance, given it's public, is new, I guess, and from our perspective in terms of the dialogue, it's not unexpected and not out of the ordinary, given the extraordinary context, I think, we're operating within.

Brian D. Johnson
Jefferies LLC, Research Division

And Matt, can you give us -- have APRA told you this is the stress test we'd you like to apply? Or has it not really gotten to that point?

Matthew Comyn
CEO, MD & Executive Director

No.

Brian D. Johnson
Jefferies LLC, Research Division

In assessing the dividend serviceability?

Matthew Comyn
CEO, MD & Executive Director

No.

Alan Docherty
Chief Financial Officer

No. I mean we always run stress tests as part of the normal course of business. We'd expect we'll continue to run our stress tests and share the results of that as we always do with APRA. But now these are very much our assumptions in our stress scenarios.

Brian D. Johnson
Jefferies LLC, Research Division

Great. Could we then flip through just to Slide 11. Just on Slide 11, you've said today that the provisioning is somewhere in between the downturn and the prolonged downturn. Could we get some help working out what the provision balance was under both of those scenarios and exactly where it sits in between them? Now I realize that's kind of a little bit unfair because this is a quarterly.

Alan Docherty
Chief Financial Officer

That was going to be my first point.

Brian D. Johnson
Jefferies LLC, Research Division

But that aside, it would be extremely useful to the market.

Matthew Comyn
CEO, MD & Executive Director

Fortunately, in the middle.

Alan Docherty
Chief Financial Officer

Yes, I mean, the provision in $6.4 billion is broadly in the middle of those 2. I'm very conscious of the appetite. For more information, I mean, I'd point out to your point, Brian, it's a quarter. We've provided a huge amount of more disclosure in our quarter than we normally do, and that's appropriate given the circumstances that we're in. I mean one of the reasons we haven't took that in this quarterly set of disclosures, you can understand, the forecast scenarios are moving around and changing all the time. And anchoring on a single base case and downside case, I'm not sure it's helpful at this point.

I mean for example, we've got a new set of forecasts from the Reserve Bank on Friday, of which this part of the statement of monetary policy. We modeled that over the weekend. The situation is going to continue to be fluid and evolve in the next period. And look, as we always do, as part of our June year-end disclosures, we'll have another look at the disclosure we're putting out to market. And I think at that point, it's likely to be more less fluidity, I guess, around the range of forecast and the range of outcomes at that point.

Brian D. Johnson
Jefferies LLC, Research Division

And Alan, I just really want to stress something here. Normally, I've always thought I'd give Commonwealth Bank an A for the disclosure. I'd hate to think that you might sit towards the Z disclosure that we've seen in one of your peers. So is that a commitment that we should expect a little bit more at the first half results?

Alan Docherty
Chief Financial Officer

We always have a lot of disclosures in the June year-end result, and we will do our best in maintaining our strong...

Matthew Comyn
CEO, MD & Executive Director

Yes. I mean, Brian, as a point of principle, it's important from our perspective. So we're certainly going to think through what will be the most helpful disclosure at the full year. We wanted to give enough here, and it's obviously a lot more than we ordinarily would for a quarter, but to give very sort of clear set of economic indicators and where that provision sits between those 2. As Alan said, no doubt, there'll be a number of different scenarios that we'll model. And we'll look through the most helpful, I guess, set of disclosures that we think is -- accurately represents what we can actually model and disclose that you could then rely on.

Brian D. Johnson
Jefferies LLC, Research Division

Well, I suppose the only comment I'd make on that is to say it's in between 2 numbers that I don't know. If it was 50% of one, 50% of the other, but I don't know the numbers, then the downturn could be a 0 provision and the prolonged downturn could be ridiculously high. So I appreciate the fact that you've given us some of the inputs, but it's a bit hard to basically look at what it means.

Alan Docherty
Chief Financial Officer

Yes. And I guess, Brian, I'll just go back to the -- we haven't built this by starting with 2 numbers and applying a probability weighting. We've built that bottom-up. And when we build this -- and I can understand the -- trying to sort of model out what does it mean. And if you see economic scenarios changing, what might that mean? But we haven't -- we frankly haven't built it that way because we feel doing it top down, you miss real differences across sectors. Because if you use a broad-based unemployment number, the RBA has obviously made comments on the monetary policy, I think, on Friday, around the sort of inadequacy of the unemployment number, given it doesn't capture our work and pay cuts and underemployment, but you also see across different industries and subsets. So some industries have had to stand down 95% of the workforce or those that are actually hiring to cope with the demand.

So you really need to build this bottom up and then look at occupations which are vulnerable, subsectors which are vulnerable. And so we don't want to sort of have you lingering on a top-down probability. We think when in terms of come up with that number, it was very much that bottom-up analysis that drove the number that we ended up with.

Brian D. Johnson
Jefferies LLC, Research Division

So Alan, so I sense what you're saying, and I think it's very prudent is the ABS' unemployment number is just a number, and it's probably quite inaccurate just for a whole lot of mechanical reasons, but that is not what drives into your model. Is that correct?

Alan Docherty
Chief Financial Officer

Not on the bottom-up model -- so the bottom-up model, we'll look at what we are we seeing across occupation types, vulnerable occupation types without our portfolio. We do have top-down models for economic scenarios, which do hinge off unemployment numbers. We also look at underemployment and areas worked and a number of other metrics. So as we do use that in the top-down models, but I think importantly in arriving at the $6.4 billion, that's been driven bottom-up because we feel that's how you get a more accurate assessment of what the potential risks are under a variety of forecasts.

Brian D. Johnson
Jefferies LLC, Research Division

And Alan, just going back to Jarrod's question on the timing of the emergence of the higher credit risk-weighted assets. Your messaging seems to be a little bit different to your peers today. So I sense what you're saying is that it will emerge over the next 5 years, but perhaps it emerges a bit faster. Does it actually emerge when the bad loans first come through? Or have they got to basically be in the bad loan bucket for a while? So is this something that suddenly pops it up in October when all the moratorium stopped? Or does it basically emerge over the period after that?

Alan Docherty
Chief Financial Officer

Look, it's dependent on the portfolio that you're looking at, Brian. So if you're looking at the retail portfolio, that's going to particularly emerge in relation to the arrears, how your arrears are trending. And so you'll tend to see that account -- in line with stress that you see unemployment as that rolls through. On the nonretail side, we also continue to look at -- individually looking at the cash flows of all of our clients. And so that's a sort of rolling process. And again, it depends upon the extent and the timing of the stress on particular industries.

I mean the second point I was trying to make was that we run the stress scenarios over a long time period, I think, you mentioned what you've seen among some of the other bank disclosures you'll tend to see -- depending on the shape of the downturn, you'll see that stress emerge more quickly or more slowly dependent on that -- depending on the shape. So -- but we will take a long-run view, and then we pick the peak of each of those trajectories.

Operator

The next question comes from Andrew Lyons with Goldman Sachs.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

Just a question just around the Colonial transaction announced today, in particular, the significant investment program that will go into CFS in conjunction with KKR. Just 3 questions on the back of that. Firstly, can you provide any detail around the magnitude and areas of focus for the investment program? Secondly, you know the $500 million range in the CET1 increase on the back of the transaction. I'm just wondering what are the drivers of that range. And does the investment program have anything to do with that?

And then thirdly, will the investment spend start before you receive the proceeds? And if so, will you initially -- or CBA initially have to fund the entire investment until completion and then there'll be some sort of a makeup?

Matthew Comyn
CEO, MD & Executive Director

Yes. So maybe I'll -- maybe quickly and then Alan, you can jump in. I think probably, the ASX released a separate one on the announcement for the partial sale. It's probably the best place there, if you look at where we're going to make the investment. So in terms of improving the service experience, better outcomes for members, certainly investing in the digital experience. I think we've got very good alignment and agreement across a number of different areas. No particular disclosure at this point in time on the size of that investment. Clearly, there's a lot of work to do together between now and completion. The investment isn't driving the range in terms of the common equity Tier 1 differences. That's more related to final completion adjustments, capital structure, taxation, et cetera.

And then going to the other part that you asked, Andrew. I think we have been and we'll continue to invest in CFS. We're not flagging a big increase in CapEx to CFS over the period between now and when the completion occurs, but we'll continue to invest in it by -- we'll expect an accelerated investment beyond that time.

Operator

Your next question comes from Victor German with Macquarie.

Victor German
Macquarie Research

Can you hear me?

Matthew Comyn
CEO, MD & Executive Director

Yes.

Victor German
Macquarie Research

Yes. Great. So yes, I actually just wanted to follow-up from Andy's question about the CFS transaction as well. Just if you can maybe talk a little bit about the strategic rationale for keeping the 45% of the company. And sort of how that -- how you're planning to sort of crystallize value out of that position in the future? And also, I appreciate -- thank you for your disclosure on Slide 17 in terms of sectors of interest. It's very useful. I just wanted to maybe see if Alan, you can give us a little bit more color around the transport and air transport industries. Your exposure there is close to double the peers, as you highlighted. It's clearly a potential area of stress. If you can give us any additional breakdown and maybe some color around your exposure to airline leasing portfolio. What is that as part of that portfolio? And sort of any additional disclosure in terms of risks in that portfolio would be very useful.

Matthew Comyn
CEO, MD & Executive Director

Yes. So why don't I start a little bit with -- I mean, as you'd appreciate, Victor, from when we first announced and flagged a strategic review and exit of CFS, we've explored a number of different paths, everything from retaining the business over the long term to a full divestment. We thought that this is the most attractive outcome, both for CBA and its shareholders as well as delivering good outcomes for both employees and members of CFS to be able to have a partner that we can bring in with a global scale and capability, where we've been able to get good alignment on what we think the opportunities are for the business within CFS as well as beyond that.

And of course, there's a number of different ways that the superannuation sector may unfold, including potential consolidation opportunities over time. We've been very focused on that business, and that will continue to ensure that we've made investments to improve the service offering and outcome for members as well as continuing to focus on remediation. But I think we see it still as a business. There's very few that have a structurally mandated 9.5% growth rate. So it's attractive from that perspective.

We feel that we'll be able to create value with the right partner over multiple years. And then, of course, there's a number of different ways that we may either continue that participation or look at that over time, depending on what the outcomes are.

Alan Docherty
Chief Financial Officer

And on the sectors of interest, Victor, so we have provided some more of overview, I guess, across the key sectors that we're particularly focused on, given the nature of this economic stress. I think it's fair to say in the aviation exposure -- so there's a sort of combination there of when you've got direct lending exposure and then also the leasing business, where you have the airplane on the balance sheet. That's -- the airplane on the balance sheet is more of -- effectively a mark-to-market concept. So you'd see any changes there manifest through other banking income, as you have in the past. And then this is particular -- if you look at name by name, it really comes down to the counterparty, whether they're flag carrier or nonflag carrier, the level of support that's provided across different jurisdictions. So we've certainly got a watching brief on that sector. As we've said in Slide 11, we've had some airline clients seek some rent deferrals, and we're expecting some increases to TIAs in that regard, and we'll continue to update the market as we see those things manifest.

Victor German
Macquarie Research

Sorry. And how big is that portfolio within that $24.7 billion exposure?

Alan Docherty
Chief Financial Officer

We haven't split out air transport as sort of -- aviation and air transport from the broader transport sector consistent with the long practice that we've -- that's a overall sector view.

Melanie Kirk
Head of Investor Relations
Thank you. That now brings us to the end of our time for this call. Thank you to everyone for joining us. If you have any follow-up, please just come back to the IR team. Thank you.