Question and Answer

Ross Brown

Just the usual protocol. If you can wait for the microphone, state your name, the organization you represent. Andrew Lyons?

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Thanks, Ross. Andrew Lyons from Goldman Sachs. Can I maybe just ask a question just on your margin trajectory. There's a few issues just playing out for the second half. Obviously, low and falling rates are starting to pinch your deposit margins and will continue to drag on the replicating portfolio. You've got term issuance cost now, a small headwind as you noted. And then you've also passed on all of the recent rate cut. Just wondering if you can maybe talk us through how you think about the margin trajectory into the second half, and maybe what are some of the offsets to those headwinds mentioned?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes. So I might kick off. Gary, you can go through the margin, please, but of course, we're not -- we won't be giving any signaling on our margins and where they're going in the future. But I think the first point is that we determined where we need to compete in a disciplined way that if we apply resources there and capital there that it can get an above cost of capital return, especially when we do the work on deepening customer relationships, improving fee collection, digitizing parts of the business to make it easy for customers to do business with us. So look, there will be -- the margin is important, but all I'm saying is those 5 priority segments and disciplining ourselves to put the capital there, improving fee collection, that -- the ROE piece is really important to us. But Gary, on the margin piece itself and some of the moving parts there that you might want to add to what Andrew asked.

Gary A. Lennon
Chief Financial Officer

Yes. So Andrew, all the comments you've highlighted are correct, so I think there are all headwinds for the second half. They're all things we're very alert to. In terms of actions we'll be taking, continuing what we have been doing, particularly around deposits and optimizing our deposit base, moving away from higher cost term deposits wherever we can. So that's the first point. The second area, particularly in Business Bank, we've got to continue doing what we did for this half, which is leveraging some of the new pricing tools that we've got and increasing the level of discipline around pricing and discipline about what trades we want to do and what trades we don't want to do.

Ross Brown

Why don't you pass the microphone?

Andrew Triggs
Deutsche Bank AG, Research Division

It's Andrew Triggs from Deutsche Bank. Just a question on the decision to keep the dividend where it is. There was obviously some positive organic capital generation coming through in the period, but it did benefit from very low risk weights and it looked like an FX benefit there in the second half of this calendar year, the life insurance sale will take a few percent off earnings as well. And also, you haven't applied DRP discount. Just your thoughts on how you will get back into that range if you do see bad debts normalize higher from recently low cyclical levels?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Well, maybe I'll go because I'll say what Gary said when he spoke, right? And that is that we have had -- we have a range of policy approved by the board of 70% to 75%. We are marginally above that at 78.8%. But with the DRP, that goes down to 69% below -- below 70%. And with franking credits at nearly $600 million, the point of us owning those and not distributing doesn't really make sense. But we do see a path, as Gary said, over the medium term, and the board has obviously been involved with that to be able to see that come back within the range. Now what we've also said is that, in past, Craig Drummond before Gary, and that whilst we see that, clearly, if there was a shock event or material change, we would obviously keep reviewing it. But when you've got 584,000 shareholders, who are normal folk, who that dividend is important -- so you put that together, and that's why we're holding on this position. But we can see a path back. But if there was a material change, it's something that's always under review.

Andrew Triggs
Deutsche Bank AG, Research Division

And your thoughts on -- so just your thoughts on the preference between several consecutive -- depending on what Basel IV rules come up with, several consecutive halves of DRP discounts first and outright come the dividend?

Gary A. Lennon
Chief Financial Officer

Yes. So obviously...

Andrew Triggs
Deutsche Bank AG, Research Division

Are you happy with the EPS dilution that the DRP discount would give and returning franking credits to shareholders?

Gary A. Lennon
Chief Financial Officer

We'd have to have a look at that. That will be a possibility. It depends -- in terms of the regulatory headwinds in front of us, not particularly clear. We know there's some. The quantum of them, the timing of them and all of that will factor in. We know what we're generating internally, all of those will be factors. But it is. DRP is definitely one of the options. We could use the DRP to actually meet any capital hurdles that are in front of us.

Ross Brown

Can you pass the microphone to Victor?

Victor German
Macquarie Research

It's Victor German for Macquarie Bank. Two questions, if I may. The first one on credit quality. If -- and I appreciate you can't comment on specific names. But I guess, we generally know, using syndicated data, where this lending sit. If I look at -- compare your result to Westpac. Westpac showed in their Pillar 3 relatively significant increase in business services, which hasn't come through your result. If we take sort of 4, 5 names that your peers have talked about, would it be fair to assume, without necessarily talking about individual ones, but at a group -- as that group, would it be fair to assume that you have impaired all of the names that your peers have?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

And your second question, Victor?

Victor German
Macquarie Research

Okay, second question -- fair enough. Second question was around NextGen. Just if you can give us an update of how that's progressing. And at what point do you think we'll be able to see some cost dividends from that product -- program? Or do you think in the medium term, you need to reinvest some of those dividends into such programs that you've outlined today relating to wealth for example?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Right, okay. So I'm going to have a go at both. And then, Gary, you can add on the -- or David Gall, if you wish to on the credit quality piece. So I think on the credit quality piece, obviously, the bigger picture is the economy and we're the largest business bank. So we're clearly seeing some signs of stress in parts of our book. You can see that. But when you look at the economy is actually growing in this transition from mining to non-mining, the business conditions and business confidence in many parts of the economy is actually quite positive. So when you look at the core book and you look at our 90 days in arrears and impaired as a percentage of GLAs, it's 78 basis points. It's essentially about what it was a year ago, right? So the core is pretty stable. In terms of coverage, we did call out that CP coverage is at 98 basis points. It's peer-leading. It's moved from 99 in the last half. So it's holding pretty steady. And in terms of specifics, yes, there's 4 in the Australian book. We're not going to name them. But what we have said is that we're greater than 50% covered, right? And there's obviously a lot of detail you don't know and shouldn't know about our position there and our work-out strategies and our security, so that's our position. We've got 50% coverage on those 4. And the rest of the book we think is stable. Pockets of stress but overall, yes, quite solid. So that's the first point. On NextGen. Well, you might recall when I first came in, we reviewed that project and we said that has done a lot of good things for this company. But the next key thing that needed -- we needed to deliver was the Personal Bank origination platform. We've given an update on that today. And now this is introducing a new system, replacing old systems, and we are seeing potential improvements in customer experience, which we think are going to lead to a much better opportunity to deepen the customer relationships. So we see more revenue -- growth and replacement opportunities. It's not designed as a big cost program. It's designed to improve the experience. Now clearly, as we go through it and we roll it out, there'll be opportunities, and that's something that Gavin is doing all the time in the Personal Bank, making sure the workforce is meeting the workload and demands that come in. So that's we're at. And as I've said, I think we're in a good position, learning every month and rolling out through the rest of this year. But also I think our cost to income ratio of 41% and getting our revenue and cost this half matched up with jaws, I think we're taking a very disciplined view of cost, and Gary referenced future productivity across the board. So that's how I'd answer it, Victor.

Victor German
Macquarie Research

Sorry, maybe if I can just push my luck a little bit further. Is there any -- and maybe Gary would -- can comment on this. I mean how do we get some confidence around the single name exposures that you have been as conservative as your peers in recognizing potential problems? We appreciate the coverage ratio. It's solid at 50%, so that's not really a concern. But is there a risk that your approach in recognizing some of those single name exposures was different to your peers?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

I think we'll get David Gall to just comment on that. So David?

David Gall

Thanks, Andrew. Victor, on that, I mean you've commented on the coverage level being sufficient. What you don't know is which single names ours are. And we're not going to give any more detail around that. We're not in some of the single names some of our peers are in. We do have a very disciplined, a very thorough review of working out when we impair any of our assets, and we're very comfortable that we've impaired the right ones and we've got the right level of coverage on them.

Ross Brown

Yes, Jon. And then we'll go to the phones.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. A question and actually goes on the Slide 37, if you can just look over that. But while you're getting there, the business lending margin. 6 months ago, we were sitting here, and that was a hot topic. It was down 19 basis points, I think it's been restated slightly. But the comment from you and from the CFO at that time was that you've had to compete pretty aggressively to reengage with the customers. You're about halfway through that process, but you were writing some business at subeconomic levels, but it's going to be an ongoing pressure coming through on the business lending spread. Then, all of a sudden, we look here today and the business lending spread on the lending margin's only a 2 basis point drag. And that's obviously an average for the half versus an average for the last half. So how has the business lending spread miraculously stabilized when you're only halfway through a repricing downward cycle and re-engaging with your customers? And I know you'll point to the red- and green-light strategy, but that only came in midway through this period. And I'm sure that wouldn't be enough to explain the rapid stabilization and expansion of the business lending spread over the last 6 months.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

When we get on to things we make the progress, Jon. So let me -- I'll go first. Gary, you can add.

Gary A. Lennon
Chief Financial Officer

Yes.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So we obviously called out at the half, that was a 19. We're down to minus 6. But we said at that time, the overall business banking NIM is the key because Business Banking clients, particularly in the mid-market segment, we're picking up mortgages, deposit accounts, managed funds, cards, lots of other business, and that mortgage piece gives us the opportunity to build around it. So we definitely tend to think of the Business Banking NIM, given it's a relationship business, as more important. Now when we spoke to you in October, we were already underway, I think, with moves that we were implementing and learning through Angie and Anthony's business. One of the ones that we've rolled out that's really had good effect is the pricing discovery tool. And just the discipline, I mean, I think what we're seeing is the benefit of same discipline of how we're pricing, capital allocation, looking for returns, making sure the deepening customer relationship story is coming out and use of the pricing tool as not optional in the bank, right? And so I think that's helped us manage this quite well. And also, we have made it clear to people as they've become more stabilized in the business, remembering that we have put a lot of people in and we had to stabilize it, is that returns are important, right? Returns are important. And we also can see with the Net Promoter Score, look at that segment, we've got a long way to go, but it's improving. So I think our basic principle here is we've got some very good customers. We've got stronger bankers now. They've got good disciplines, including pricing discovery tools. They're looking on capital returns, not just pricing, and we're starting to see the Net Promoter Score improve as clients are experiencing that better service. It's all that that's come together to ensure that we've got better return. And the key one to look at is the 4.4% priority segment growth in revenue for the half. That's sort of the key one that we're looking at. But Gary, anything else you want to add?

Gary A. Lennon
Chief Financial Officer

Yes. Just a couple of things to add. Firstly, this has got intense focus over probably the past 12 months, not just from the bankers but also from the product finance. There's been pretty much a full court press on this issue. And it is -- we're about 2/3 away through the book now because we had quite lumpy and largish margins prior to the GFC and it's taken a while for that to flow through the book, and we've are about 2/3 away through it now. So that also helps in terms of the moderation. And one comment on the actual business lending margin itself. Just by its construction, it tends to be more volatile than other margins, so you do get relatively modest downturns come up with quite a large basis points and then corrections come up with a much smaller basis point. So that's because it's -- it is still very useful for us as a singular product. But the broader one is far more expansive and far more sensible because you get deposits, you get the full picture with business banking NIM. And so internally, that's the one we really focus on. And then as a secondary, we look at the business lending NIM, as well.

Ross Brown

Okay. We might just go to the phones. I think there's a couple of questions there.

Operator

The first phone question comes from Craig Williams from Citigroup.

Craig Anthony Williams
Citigroup Inc, Research Division

On Slide 18, you talk about adequacy of capital to pay this dividend based upon risk-weighted asset and ROE assumption. So could you flesh out your medium term risk-weighted asset growth expectations, given you presumably have a mortgage risk weight of sort of 27% or so moving forward from about July pro cyclical influences and the like. So your risk-weighted assets growth expectation is much higher than the sort of the 2% per half that we have witnessed this period? And in terms of return on equity, is that much or modestly -- do you have much or modestly higher credit cost in your estimates? So as far as -- is the plan of attack to continue to have modest balance sheet growth and risk-weighted asset growth as part of your efforts to maintain the dividend?

Gary A. Lennon
Chief Financial Officer

Yes, Craig, it's a good question. And I won't go into the ins and outs and the details of all our forecasts. But all the factors you've pointed to are the right factors. So we look at what we think the ROE is going to be going forward. We look at our risk-weighted asset growth going forward. We factor in the bad and doubtful debts. We do think we're at the low point in the cycle, so we factor in an increase in those over time. And we factor in an initial view of regulatory change and when that may occur. So they are all the things that we have built in to our assessment. And despite those factors, we still see a very credible path back to our target payout ratio. But Craig, I won't give you the actual numbers, though, to do the forecast.

Craig Anthony Williams
Citigroup Inc, Research Division

Sure. But if I look at your waterfall currently, your cash earnings this half, it represents 83 basis points in the period, but included in that is your life insurance earnings, which is still including new cash earnings despite the contract to sale having been signed, less your dividend, less your risk-weighted asset growth and other factors that's kind of really washing it in spite this things currently stand, and yet you're noting that credit costs are at the low part of the cycle.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So Craig, it's Andrew Thorburn here. I don't think we can say any more than what we've really said. We're not going to say it for the third time, which is that we think we can see a path back into the range. We can obviously see what we know is coming off and on, and we still think we can see a path to the range. And we did a little asterisk on that and said that you've referenced credit cycle. I mean if there was a dramatic turn or material event, we obviously have to review that. But at the moment, we stand here believing that's the right course of action, we can justify it. And particularly with the franking credits, I think it definitely is a position that we believe is the right one. But that's obviously something that we need to keep alive to.

Craig Anthony Williams
Citigroup Inc, Research Division

Essentially, you're suggesting a modest credit cycle and modest risk-weighted asset growth moving forward?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Well, I don't think...

Gary A. Lennon
Chief Financial Officer

I'm sure, Craig, your model is [indiscernible].

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes, I don't think we should be telling you what our specific assumptions are. And there's -- apart from those 2, there's other ones, of course, that we would factor in. We can see a path back inside the range. We should go to the next question.

Ross Brown

Is there another question on the phone?

Operator

Yes. The next phone question comes from Andrew Hill from Merrill Lynch.

Andrew Hill
BofA Merrill Lynch, Research Division

Just a question on capital again. You've obviously done a lot in the past 18 months, including plenty of action which has strengthened the capital base. And I appreciate that the regulatory target was still unclear. But given your peers have taken action as well, it's not too difficult to paint a scenario where they could be 50 basis points or more above NAB on capital ratios in a few years' time. I'm just wondering, are you prepared to accept that differential? Or do you need to be up there with the peer group?

Gary A. Lennon
Chief Financial Officer

Well, certainly on the numbers I see on our pro forma with those peers, we're pretty much in line. The -- we're comfortable with our capital position as it currently stands. Obviously, the big variable is the one that you've cited in terms of regulatory change. At this stage, we think we can manage it through organic growth. Should it be required that we have to go to a DRP discount at any point in time, then we will. But we'll just assess that when the circumstances arise. But at this point in time, we're comfortable.

Ross Brown

We'll take another question on the phone.

Operator

The next phone question comes from David Humphreys from JCP Investment Partners.

David J. Humphreys
JCP Investment Partners Limited

I have a question around your wealth business, if I may. Just observed in the last half you've added 404 people or increased the workforce by 8%. Can you just comment for me why is it -- whether there's a capability meeting or what the need to actually increase headcount to such an extensive amount? And also can you please comment as to whether towards the end of the period the 7% [ph] have shown up in your cost base?

Gary A. Lennon
Chief Financial Officer

Yes, I'll probably take that question. The -- and if Andrew wanted to add in the end, feel free. So a significant number of those FTEs relate to the insurance staff. This is a complex deal, and we are executing a complex deal in quite a short time frame, and we're putting FTEs on the platform to help that. So those FTEs will increase and then they will roll off in due course. There's also a number of other projects within wealth that required some FTE uplift as well. And as I mentioned, there has been some reinvestment in additional planners for the period as well. But there's not -- anyway, once you look through a couple of these items that are more temporary in nature, it's nowhere near the fundamental uplift in FTEs that you might think it is on first flush.

Ross Brown

Okay. We might go back to the room here. Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Credit Suisse. If we could go back to the provisioning questions and bad debt charge. Acknowledge what you say about the single names. But I think the market also is trying to understand what is your sort of your non-bad boy bad debt charge. And by that, you say you've got a 50% coverage on the single names, which implies around about $180 million. If you had no CP for those previously, okay, you've increased bad debts by $180 million. So the $375 million in total bad debt charge would mean underlying would be only about $200 million. So clearly, you had CP prior to it. So the question is, how much CP did you have for the single names before? And then in moving to impaired, what is the increase associated with those so we can understand what is more an underlying or a non-single name bad debt charge?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

All right. So Gary or David?

Gary A. Lennon
Chief Financial Officer

I'll do some themes and then David will fill in some of the detail. So it's the right question. And obviously, there is some CP reversal. In addition to -- if you're trying to get to the underlying, for the pockets of stress, there has also been an increase. So if you're in New Zealand dairy, there's been an increase. Or if you're mining or mining related, you're also seeing an increase as well. But very consistent with what Andrew is saying about the economic outlook, once you look at the broader SME portfolio, for example, it has been performing particularly well. And so we have seen been seeing, as the result of improvements in credit quality, some CP released out of our SME portfolio just based on the granular bottom-up. So the broad portfolio is actually performing well. And David, just anything more specific on that?

David Gall

Yes. Look, the only thing I would add to that is we do have a very active process of rewriting the portfolio, and we do have collective provisions, sometimes quite substantial collective provisions on these accounts before they then flip over to be impaired and a specific provision, calculated. To Gary's point, the SME portfolio, most of our portfolio has performed extremely well over the half.

Jarrod Martin
Crédit Suisse AG, Research Division

So I'm not sure of the sensitivity around this but Westpac said they went from a $46 million CP on their names to then $295 million. So the net was $250 million. I'm not sure what the sensitivity of being able to provide us with a similar sort of figure this time around?

Gary A. Lennon
Chief Financial Officer

Well, I'm sure we can.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So maybe, right, we can take that offline.

Jarrod Martin
Crédit Suisse AG, Research Division

[indiscernible] Can you release that?

Gary A. Lennon
Chief Financial Officer

No, no. Because I know broadly the range but we'll get you the exact number.

Ross Brown

Brett. Pass the microphone to Brett, please.

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

Brett Le Mesurier from APP. On New Zealand dairy impairments, how do you have an impaired loan but no provision, because it's in the definition of impairment doubt about repayment of interest and principal?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So I think probably Anthony Healy is the best person to answer that because he's gone through the file by file review and being closely involved. So perhaps just the microphone.

Anthony John Healy
Chief Customer Officer of Business & Private Banking

So as Andrew explained earlier, over 12 months ago, we commenced the process of reviewing file by file every exposure in the dairy book because we saw a lower-for-longer scenario. As you work through that, you completely rewrite the book. And the rewriting of the book generates a collective provision. If you have an account that is well-secured and has equity, but you see a viable path through that downturn, then it might be stressed or you consider it impaired. But you don't put a loss if you've got surplus security, so you don't have specific provision against it. If you see it -- that likely to go into default, and you think that you don't have sufficient security, then you would have a specific provision against it. So these particular files, we have other specific provisions against other dairy exposures where we haven't got sufficient security. But in these cases, we have sufficient securities, so they are considered impaired no loss.

Ross Brown

All right. Richard?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes, it is a sort of unusual circumstance. But the key is that we've done a file-by-file review, and whilst they're not technically impaired, we're supporting them, and they're good clients, and we are very well secured across that portfolio. That's why we called it impaired no loss. And it's a technical -- we go through a technical process.

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

[indiscernible]

Andrew Gregory Thorburn
Former Group CEO, MD & Director

No, well, it's a good question, Brett. You should join -- you can't, but if you had joined our group, you can go through that. And we're using an APRA standard to make that definition that we've consistently done before. So it's impaired, no loss expected.

Ross Brown

Richard?

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. Gary, I've got 2 questions. One is on the Australian margin and one is on capital. On the Australian margin, your waterfall chart shows that the margin was up 9 basis points, and 6 basis points of that was due to lending margin. And then, when we get into the 4-day, it shows that you're housing margin was up 6 basis points and your business lending was -- margin was down 5 basis points. I can't understand how you get a 6 basis point benefit from lending margin if housing is up 6 basis points and business is down 5 basis points. What else is actually driving that number? My second question is on capital. You said pro forma common equity is 9.3%. That's pretty similar to Westpac and ANZ, probably a touch above CBA. So on an APRA basis, your capital looks pretty similar to the peers, but your international ratio is more than 1% lower. You're up 13% and Westpac and CommBank are above -- well above 14%. Does your international ratio matter? Does it matter that you are lower than the peers on that measure?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So you do this one, Gary, and I'll kick off on the second one, Richard, if I could. So that 8.75% to 9.25% range for CET1 has been set by us and the board for quite some time. And at 9.3% pro forma, we're above it. And I think as Gary said, look, clearly, there's going to be -- Basel IV and other things will play out. But we feel very comfortable where we're at. And the international piece, I think that harmonization piece, I'm not sure if that -- that can be entirely apples-with-apples in all cases, but we feel close enough on that one, and we feel that, that range has been set. If we're in that range at the minute, leading aside, things might change with competitors domestically CET1 rating and regulators, then, we're fine at the moment. Now I don't think there's any feedback we've had on that being too low a figure internationally, right? So I think the CET1 is 8.75%, 9.25%, that's our range. We've had it for some time and we're comfortable with it at the moment. Now on the [indiscernible] or the margin.

Gary A. Lennon
Chief Financial Officer

Just to add -- I'll add and then go back to margin. So just add on the last bit. So we've -- we're currently in the process of just trying to pick some of the peer disclosures around those differences between us and them, because we have some ideas around the benefits from risk weights. There's some seemingly different treatments around deferred tax assets in some areas, some more technical areas. So we're actually having a look at that to see whether our adjustment should be different, but that's something that might flow through in the second half. On the first one, well, it is driven by housing. So housing is the major driver of that increase in margin. So I might just need to double back with you, and we can cross -- just check the maths on it.

Richard E. Wiles
Morgan Stanley, Research Division

But how does the lending margin go up 6 basis points for the Australian Bank if it's only up 6 basis points in the housing book and business is down?

Unknown Executive

[indiscernible]

Gary A. Lennon
Chief Financial Officer

Yes. Anyway, we do a lot of work. I'm going to cross check that, Richard, so we'll be able to come back to and bring that up for you.

Ross Brown

Brian?

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. As we sit here today, the share price is up 3.4%, and I think that it should be noted that I remember Jack Tilburn going into an AGM and his first words were, "I'm going to grill you like a hand grenade on a barbecue." And that's probably what you feel like today, Andrew, but I'd like to congratulate you on what looks like a crack of a result. Imagine if you've delivered a crap one, the -- how you would have been received today. I had 2 questions, if I may or 3, and they're very, very simple. The first one is that you've detailed in here the delta on the CVA, FVA, DVA, can we actually get the number, the charge that it was during the period? Question one. Question number two. When you have a look at NAB at the moment, you've still got quite a chunky U.K. PPI warranty, which is much reduced today following the draw down. But we've also got $40 billion of risk-weighted assets that relate back to the old NAB for operational risk when NAB was a far riskier entity. NAB looks to have a lower operational risk now. Can we get a feeling on when you think you might get the capital release on both the warranty, which is a big number, and basically the operational risk? And I'm wondering whether that figure is in basically the commentary? And then something, which perhaps, I'm over reading. Six months ago, when we were talking about PBOP, there was a comment in there saying that this will lead to a light-touch processing, which I read as basically sacking people, and it was a cost story. That comment seems to have disappeared out of the slide today. I'm just wondering, what -- if this is all automated, is it still light-touch processing, which means reducing staff because it's kind of not what you said today?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Okay. Well, Gary, you do the first 2. I'll do the third. I'll start with that, Brian. So on PBOP. As I said today, we are rolling it out. We are pleased with the progress. We know what we need to achieve, and it's a challenging implementation exercise involving us all. Clearly, we're seeing improvements in the service experience and also it's faster. So not only the functionality and the benefits the clients are getting, but it is faster. So that is going to present some opportunities for end-to-end processing, which is going to be faster and cheaper. But what I'm not saying is that our goal in putting that in was to actually harvest certain number of FTE or efficiencies out of that process. It's quite a complex change from the systems we've got to the ones we're midway through. It's May. It's probably going to be towards -- the end of the year, I'll be able to give you a more accurate update. Having rolled it out, what sort of revenue, what sort of benefits we're seeing in terms of upside and cost efficiencies. But the important thing now is we need our people to take it, start using it, and we have them engaged around that, and it's really going to be a much simpler service for clients that's going to give some revenue some and cost benefits. So Gary, the other 2?

Gary A. Lennon
Chief Financial Officer

So Brian, and just hopefully, I've got your question right. So in terms of the net impact for ex VA, so the whole suite of it, CVA, FVA, everything, that was a net 30 impact for the half.

Brian D. Johnson
CLSA Limited, Research Division

So the slide say indiscernible]?

Gary A. Lennon
Chief Financial Officer

That's been the delta for this half.

Brian D. Johnson
CLSA Limited, Research Division

[indiscernible]

Gary A. Lennon
Chief Financial Officer

Okay. We'll have to come back. With the total number of what the ex VAs...

Brian D. Johnson
CLSA Limited, Research Division

Total number of the charge or gain [indiscernible].

Gary A. Lennon
Chief Financial Officer

Right, okay. We'll have to did that out for you. The -- on the op risk side, yes, you're right in your observation. So we've maintained the same level of op risk that we had prior to the demerger of the U.K. That is one of the topics that we're currently in discussions with APRA about. Obviously, there's a few things in the mix there. There've been new Basel guidelines out as well around operational risk. And so APRA considering our request in the context of whole bunch of other things. So hopefully, we'll come back and report on that next half. And I think you were asking, Brian, were, again to clarify, about the conduct indemnity. Was that part of your question as well?

Brian D. Johnson
CLSA Limited, Research Division

Yes, that's also [indiscernible].

Gary A. Lennon
Chief Financial Officer

Well, I think it's going to be a -- yes, we are getting closer to certainty, but there is going to be a long drawn out process. So if you think about PPI and how long that's going to take to play out, that will be, at minimum, will take until July '18 when the cut-off date emerges. At that point in time, if everything has been dealt to, then we would enter into conversations with the PRA at that point in time. So you shouldn't have -- it's still a highly uncertain process and I wouldn't be building in expectations in the short term about getting any of that back, sadly.

Ross Brown

I think we have the final question on the phone?

Operator

The final phone question comes from Matthew Wilson from JCP Investment Partners.

Matthew Wilson

JCP Investment Partners Limited

Two questions, if I may. Firstly, on wealth. I note on Slide 27, you're investing $300 million more in cost pretax. Is that in addition to the $628 million that you're currently spending to exit [indiscernible]? And secondly, Westpac Group, pretty crystal clear, prudent and helpful on Monday with respect to single name. If we one and up your Pillar 3 to their Pillar 3, specifically Page 25, there's a significant inconsistency with business services, both in quantum and trend. Well, the market's aware that you [indiscernible] the money to Slater & Gordon.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Okay. So Matt, what's your second question?

Matthew Wilson
JCP Investment Partners Limited

Yes.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes, just can you clarify what the question is?

Matthew Wilson
JCP Investment Partners Limited

Well, you've got an impaired asset in business services of $117 million, which fell from $180 million, and you've got a loan to Slater & Gordon of $300 million or thereabouts. And Westpac was pretty clear on what they did on Monday with respect to single names. So I presume your single names are Arrium, Dick Smith, Peabody and Capital Health.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Right. So on the -- thank you. David Gall, you can perhaps restate earlier points on the single names piece. Can I just come to the -- Matt, your first question on the wealth question, the $300 million. Yes, that was a number that we put up at the last half and it was to invest in the business in particular areas, so it's a go-forward piece. It is in addition to the earlier amounts that we referenced in terms of the separation of the business that we're selling to Nippon Life. So yes, it is in addition to that. On the single name's piece, David, for Matt, anything -- what would you like to add?

David Gall

All I'd really add there is we have gone through the portfolio very, very carefully, and we do have appropriate level of provisioning on each one of those single names that we have.

Ross Brown

There is one last question in the room. So Scott?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. Two questions. Firstly on the asset quality, just following up some of the -- formalizing some of the numbers that we've heard today. We've got, again on Page 25 of the Pillar 3, you've got $2.2 billion of impaired facilities. You've already called out about $350 million of these single names. You've called out of $400 million of New Zealand, which you've not taken a provision against, so that leaves about 1,400 of remaining impaired facilities in the book outside of those things that we've talked about today. If you look at the specific provisions of $600 -- $600 million, you said New Zealand doesn't have any provisioning against it because it's well secured. And you've said the single names have about 50% coverage on them, so we knock off a couple of hundred million bucks off the $600 million so we end up with $400 million of specific provisions against 1,400 of impaired facilities outside of the specifics that we're talking about today. That's coverage of 28%. Your peers were at 48%. Do you think that you've got enough collective provision coverage to make up for that massive shortfall?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So -- and Scott, what was your second one, please? Your second question?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

The second one, the pro forma that everyone's referring to today of 9.3%. As far as I'm aware, that only excludes the 8 basis points of maturing debt next period, but there's still a long way to go thereafter. I get like somewhere, what, another 30 basis points of maturities on future debt maturity. So just conscious of the real pro forma ratio is actually closer to 9%, not 9.3%.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes. So well, I might go on the first one and then Gary, you can do the capital piece. So on the first one, Scott, I think I would -- what we're saying is that with the specifics we've got, knowing the positions we've got, going through as we normally do in a very disciplined way inside our company, we feel we've made adequate provision for the specifics we have. Other banks are other banks. Now our position is that following our process knowing our security and our work-out strategy and where we're at with those. The other thing on collective provision, at 98 basis points is peer-leading. So I think we do feel, obviously, we've got a specifics covered. But at 98 basis points and the core of the book being quite stable, we think, overall, the asset quality position is sound, will continue to be monitored, but we feel it's come as a result of an exercise over the last few years, not just de-risking the credit book, but de-risking the bank, and this is one of the dividends from that.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Sorry. But also, if we can maybe be clear. The collective provision coverage is the fact that you've earlier adopted the first 9 [ph] that's taken your JLC [ph] over the balance sheet. The others are still yet to do it. So I think that's more of a accounting timing as opposed to a high degree of prudence. I think that's fair.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Okay. So Gary, you can comment on that if you wish, but on the cost, specifically on the pro forma capital?

Gary A. Lennon
Chief Financial Officer

So that is correct, we do have the CP on our balance sheet. It does -- it is available to reverse when that does turn into SP. In terms of the specific provision coverage point, I think there's a few points there, and David might want to add a bit to this, but the nature of our book in the SME business is it does tend to be highly secured. That is the nature of our business. So we tend to have a lower SP coverage ratio. And the second point, which is relevant, is we are relatively proactive or aggressive or whatever name you want to use it, in terms of write-offs. So we do write-off on a regular basis and do partial write-offs, and that impacts the ratio once you do a write-off. I don't know, David, if there's anything? That's it? Okay.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And on capital?

Gary A. Lennon

Chief Financial Officer

And on the capital point. Yes, so it's a pro forma essentially for this calendar year. So you're quite right, it includes 8 basis points. In the future years, we've got organic capital growth and other factors that we're looking at to try to manage those outer years. So that's how we view it as 10.3% this calendar year, and then we'll look to manage those other impasse over time.

Ross Brown

Brian, this is definitely your last question.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Just given the general confusion on this and appreciating the fact that you will come back to everyone in this room with that collective provision in respect to those 4 names. The big problem on NAB is that NAB, historically, is not the NAB we see today. And that very point you made about the fact that this SME book tends to be better covered, which makes a lot of sense. Is there any chance that we could actually find out some long run numbers for the expected long-term loan loss rate on NAB on this new NAB that we see today? Because you will have them, or just -- if you could just reveal that to us, then you would just cut out 99.9% of what we've been through today.

Gary A. Lennon
Chief Financial Officer

Right. So you're trying to get a read-through for asset quality going forward for the new NAB, the de-risked NAB.

Brian D. Johnson
CLSA Limited, Research Division

So ANZ disclosed an economic loss figure, which is about 36 basis points. That's what we'd like.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

All right. So I think...

Gary A. Lennon
Chief Financial Officer

We'll take that on board.

Brian D. Johnson
CLSA Limited, Research Division

Plus the collective provision.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So just to be clear, I think we'll leave that with Ross. And if things are going out, everyone is going to see it. So obviously, that's important. But -- and we're not -- I think we have to take that on notice and get Gary and Ross to reflect on that, Brian. But we hear your question.

Ross Brown

We'll wrap it up there. Thanks, everyone.

Andrew Gregory Thorburn
Former Group CEO, MD & Director
Thank you.