Question and Answer

Operator

[Operator Instructions] The first question today comes from Andrew Triggs of Deutsche Bank.

Andrew Triggs
Deutsche Bank AG, Research Division

A couple of questions on the [indiscernible] side of things, please. Firstly, on just the loan growth, [indiscernible] exposed post the Brexit [indiscernible]. And secondly, [indiscernible] any thoughts there [indiscernible]?

Kenneth Allan Lewis
Former Executive Advisor

Andrew, I might ask you to repeat the first question.

Andrew Triggs
Deutsche Bank AG, Research Division

The first question was, according to the [indiscernible], it looks like we're about to hit the 10% on the investment [indiscernible]. So is there some -- is there a different measure or is there something in that [indiscernible].

Richard Fennell
Executive of Customer Banking

Okay, there are some nuances around that, Andrew. We've certainly accelerated growth right across the business, as you've seen in this result. We've got a little bit of headroom still before we get to the 10%. Having said that, with the decisions we made in December to reduce -- sorry, to increase our mortgage rates by, pretty much, 10 basis points across the board, we have seen that impact the flows particularly in the third party space, which tends to be more price-sensitive. And with our views then on how that is likely to play out, at least over the next month or so, we're comfortable we'll stay below that 10% which leads me to your second question as well. With those moves we've made, it's been most obvious the reduction in flows in that third-party space, because it is, by nature, a much more price-sensitive part of the market. What has been positive to see and goes to the points Mike was making around the value proposition, is we can continue to see strong flows coming in through our retail channels even post that 10 basis point movement. So look, it's a bit early to say how it will play out, and it's a bit of a interesting position at the moment right across the industry with different banks making different decisions about repricing across different portfolios. We've gone straight across all portfolios consistently, others seem to be picking and choosing a bit. That's probably a little too early to say other than we have seen reduction in flows in third party. But retail channel is still going pretty strongly.

Michael John Hirst
Former MD, CEO & Director

And I think you could add to that, the fact that we're starting to see bank differentiate on credit and other things as well. So it's not as straightforward these days as what the [indiscernible], there's a whole lot of other considerations that go into it.

Operator

The next question comes from Victor German of Macquarie Bank.

Victor German
Macquarie Research

Two questions from me as well. The first question was hoping to ask on advanced accreditation. We haven't really talked a lot about it in this result. But just wondering if you could provide us with any, sort of bit more update on where we are at? And also, whether we can read anything into the fact that you've increased your discount on DRP, whether that suggests that you think it will take longer for advanced accreditation to come through or whether that's just a reflection of your view that advanced accreditation won't necessarily give you much capital relief at least in earlier stages. And then second question on bad debt as well Richard, I was hoping that you can sort of elaborate on that a little as well, because we've seen from P&L perspective quite an increase in bad debt, half-on-half. And I appreciate it's not a particularly high level of bad debt, sort of within the historical context. But we've also seen NAV result, which had a very low BDD charge and then highlighting that in the quarter, credit quality remained pretty benign. Just wondering what exactly you were observing to drive that increase?

Michael John Hirst
Former MD, CEO & Director

Okay. [indiscernible] answer 3 questions [indiscernible] but anyway, I'll give you the benefit of the doubt. Advanced accreditation is in the same place, I guess, where it's always been, with us having done the work having submitted the application. And then APRA, considering the feedback, working on coming in and assess -- doing all the assessments, et cetera. And now we've got the feedback on operational risk. At least we've made it to the point we need [indiscernible] operational risk so I expect that we'll be getting information on the other 2 streams in the next few months to let us know where we sit on that. So as I've always said, the final decision isn't up to us, it's up to somebody else and I can't sort of read their mind as to where they're at. The discount on the DRP is really not going to drive a huge amount of additional capital. It's there to help us fund the growth that's coming through the business, so enabling us to maintain the momentum that we're currently seeing. As Richard pointed out, one of the reasons that we're at the current level we are with capital is that we've had some capital-efficient RMBS roll off, and we expect to replace that during the year. And I think the combination of those 2 things in the absence of any other information which we don't know, and that might be that the growth opportunity is far larger than what we think it is. Then, the amount of capital and the capital planning that we have in place, we'll see it get to the point where we want to get to, which if you have a look at the economic capital versus the regulatory capital, you can understand why the board is pretty comfortable with the current position. On the bad debt, I'll let Richard go through that. But one point I would make, yes, the NAV result is a [indiscernible] lower this half or this quarter, but the prior quarter [indiscernible] to the prior half [indiscernible] have all seen a pickup, which didn't come through in our book at that time, so it may just be sort of a timing issue.

Richard Fennell
Executive of Customer Banking

So Victor, looking at our BDD charge, obviously, one factor that has been increased over the last couple of halves is the Great Southern portfolio. And that's something that we just got to keep working our way through until we've cleaned it up. And now, with it down around $100 million, we're really getting close to a point where, in the next 12 months, I believe it's down to a much less material value. The other factor through our local connection business, and if you have a look at the last couple of halves, you see that does move around a bit. And that's because that's where our business lending exposures feed up into. And the reality is, if you're in business lending from time to time, you do tend to get hit with the odd-larger exposure that goes bad. And in this last half, for example, we had one particular exposure that had been impaired for quite some time that finally was resolved. And resolved, unfortunately, at a value that was $7 million or $8 million lower than where we had expected it to be resolved, and so that impacted pretty significantly. Now will that happen this half with another large exposure? I don't know. We do know they come up from time to time. What's positive is, they seem to come up far less often on our balance sheet than on many other banks' balance sheet. So as you pointed out, the -- our BDD charge as a percentage of our loans continues towards the bottom end of most industry measures.

Victor German
Macquarie Research

Sorry, just if I could [indiscernible] because if I look at Homesafe portfolio -- sorry, not Homesafe, if I look at Great Southern portfolio, appreciated the level of loss is still running quite high, but if I look half-on-half, the delta hasn't been particularly material. So those particular business loans losses, I mean, are we talking about sort of $15 million to $20 million hit on those? Is the magnitude sound about right to get you back to sort of second half '16 level? Or are there also sort of deterioration and we've seen [indiscernible] results, for example, that suggest [indiscernible] housing portfolio. I mean, is there anything else to it? Or is it just literally a couple of larger business exposures?

Richard Fennell
Executive of Customer Banking

The housing portfolio, we haven't seen any significant deterioration and losses coming through there. And you can see that through the partner connection as a good example of that, which has been reasonably consistent the last 3 halves. It was flat at the -- that half part of that was about a $3 million write-back on a specific exposure there. The -- on the local connection side of the business, it really was most influenced by that one exposure I've spoken about. There are some other small exposures, but nothing for us to get overly alarmed about if you look at where we were 12 months ago with about $11 million of bad and doubtful debt coming through the local connection space, this time more like $18 million. The key build up on that is one particular exposure. As I said, we do lend to businesses, and every now and then, a business will go bad. It's part of taking credit risk, and that's the job we're in.

Operator

The next question comes from Jon Mott of UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Just a couple of quick ones for me. Firstly, Richard, the trading book, just wanted to get an idea on the timing. You mentioned that, obviously, the NIM was hit in the first quarter given the timing of the rate cut and the impact on the deposits. I presume that, that's when the benefit on the trading hit would have come through. So if we are in an environment going forward where there are no more rate movements for the foreseeable future, the exit NIM and the NIM will be better, but the trading income should be probably lower to offset some of that, is that correct? And secondly, for Mike, just a more broad question on Homesafe. It's become a very, very large proportion of your profitability, about 16% [ph] of pretax profit this half again, and obviously, a large proportion of the discussion with investors. Are you at the stage now that you should be looking to dispose of this business by some kind of demerger, signing it from an off-balance sheet, wealth management product or somehow disposing it, given it's been a very profitable product, but you can't guarantee that profitability will continue?

Richard Fennell
Executive of Customer Banking

All right. I'll go first, Jon. Your thesis is about right on the trading book. Obviously -- well, not obviously, we don't expect there to be further rate cuts. Some are still calling for further rate cuts, but we're expecting it to be pretty stable for the foreseeable future. We're positioned on that base, that's why I wouldn't expect material movement, either positively or negatively, from a contribution from the trading book unless things suddenly swing one way or the other unexpectedly. The reality with the trading book is it doesn't always have to be positioned to be profitable with lower interest rate. If we move toward a position where we expect interest rates to start to increase, we can position through hedges to be exposed for that as well. So those are sort of discussions and things we think about internally. But right now, with no expectation of short term move in interest rate, we don't expect a strong contribution.

Jonathan Mott
UBS Investment Bank, Research Division

So you actively [indiscernible].

Michael John Hirst

Former MD, CEO & Director

[indiscernible] Sorry, did you want to...

Jonathan Mott
UBS Investment Bank, Research Division

Yes. So you actively do position the book for rate movements -- expectations?

Richard Fennell
Executive of Customer Banking

So do we actively?

Jonathan Mott
UBS Investment Bank, Research Division

Yes.

Richard Fennell
Executive of Customer Banking

From time to time, yes. So we were definitely positioned for the last 2 expected cash rate reductions for the trading block as a natural hedge with those assets. Whether we choose to position it to make profit with an increased rate environment, we'll make that decision at the time. Obviously, it depends on the cost of hedging in relation to hedging that particular trading book.

Jonathan Mott
UBS Investment Bank, Research Division

And so you think you can make money, is that right? [indiscernible]

Michael John Hirst
Former MD, CEO & Director

[indiscernible] I was just going to say having said that, though, you can see by the size of the trading book profit that we don't actually take a big position.

Jonathan Mott
UBS Investment Bank, Research Division

Yes. So if rates are flat, can you make profit out of that book or is it actually you need rate movements to be generating profit?

Richard Fennell
Executive of Customer Banking

Look, we make profits and losses every day on that trading book, because there are ways to position it. And we do look to try and generate income through it. But with a stable rate environment, you're not likely to see a massive contribution.

Michael John Hirst
Former MD, CEO & Director

If there's no volatility, there's no opportunity. On the Homesafe, I think, Jonathan, we've been very clear right from the start of this product that we'd love to see other investors come in. It's because of the cash flow characteristics, it's not a great product for a bank balance sheet. And I think everybody understands that. So we are continually pursuing opportunities to divest some of these assets from 2 points of view. One is, we think it's a great product, especially for the aging population. So to be able to expand the product, which we think the more equitable solution for people, is important to us. So bringing in new partners will enable that to happen. But equally, we want to make sure that the amount of asset on our balance sheet doesn't get too large relative to either our capital base or our total balance sheet. Of course, it is becoming a larger part of our profit. And interestingly, to me, the best result that we -- or the best feedback we have received from the market around Homesafe was when we lost a bit of money on it which seems a bit odd. But the -- if we do get rid of it, we'll then -- we'll make certain that we don't get any revenue from the product. So I think there's a neat halfway here somewhere where somebody else is coming in and participating or a whole lot of other players are coming in and participating, and it grows the product and the opportunity for [indiscernible] Australian and at the same time it enables us to grow the management side of the business rather than the investment side.

Operator

The next question comes from Ed Henning of CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

A couple of questions from me. Firstly, just on provisioning coverage. If you look at where we are in the cycle, why do you guys believe it's prudent to reduce your coverage, especially with your experience in this half with the business lending exposure where you're under provided? And I'll just come back on a capital one.

Richard Fennell
Executive of Customer Banking

Okay, I guess the reason it gives us comfort with that is, if we look at the reduction in our impaired assets, and also, something that doesn't come through in the results, is the work that we've been doing partially to get prepared for advanced accreditation, but also to give us vastly better information around our credit risk across the whole balance sheet. That information certainly gives us much better information than we've historically had. So I guess, we reached the conclusions we have for the assessment we've made around the appropriate amount of provisions we should have in place and also the appropriate reserve we also have in place. I mean, looking ahead of the arrears -- or looking at the arrears, which is, I think, a good forward view unless we saw a sudden outbreak in unemployment, then we don't believe that we're likely to see those arrears, and therefore, losses increased significantly. The reality, though, with the coverage we have got and the history of our performance right through the last 10 years, including the GFC, we certainly feel comfortable, we've got plenty set aside.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay. And just on capital, your slide hasn't been repeated about potential benefits from advanced accreditation on housing. Have your thoughts changed on this at all or you just didn't include it in the pack this time?

Michael John Hirst
Former MD, CEO & Director

We just didn't include it in the pack because the numbers really aren't going to change pretty much in [indiscernible].

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay, so it's consistent to what you put in the full year?

Richard Fennell
Executive of Customer Banking

Yes, the math is pretty straightforward around -- I mean, the math was simply looking at our housing book, then looking at the risk weighting on that dropping to 25% and either 100% of that benefit or 50% benefit coming through the accreditation process.

Operator

The next question is from Ashley Dalziell of Goldman Sachs.

Ashley Dalziell
Goldman Sachs Group Inc., Research Division

If I could just pick up on the advanced accreditation discussion. Just from what Mike said, it sounds as though when you do actually get the approval through, that it might actually be sort of on a full bank basis, rather than mortgage book first as partial accreditation approach. Plus concerned about [indiscernible] estimate?

Michael John Hirst
Former MD, CEO & Director

No, that's not right, Ashley. It still remains that it's a partial approach, but the way that APRA set it up is you still need to get those pieces of operational risk and interest rate risk in the banking book, and then it's the credit part of it that is on the staged approach. So it's the retail book or the mortgage book, consumer book and then your business book or your non-retail book, that was the concession APRA made in respect of the accreditation around [indiscernible]. It wasn't that you could do credit and then you could do off-risk and then you could do interest rate risk in the banking book or some other different order.

Ashley Dalziell
Goldman Sachs Group Inc., Research Division

Okay. And so if I could just follow up, just one on cost. Can I confirm that the flat '17 cost base on '16 target is still out there? And just a third one, if I could, just on Homesafe. Can I confirm whether there was any re-val income through the half contributed from the post-code [ph] base review that I think you do this period?

Richard Fennell
Executive of Customer Banking

Yes, so we're still targeting flat costs for the full 2017 year versus 2016. And there was a $3 million -- sorry, $4 million contribution from that post-code [ph] review that came through in November, December sort of time frame.

Operator

The next question comes from Craig Williams of Citi.

Craig Anthony Williams
Citigroup Inc, Research Division

You spoke about competition early on in this conference call, do you think the level of competition that you're experiencing, this could be a function of what is extremely profitable area of mortgages post [indiscernible] repricing in a number of years? And lower credit growth that's going to become available even though it will have [indiscernible] business and that's kind of attracting away the discounting in your opinion?

Michael John Hirst
Former MD, CEO & Director

Yes. Look, I think there's some truth in that, especially when you're adding the capital differential that applies to those products and across different providers. So I think you probably observed through your work that the balance sheet mix on the asset side changed over time since we've had advanced accreditation, and it's hard to imagine that, that's got anything other than the different -- the capital differential driving that. So that goes to the heart of profitability. So I think your first point is probably true.

Operator

The next question is from Richard Wiles of Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

Just wanted to ask about Great Southern. During the period, you increased your charges, specific charges, because customers had chosen bankruptcy. You also noted you've got $100 million of Great Southern exposures, which are either in arrears or in dispute, and that leads me to 2 questions. Why are you reducing the overlay for Great Southern when your charges are going up? And if a proportion of those customers [indiscernible] do choose bankruptcy, what sort of loss rate would you expect on their exposures? What sort of loss rate have customers been experiencing when they go down the bankruptcy route?

Richard Fennell
Executive of Customer Banking

I might come at the second half of that question first, Richard, and that is, there's a very wide variety. There are people who go into bankruptcy, and, unfortunately, aren't in a position for us to be able to recover anything because they don't have assets against which we can recover value against the line. However, I think it's safe to say the majority of cases, there are some assets available. In some cases, there are very many valuable assets available that we sometimes need to work closely with a bankruptcy trustee to help to identify with people over the last 5 or 7 years trying to structure their arrangements in a way that -- not necessarily have those assets easily identifiable. So we do have situations where we recover fully our exposure following a bankruptcy. So the way -- so in coming up with an appropriate level of provisioning, we actually do the analysis on a loan-by-loan basis of those remaining and those that have gone into bankruptcy and put estimates given what we know from the work we've done with trustees in relation to the asset position. Then on top of that, we put a collective overlay. So that overlay has the portfolios reduced by nearly 1/3 in the last 6 months. We've reduced that overlay by probably 10% or 15%. And so as we -- as this gets lower, we continue to increase our provision coverage for this exposure because the reality is once you get down to the absolute end, we'll probably need to have 100% provision coverage. We think -- look, we're going through a bottom-up analysis on all the obligors and their position. We won't get it all perfect, but the analysis, the historical analysis, shows that our provisioning is working out reasonably today.

Michael John Hirst
Former MD, CEO & Director

I think the other thing, Richard, is that we've started with the largest loans and we're working our way down towards the smaller loans. And the smaller those loans are, the less likely that these people are going to bankrupt themselves rather than repay. They're trying lots of different ways to avoid it, including the use of POS [ph]. So it is with some of those people a drawn out process. But we do when someone goes into bankruptcy, we immediately make a specific provision for the full amount, and we're finding we're writing a bit of that back as we go along.

Richard E. Wiles
Morgan Stanley, Research Division

Okay, that seems to make a lot of sense. I just got one follow-up question. In the past 2.5 years, your charges for Great Southern have gone from approximately $4 billion to $8 million, and then from -- sorry, $4 million to $8 million and then $8 million to $12 million. Did your bottom-up loan-by-loan analysis predict that increase in Great Southern charges? Or is this simply a matter of timing? It's simply a matter that more of them have moved into bankruptcy faster than you expected and that's why the charges have gone up?

Richard Fennell
Executive of Customer Banking

Look, it's a bit of a combination of both. The amount that is going into the specific provisions over the last couple of halves has been slightly higher than we expected, but it is also, as we're getting through this process, to a situation where people are bankrupting themselves and so there is a timing factor in this as well, we think. It is a very difficult portfolio to try and predict because of the process that people are going through to try and avoid their obligations here.

Operator

The next question comes from David Spotswood of Shaw and Partners.

David Spotswood
Shaw and Partners Limited, Research Division

You mentioned before about the front book/back book repricing, I mean, all other things being equal, if there's no change to asset pricing. I mean, how much would that take off on a half yearly basis? And is there any sort of headwind that can impact the NIM going forward?

Richard Fennell
Executive of Customer Banking

Look, that's -- David, that's probably key headwind. And look, I must admit I'm reticent to try and put a number on it because it does vary. There's a range of factors including what sort of discounts that are being offered, what discretions end up being used and the like and what channels the flows come through. So to try and actually put a number on it that you could predict would be, I think, fraught with danger. One of the other factors that does impact NIM is, over the last 6 months, we have seen gradual reduction in term deposit pricing. Now term deposits are a huge part of our funding base. And we've continued to see growth in term deposits as we've been edging those rates lower, which is really just a very slow catch-up for the cash rate reductions we saw in May and August. So the -- clearly, the front book/back book issue for mortgages, specifically, is a key driver of NIM, but we focus just as much attention on the other side of the balance sheet as well to try and manage the NIM outcome.

Operator

The next question comes from Frank Podrug of Merrill Lynch.

Frank Podrug
BofA Merrill Lynch, Research Division

A couple of questions for me. The first on Keystart. Can you just talk through the margin dynamics of that portfolio [indiscernible] for the better discount. And with average seasoning of 54 [ph] months, I guess, stipulated across-sell product capture rate refinance opportunity, et cetera, key value drivers, what's your strategy to extract maximum value there? And the second question, just one more in advance accreditation, you're inching closer and closer. So how does that affect your attitude towards volume growth in the interim? Do you wait until you have the green light and lending economics are a bit clearer? Or do you expect to build [indiscernible] up?

Richard Fennell
Executive of Customer Banking

So Frank, on Keystart, the way that, that portfolio is priced is as the average of the 4 majors' standard variable rate and not a discount. So as you know, the standard variable rate for the 4 majors then you can get an accurate view of the price being charged on those mortgages. And clearly, that's a premium price to what most mortgage customers around the country are paying because of the fact that most other customers are probably getting a discount on their mortgage rate. Now the reason there is no discount on this is because of the high OVR [ph], low deposit nature of this customer base. So one of the things we have done since purchasing this pool of loans is put in place the particular offering for these customers that will allow us to potentially bring these customers across onto our balance sheet directly, in relation to their mortgages. But in doing so, provide them with a full suite of products. And we're working through a process to reach out to those customers on a customer-customer basis through our network in Western Australia to work through that process. It's reasonably early days. I think we've only just started the process recently of actually contacting some customers. So we're looking forward to seeing how that goes.

Michael John Hirst

Former MD, CEO & Director

[indiscernible] it's something that exercised their mind, and I think there's 2 schools of thought. One is that you should be looking to build your book so that you move into that capital release. The other side really is, well, you don't actually know exactly when that's going to happen, so you've got to be careful a bit doing that because you might create a problem for yourself. That's the thinking around it, and that's the thinking that continues to exercise [indiscernible].

Operator

The next question comes from Brett Le Mesurier of Velocity Trade.

Brett Le Mesurier

A couple of questions. Firstly, can you tell us about the footnote that you've got on your deposits, why you reclassified some of your retail deposits to wholesale deposits? I'm talking about the footnote on Page 16.

Richard Fennell
Executive of Customer Banking

Brett, we traditionally have included our middle-market business deposit within retail. That is a business that is managed within our retail channel, and that's the way we've considered it as part of retail. In looking at how others classify some of those middle-market deposits, we picked up that, that was likely to be inconsistent with the way other banks were doing it. So we went through the customers in that space and those that we felt would better -- or more appropriately categorized as wholesale customers. We reclassified across to that nomenclature from how we describe [ph] retail and wholesale mix.

Brett Le Mesurier

But there's no one outside the company that required you to change that definition?

Richard Fennell
Executive of Customer Banking

Absolutely not.

Brett Le Mesurier

Okay. Now the other question was on the bad and doubtful debt expense. You talked about an additional write-off of $8 million in respect of one loan where the security realized was $8 million less than you had provided for. The charge to the bad debt write-off was $16 million above what your provisions were, so what was the other $8 million relating to?

Richard Fennell
Executive of Customer Banking

The other $8 million relates to normal business operations. Some of that, residential mortgages; some of that, business lending; an $8 million credit loss on part of the business, which is somewhere in the order of $30 billion to $40 billion. I think we're probably pretty comfortable with that sort of loss rate.

Brett Le Mesurier

Right. But that's the number in excess of the provision that you had,right?

Michael John Hirst
Former MD, CEO & Director

[indiscernible]

Richard Fennell
Executive of Customer Banking

No, no. That $8 million includes new specific provisions.

Brett Le Mesurier

Right. So you had a...

Richard Fennell
Executive of Customer Banking

That's really been in specific provisions plus any additional losses we have to take on write-offs or, indeed, for certain [ph] minors, any amount we recover in excess of provisions, which actually is generally the case. So more often than not, we find that our specific provisions are conservative and often we are writing back an amount.

Brett Le Mesurier

Yes, it's been the case for a little while. But, obviously, there's a turnaround this time, so you put it down to bad luck more than a new trend, I gather?

Richard Fennell
Executive of Customer Banking

This one particular exposure, we had an offer about a year ago that unfortunately fell through, and that was the basis of the initial value. We had to go back out to market, and the only -- or the best offer we could get the second time around was significantly lower, hence, the additional write-off.

Michael John Hirst
Former MD, CEO & Director

It was the specialist [ph] property. But I think the key thing to note around all this is it's still very, very low.

Operator

The next question comes from David Ellis of Morningstar.

David Ellis
Morningstar Inc., Research Division

I've got some questions around capitalized software and amortization expense. Obviously, the investment in technology has seen the capitalized software balance increase sharply over the last few half years, up from $75 million in June 2015 to $173 million into this half. But at the same time, there's only been a minimal increase in amortization expense and software intangibles. So my 3 questions are despite the already sharp increase in capitalized software balance, what level do you see this balance increasing to? And secondly, when will we start to see -- sorry, what will be -- what do you expect the annual amortization expense to increase to? And when will we start to see a higher amortization expense coming through at the P&L?

Richard Fennell
Executive of Customer Banking

Yes, David, the reason you're not seeing a significant -- well, a proportional increase in amortization expense for the capitalized software balance is largely due to the investment we've made in advanced accreditation where the amortization profile is aligned to the expected benefit profile. And obviously, that jumps up significantly once we get to advanced accreditation. Once we get to advanced accreditation, I think we are expecting that amortization to increase by about, just specific to that part of the capitalized software, by about $7 million or $8 million a year. The other -- we do, however, putting that aside, expect to see some increased amortization going forward. The new integrated Tier 1 HR platform and also the new lending platform, both only went in at the end of the most recent half. So we'll see some increased amortization in the next half for those. Where the total capitalized software will end up is actually a really good question. And the reason it's such a good question and difficult one to answer is it depends how you see this industry playing out from a movement or from an industry that is historically been reliant on physical assets through branch networks and the like to more an industry that is reliant on technology assets. And so I think right across the industry, you'll be expecting to see capitalized software increasing over time. Will it get to a point where it flattens out? Maybe, maybe not. One thing we haven't chosen to do, though, is to take a big write-off of capitalized software, which I noticed some others have chosen to do. We think the appropriate way to treat it is to try and align the expense that comes through with when the benefits do come through, which is the approach we take.

Operator

The next question comes from T.S. Lim of Bell Potter Securities.

T.S. Lim
Bell Potter Securities Limited, Research Division

Just like to get [indiscernible] regarding Apple Pay. And do you think our banks can ever hold them off indefinitely?

Michael John Hirst
Former MD, CEO & Director

It's an interesting question. Obviously, a lot of this was before the [indiscernible] at the moment. So while considering that, I probably don't want to say a lot, I guess, but there are a few points that I would make. I think the -- a couple of interesting things, one is, if all the banks are asking for is for the NFC to be opened up or intended to be opened up on the Apple phones. And I think given that Apple can actually make a payment without using the bank's infrastructure, it seems to me a reasonable [indiscernible] of reciprocity for Apple to actually open up their infrastructure to the banks in exchange for the banks opening up the infrastructure for us because the banks have invested heavily in that infrastructure over a period of time, and we want to do that. Now Apple say that we're trying to stifle competition and we only want to push our own wallets and all that sort of thing. Yet, at the same time, their CEO is saying, "Look, the bank should just forget about all this and actually just use the Apple platform because that's the best platform and it will be developed for everybody, et cetera, et cetera." So they're actually trying to stymie competition to some degree in this development space, which I don't think is appropriate. The NFC is important to more than just banking, too, as well as just payments. It's got a lot to do with loyalty campaigns. So the retailers who have come out wanting that opened up, FinTech Australia has also said that it should be opened up. It really is a bit like a payments platform, a piece of infrastructure for the whole of the economy that should be made available. And I don't understand why they're not doing that. I hear those things around security and other things, but I'm pretty sure bank security is better than mobile phone security.

Operator

The next question comes from James Ellis of Crédit Suisse. Actually, sir, we're going to go to Scott Manning, our final question for the day, from JPMorgan.

Sir, I'll hand back to the room for closing remarks.

Michael John Hirst
Former MD, CEO & Director

Thanks, everyone, for your interest. And look forward to seeing you over the next week.

Operator
Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.