Question and Answer

Andrew Bowden
Head of Investor Relations

Thanks, Gary. This is a joint media and market conference today. So we'll take a few questions from the analysts, and then we'll take some from the media as well. But I might take the first question from Andrew Lyons from Goldman Sachs, please.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

Just a question just on your mortgage deferrals and the extent to which you've seen an improvement. I think you're talking to an expectation that your deferrals will fall by about 50% given the check-ins that you've done to date. That certainly seems significantly better than what peers have reported to date. And I know that there are difficulties in comparing. But can you maybe just talk about those trends and perhaps why your trends seem to be so much better in relation to those customers returning to payment from deferral?

Peter Francis King
CEO, MD of Westpac Group & Director

Andrew, it's Peter. It's hard. As you started with, it's hard for us to compare. So let's just talk about what we've done. So we set ourselves the goal of contacting all the customers at the 3-month check-in point. You might recall that we set up a process which was opt-in. So the customer had to choose to quest (sic) [request] the package, and then we're checking in at 3 months. So the mortgage team has done a pretty good job, I think, in getting the logistics organized and getting those check-ins done, and we're about 85% through. How I would think about it is, effectively, we have customers telling us they're intending to start repayments again. So that's a really positive sign that we've got a lot of customers who have that intention. Of course, we need to see the payments. So I think we are seeing a lot of those payments come through, but that's how we're thinking about it. And of course, we're also going to have new people asking for packages as this event goes on in terms of the duration. So really, we're giving you what we have from that process. As I said, it's a positive sign, in a sense, but I don't think you can say it's definitive at this point. And we'll continue to update you as we go along.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

And just a second question, just around your margin. You've noted some headwinds to margin in the quarter from 2 trends: firstly, the liquidity build, which you'd noted at the first half result; and secondly, around term deposit pricing. More recently, some of the term deposit pricing seems to have become more positive. I'm just wondering if you have an expectation as to the impact of the pricing that you've seen to date and what that might mean for the fourth quarter NIM. And then any commentary around the extent to which you'd expect further liquidity build versus what you've already put through in that third quarter?

Gary Thursby
Group Executive

Thanks, Andrew. It's Gary here. I'll answer that. As you say, there's a lot of moving parts in margin. And as we outlined at the first half, there will continue to be a lot of moving parts. As you've said, the largest items impacting margin in this quarter have been the elevated liquids and the 50 basis point reduction in cash rates or the lower interest rates that happened during March. That had an immediate impact in the quarter and have flowed through. We did have some -- a range of price changes that also occurred late in March and through April. A number of the special prices we had out at the onset of COVID have now been removed and changed. And as you say, specifically, deposits, term deposits, rates on term deposits have been coming down over the recent months. And we expect that, that will support margin into the next period. However, continued elevated liquid assets and continued low rates will put pressure on margin -- will maintain that pressure on margin into the next quarter. So...

Peter Francis King
CEO, MD of Westpac Group & Director

And it's probably just worth highlighting that on liquidity, I think we've done the major builds. So it's not like we're looking to have further liquidity. It's a matter of optimizing balance sheet now.

Gary Thursby
Group Executive

Yes.

Andrew Bowden
Head of Investor Relations

I'll take a question from Brendan Sproules, please, from Citi.

Brendan Sproules
Citigroup Inc., Research Division

I'm just asking on Slide 5 with the additional provisions that you've taken, where you've had, obviously, delinquencies in mortgages, you've had downgrade of facilities in the business and the institutional bank. And you've also made an overlay for mortgage deferral packages. Why have they not impacted your overall economic forecast, similar to what's happened in risk-weighted assets where you did recognize 30 basis points this period in an overall estimate of $105 million in the base case?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, Brendan, their separate -- capital and risk weights are separate to provisioning. One is driven by the accounting standards. One is driven by the APRA rule. So they won't always line up. On the accounting standards, what we've really recognized is that while we have mortgages in relief packages, we're not always getting the normal risk reporting or risk sensitivity that we would get, say, in delinquencies. So what we've done is we've said, right, what may be some of the outcomes from those packages and estimated an accounting provision. And we think that's prudent. So that's how we thought about provisioning. In relation to the risk weights, a lot of the risk weights in mortgages are actually fairly dynamic. So they pick up the PD changes automatically. Where that's not happening, we are therefore putting overlays in, and it's mostly been in the business books. So there will be a delay in our getting up-to-date financial information because of the size of the customers involved and where we haven't done the reviews, so if you think about segments, institutional bank, we've done a lot of the reviews because we know those customers pretty well, and there's not as many of them. As you go down the book, commercial, we're focused on high risk. So we've done a lot of those reviews, where the risk grades have changed. And then you'll get other parts of the portfolio which are a bit more higher volume, lower loans where we're putting overlays in. So we've just thought about it in different buckets, and we need to reflect that the information we're using won't be the most up to date, and therefore, we've put overlays in.

Gary Thursby
Group Executive

The only other comment I'd make, Brendan, is if your question is in relation to the 100 basis points and the 180 basis point sensitivity that we've included, we still think that they are about the right numbers. But as we look at it, we've tested the sensitivity to different aspects of the portfolio, both consumers coming through mortgage risk weights and businesses and specifically the different sectors and regions being impacted. We continue to think that that's the right range of sensitivity to think about. But there are quite a lot of moving parts in there. But in aggregate, we think that's about the right -- they are about the right numbers to think about.

Brendan Sproules

Citigroup Inc., Research Division

And just one other question, if I may. The overlay on the mortgage deferral packages. Is that on the $50 billion of total packages that you've offered or on the ones just where you -- where the 3-month extension has been requested, or you haven't had a chance to actually check in with them?

Gary Thursby
Group Executive

It was done on looking at the aggregate $50 billion and then, within that aggregate, assessing those customers that we think will sort of have -- still have good sources of income and we expected to return to payment as opposed to those that looked like they had some pressure on their own income sources. So we did it on the aggregate, but we think it's still appropriate even with the proportion of customers returning to repayments.

Peter Francis King
CEO, MD of Westpac Group & Director

Yes. It's the aggregate at the end of June, Brendan.

Andrew Bowden
Head of Investor Relations

Okay. I'll take a question from Jon Mott from UBS, please.

Jonathan Mott
UBS Investment Bank, Research Division

I've got a question about statutory profit and just a couple of comments that you had earlier on, Peter. What you talked about was, number one, you had a hit coming through with the hedge volatility in this quarter. And then you also talked about some reviews for life insurance and also potential capitalized software and goodwill. Now we know that they're not an impact on CET1 because they are already deducted, but they do hit statutory profit. And from what we've heard from the other banks, the definition of earnings for the payment of the dividends looks like it's based on stat profit, not cash profit. So can you comment on potentially could this reduce your ability or preclude your ability to pay dividend in the second half given the hits coming through these noncash items?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes. So historically, the test for dividends is you can pay out 100% of the previous 12 months profit without APRA approval. So that's the historical test. That's obviously been updated for this year to 50%. Now what that means is if you're away from that test, you've got to go and talk to APRA. So what I would expect is we'll be having discussions with APRA about all our plans in the second half and that will be the process to agree the dividend.

Jonathan Mott
UBS Investment Bank, Research Division

So this doesn't automatically preclude you from paying second half dividends.

Peter Francis King
CEO, MD of Westpac Group & Director

No.

Andrew Bowden
Head of Investor Relations

Okay. We'll take a question from Brian Johnson, please.

Brian D. Johnson

Jefferies LLC, Research Division

Just if we go through to Slide 13. I was just wondering, Pete, could we get an explanation of that reference to AUSTRAC that's now talking about potential risks from financial crime activities, such as money laundering or terrorism financing? Can we just find out specifically what you've identified?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, Brian, it's referring to the release we made a few weeks ago, I can't remember the exact date, on the TTRs and the other matters that we had there. So there's nothing really to add apart from what we've already got in the market.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. So at this stage, it's still hard to quantify basically what AUSTRAC are actually upset about. The case is still evolving. It's still getting bigger. Is that correct?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, it's the release that we made a couple weeks ago on the TTRs -- the SMRs, sorry, is the other one. So the bucket that is described there is a broad bucket of what AUSTRAC look after, but the specifics were in our release a couple weeks ago.

Brian D. Johnson
Jefferies LLC, Research Division

So Pete, I'm sorry, I can't recall seeing stuff about terrorism financing last time. If it was there, I apologize. But was that in the last announcement?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, TTRs and SMRs are issues that need to be reported, whether or not they're specifics. It was 28th of July release, Brian.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. Okay. Peter, the second one is that if we go back to your first half '20 ECL provisioning. And today, you've said that the weightings are unchanged. You did ascribe 5% to basically the upside scenario on which basis the ECL provisioning would have been -- you back calculate, must have been about $2.9 billion versus the base case of 4.5, downside of 7.9. Just when we look at it today, you're increasing basically some of the provisioning. Can we just get a feel about the appropriateness of that 5% that you're ascribing to the upside scenario? And what would be the impact if you were to actually take that out?

Peter Francis King
CEO, MD of Westpac Group & Director

I think, well, we haven't given updated information on the scenarios at the quarter. You'll have to use the half. But I think it's more the debate that we'll be having is what's the weighting between the base and the downside rather than the upside, Brian...

Brian D. Johnson
Jefferies LLC, Research Division

So the upside could well disappear from the [calcs].

Peter Francis King
CEO, MD of Westpac Group & Director

Unlikely. I think around that level is sort of the minimum you'd have it in. So it won't disappear to 0. It's more likely to be a debate about weighting between the base and the downside.

Andrew Bowden
Head of Investor Relations

[We'll take] a question from Richard Wiles, please, from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

On Slide 4, you mentioned 5 basis points of margin impact from retention pricing, switching and competition. That looks a fair bit worse than it was in prior halves. Why is it so bad? And should we assume that it continues at the same pace in future periods?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, the main change was the pricing that we did in the business book in terms of trend. So if you think about the response when COVID came out, we looked to provide some support to businesses. So we had the reductions in business pricing was the main change in trend in terms of sort of underlying trends in the mortgage book. We continue to see active -- people looking for a better deal. So you've got some regular repricing of existing products as well as a pretty active competitive market. So that's the major change on the loan side, Richard.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. And can I ask you about the risk weight density guidance? You've repeated the 105 to 180 basis point potential outcomes, as Gary mentioned in his remarks. Can you tell us with the base case, the 105, how much is mortgages and how much is corporate?

Gary Thursby
Group Executive

No, we can't. The way we looked at that, Richard, was just the various -- there's a lot of assumptions in those numbers. We've just looked across the total portfolio, the sensitivity of different categories, including mortgages and businesses; and within businesses, the sensitivity of various sectors. We think it's right then to just sum that up and look at an aggregate and look at the range around the aggregate. Last time, we highlighted that, that represented about 3 to 5 percentage point shift in risk-weighted asset concentration. And so that's a combination of them all. As we're moving through the economic cycle, you can see that there's quite -- it's early days, and it's still evolving. So the final expected impact on different sectors and different categories of customers is sort of yet to be seen. But we think the aggregate lines up with the way we've reviewed the sensitivity of the different aspects.

Andrew Bowden
Head of Investor Relations

I'll take a question from Matthew Wilson, please.

Matthew Wilson
Evans & Partners Pty. Ltd., Research Division

Hopefully, you can hear me.

Andrew Bowden
Head of Investor Relations

Yes.

Peter Francis King
CEO, MD of Westpac Group & Director

Yes, Matt.

Matthew Wilson
Evans & Partners Pty. Ltd., Research Division

Firstly, just thought, if I calculate based on what has been deferred, the level of interest income capitalized looks around $400 million within the ballpark, would that be fair?

Gary Thursby
Group Executive

Yes, that's about the right number.

Peter Francis King
CEO, MD of Westpac Group & Director

On mortgages, you're talking about?

Matthew Wilson
Evans & Partners Pty. Ltd., Research Division

On mortgages and business combined.

Peter Francis King
CEO, MD of Westpac Group & Director

Yes, it would be a little bit higher.

Matthew Wilson
Evans & Partners Pty. Ltd., Research Division

A little bit higher, okay. And then secondly, so your capital today is currently 10.8%. You seem to be far more realistic with the calculation of credit risk-weighted assets than some of your peers. You settle AUSTRAC. You write-down some further elements in the business, you might be at 10.5. And then based on your risk-weighted inflation, if we do get a bad scenario, we're sort of down to 8.5. Isn't it better to go into the cycle with more rather than less capital? I appreciate that APRA is happy for you to use that buffer, but the market's got to fund the rebuild of the buffer. How do you balance that sort of conundrum from a capital perspective?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, I think there's a -- the first thing is there's a range of outcomes. And there's your base and your downside, and we don't know where we're going to be. So you can only really think about managing the place in a way that you make the right decisions. We've made a pretty hard decision with the dividend today, and we recognize the impact on shareholders. But we think in the long-term interest of the bank, that was the right decision. Then the other piece is how do we generate capital organically. So the specialized businesses -- looking at businesses that can release capital internally is a big focus for us. So where we end up, we've got -- we're thinking about making sure that we have the best available information, so whether that be risk weights or credit quality or packages, recognizing that in the numbers and then making decisions as we go.

So Matt, I get the question, I get the sensitivity, but we've just got to work on generating capital internally, making the right decisions. And I'd just end with but I am prepared to use the buffer. And if it is an outcome like you say, then we should expect to use the buffer. And remember the regulatory "top of the capital" conservation buffer is 8%. So we're still a strong bank at that point, and we'd still be a strong sector at that point.

Andrew Bowden
Head of Investor Relations

Can I take a question from Macquarie for Victor German, please?

Victor German
Macquarie Research

I was just hoping to ask also a follow-up question on margins on Slide 4. One of the buckets that you disclosed that sort of surprised me a little bit was the impact on capital and other, 4 basis points in the quarter. It seems a little bit larger than I would have thought would come through given your hedge. Just interested whether you expect this to be fairly linear and you expect a similar impact in the next quarter. Or was it lumpy at all? And also, you've made a comment about shortened duration of capital hedge, if you can just sort of elaborate on that as well.

Peter Francis King
CEO, MD of Westpac Group & Director

Yes. Just Victor, it won't be linear because it depends on the monthly hedges. So it's not like it's sort of perfectly linear. So I think, the last half, we're probably -- we had a better outcome than what people thought. It's probably a bit higher this quarter than what people thought. So it's not a linear process, but it will get down to wherever the market is, unfortunately. So lower rates will impact the margin materially as we go to the 25 basis point type term outcome. Sorry, your second question...

Victor German
Macquarie Research

[On the] shortened duration [of hedge].

Peter Francis King
CEO, MD of Westpac Group & Director

Yes. I just think the reason you hedge your capital is duration -- and wherever you pass the 1-year regulatory capital calculation, you've got to hold capital for it. We just looked at the risk/reward equation and decided we can come a bit shorter on the hedge.

Victor German
Macquarie Research

So does that mean your historic hedge obviously rolls off kind of on the 3-year basis that you've hedged it, but going forward, you're just leaving it at 1 year? Is that kind of how we should think about it?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes, on average, just think about it may not exactly be 1 year. We'll be looking at where we want to go, but it will be shorter.

Victor German
Macquarie Research

All right. And does that apply both capital and deposits, is it?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes, for both of them.

Victor German
Macquarie Research

All right, okay. And then just...

Gary Thursby
Group Executive

Just capital...

Peter Francis King
CEO, MD of Westpac Group & Director

Sorry, only capital, mate...

Gary Thursby
Group Executive

Just capital.

Victor German
Macquarie Research

All right, just capital. Deposits are still hedged the same as before, 3 years?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes.

Gary Thursby
Group Executive

Yes.

Victor German
Macquarie Research

Okay. And just a point of clarification to earlier question about dividend policy from APRA. Can you just maybe remind us kind of how historically APRA approached capitalized software reduction from that statutory capital -- statutory profits impact? Obviously, it impacts statutory profits, but it's a capital deduction. Is that generally viewed as a...

Peter Francis King
CEO, MD of Westpac Group & Director

Historically -- basically, the rule historically was you can pay out 100% of your stat profit over 12 months without seeking approval. If you weren't able to achieve that outcome and you wanted to pay a dividend higher than your stat profit, you needed APRA approval. They would look at your capital planning.

Gary Thursby
Group Executive

All aspects of it.

Peter Francis King
CEO, MD of Westpac Group & Director

Including your forward forecast and everything as part of that approval process.

Victor German
Macquarie Research

Right. So they did intend to look through the capitalized software write-offs...

Peter Francis King
CEO, MD of Westpac Group & Director

Well, I can't say that because mechanically, the test was stat profit, which included write-downs of items that are already deducted from capital. So I can't say they'll look through it. What they would do is look at the capital management plans of the entity and decide whether or not the dividend was appropriate in the whole context, not just stat profit less a number.

Andrew Bowden

Head of Investor Relations

We'll take a question from Ed Henning from CLSA, please.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just the first one, on Slide 17, you run through your business support packages. Is there any difference between any outstanding packages than what you've provided so far?

Peter Francis King
CEO, MD of Westpac Group & Director

I'm missing that one, Ed, sorry. What do you mean any difference?

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

So in mortgage, you've said you've provided 135,000 packages, but you're now down to outstanding of 78,000. Is there any difference in business?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes. The business packages were 6 months, whereas the mortgage packages were -- from our perspective, were opt-in by the customer 3 months with a check-in, to then roll for another 3 months. That's how we've thought about -- so they're quite different.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay. So you haven't gone and checked any businesses and some businesses haven't started repaying at this point.

Peter Francis King
CEO, MD of Westpac Group & Director

We are -- at the margin, there's been a few starting to repay. But we're just gearing up for the contact process right now. So the next couple of months will be very important for us to get updated information on the small business packages. So come full year results, we'd probably expect to give you a pretty detailed update on that.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay. That's great. And just a second one, circling back on to mortgage deferrals and the increase in the provision there. You've had deferrals falling. You've talked about you've got actually some mortgages that have gone straight into hardship. And if you look at your scenarios, you've previously called house prices down 15%, and now they're down 10%. Are you just saying for that small part of deferrals that are still there the probability of default has gone up substantially?

Peter Francis King
CEO, MD of Westpac Group & Director

I think we're just being prudent, Ed. We don't know what the -- we can't predict the future, but we want to be prudent on the way that we're recognizing what's happening in the customer base and the portfolio and having a balance sheet that -- and a provision base that is prudent. So I think there's a degree of sort of specificity in the question that we're not operating with that level of information at the moment.

Andrew Bowden
Head of Investor Relations

Let's take a call from Andrew Triggs from JPMorgan, please.

Andrew Triggs
JPMorgan Chase & Co, Research Division

Look, a question on NIM. Just interested in how long you expect some of the funding cost tailwinds to last for and specifically falling TD rates and growth in at-call accounts. Bendigo Bank yesterday suggested that while it would provide some stability to margins in the December half, looking into next year, they expected those benefits to wane.

Peter Francis King
CEO, MD of Westpac Group & Director

I think that's a difficult question for us to answer because that sort of says where do you think deposit pricing is going to go in the future, Andrew. So that's, unfortunately, one you'll have to sort of decide where will the industry set deposit prices across TDs and online.

Andrew Triggs
JPMorgan Chase & Co, Research Division

But for the quarter itself, I mean, did you see continued growth in transaction account balances with that sort of -- there's no callout from a funding mix benefit during the quarter. Has that continued?

Gary Thursby
Group Executive

Deposits continued to grow. There is a lot of liquidity in the market. So deposit growth continued despite some lowering of headline rates across the market.

Andrew Triggs
JPMorgan Chase & Co, Research Division

Okay. And just a second question, please, just on repayment holidays. Just checking, for those customers indicating that they will go back to, on the mortgage book, making repayments, just checking, is there any sort of split between those going back to interest-only versus full repayments for those that are on P&I?

Peter Francis King
CEO, MD of Westpac Group & Director

No. We've -- so basically, with those repayments, we've indicated they'll go back to full repayment. If they said they need -- that's not appropriate, then they're the ones that we're looking at in hardship. Because it's a -- it becomes a restructure of the loan.

Andrew Bowden
Head of Investor Relations

Can I take a question from Brett Le Mesurier, please, from Shaw?

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Your loans outstanding have been declining, of course. Do you expect that to continue into the fourth quarter? And I'm looking at residential mortgages in the Pillar 3 have declined from $448 billion (sic) [$ 488 billion] to $484 billion over the past year and corporate loans have declined from $64 billion to $61 billion while peaking at $69 billion in March. Is the trend of down going to continue from June to September, do you think?

Gary Thursby
Group Executive

I think if I start with the institutional and corporate balances, we saw those elevate in March and then through April as businesses looked to sort of secure the funding lines, have since paid those down, and we continue to see an outlook which is pretty flat in terms of demand for credit across business, corporate and into SME. On the mortgage side, we had some processing issues that we outlined at the half. We've resolved some of those, and we've caught up some balanced growth, application levels on a relative basis. We're happy that we're rebuilding application levels as -- in terms of our share of market applications. But I think general demand for housing in aggregate is still fairly soft, and we expect that to continue through the rest of this year.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Just moving on to liquids. You indicated that you'd reached a stable level. But when I look in your Pillar 3, the on-balance-sheet exposures for sovereigns fell from $120 billion at March, down to $104 billion in June. So do we actually have a lower level of liquids now than we had in the third quarter? And therefore, might that release some of the headline pressure on NIM?

Peter Francis King
CEO, MD of Westpac Group & Director

No, I don't think so. The -- it's a little bit complicated with the way that the money moves in and out of the different central banks. So we've still got -- the other way to look at is what's the LCR at the end of the period. And insofar at the end of the period, they're pretty stable.

Andrew Bowden
Head of Investor Relations

I'll take a question from Azib Khan, please, from Morgans.

Azib Khan
Morgans Financial Limited, Research Division

With the customers going into hardship, you've basically classified them into 3 categories, which is helpful. I've got a question about 2 of the categories. So the first one, the requests received prior to COVID-19 relief package availability and the customers who went directly into hardship via customer assist teams. How much scope is there for these customers to still migrate to deferrals? Or are they all -- are they entirely -- are they almost entirely ineligible to go into deferral status? And I've got a second question related to this. So APRA is obviously providing lenders with an option to restructure loans up to 31 March next year in certain cases, without those restructures being deemed to be nonperforming. Is your understanding that, that restructuring option will only apply to customers in deferral? Or will it also apply to customers in hardship?

Peter Francis King
CEO, MD of Westpac Group & Director

So just the way to think about the relief packages versus hardship is, relief packages, you basically self-certified that you needed help and you got the payment deferrals. If we -- if you go through the hardship assistance, you're actually working with a banker to work out what the right thing is. So it's more like an individual outcome. That could include specific deferrals that could involve different interest rates, could involve some restructuring of the loan. So it's -- and so I don't think -- I wouldn't get too hung up on it. It's more just is it an individual arrangement or part of the portfolio arrangement.

On your question on restructuring, we'll have to come back to you, I think. Because certainly, what APRA has proposed is very good. It gives us time to recognize and restructure parts of the portfolio. The challenge whether -- is whether or not we'll know enough to get the restructuring right for the end of March. But the intent is to do it. So hopefully, it applies to both hardship and packages. But we'll need to confirm that with APRA.

Azib Khan
Morgans Financial Limited, Research Division

Just a quick follow-up on the response to my first question. So I think you just made it sound like it's still possible to be on a deferral if you're in hardship. In that case, does the customer still show up in the 90-day arrear stat?

Gary Thursby
Group Executive

Yes.

Peter Francis King
CEO, MD of Westpac Group & Director

Yes.

Azib Khan
Morgans Financial Limited, Research Division

So the regulatory -- is there any -- is there no regulatory relief available through the hardship channel at all?

Peter Francis King
CEO, MD of Westpac Group & Director

No, because you've come -- you've applied an individual arrangement with the customer. So that's one of the things that we highlighted today, that we've got more people or more customers in hardship, and that's pushing up the delinquency numbers for the mortgage portfolio.

Andrew Bowden
Head of Investor Relations

Can I take question from James Frost from the Financial Review?

James Frost

Peter, I've got another question just about the hardship versus the deferrals. The number of deferrals that have fallen was quite sharp. I guess that's pleasing. I was curious whether any of those customers from the 135,000 have been moved into hardship.

Peter Francis King
CEO, MD of Westpac Group & Director

Listen, there would have been a few. I don't have the number. But basically, if someone said to us, as part of the check-in, they're not sure that they will resume repayments in 3 months time, then we took them out of the package and put them into the hardship process. Actually, I think it's about 1,000.

Andrew Bowden
Head of Investor Relations

We'll take a question from Peter Ryan from ABC.

Peter Ryan

This is also a question on the deferrals. When you're considering what to do with the deferrals or what people can pay, do you take into account whether or not people are receiving JobKeeper payments?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, what we're doing is checking in with them. And if they request the further 3 months deferral, we provide it to them. So it's not like we are looking at their circumstances at that point. They're effectively saying they need it, so they're eligible. There's a lot of people that's saying, no, we'll commence repayments again. But as you know, circumstances could change, so they might come back and say they need help. So that's why I say we've given you what we know. It will change because this is a dynamic event, and we'll give you further updates as we go along.

Peter Ryan

Do you think, though, that the JobKeeper payments have helped you get those deferrals -- those on the deferral deal down?

Peter Francis King
CEO, MD of Westpac Group & Director

Probably. The answer to that is, probably not. Because if people are saying they're comfortable to go back on repayments, they're confident about where they're at, I think, not just JobKeeper.

Peter Ryan

Okay. And just one more while I've got you there. What are your expectations for, I guess, insolvencies in small to medium businesses among those who have been helped out on the loan deferrals?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, that's hard to estimate at the moment. We'll certainly have a better line of sight on business as we go through these contact points in the next couple of months. So I wouldn't want to predict something that we'll have a lot more information on over the next couple of months, Peter.

Andrew Bowden
Head of Investor Relations

We'll take a call from Joyce Moullakis, please, at News Corp.

Joyce Moullakis

I just had a query about your economic forecast. I'm just wondering if you can provide a little bit more color on those in light of what the RBA said in terms of its expectations on GDP growth and where unemployment is likely to peak.

Peter Francis King
CEO, MD of Westpac Group & Director

Sorry, what's the question, Joyce?

Joyce Moullakis

I just wonder. Your forecasts around GDP and unemployment seem a little bit more optimistic than perhaps the reserve bank said in August. I just wondered what opportunity there may be for you to change those going forward.

Peter Francis King
CEO, MD of Westpac Group & Director

Well, of course, it's Bill Evans, who's our Chief Economist, and he decides on his forecasts without our input. I think the situation we're in is it's very hard to forecast. So when we think about what we use to run the bank, we're looking at a range of forecasts. So I wouldn't want to sort of compare and contrast [two]. Because I think you've got a little bit of a range of forecasts at the moment.

Joyce Moullakis

Okay. And just one more for me just on the deferrals. In light of New Zealand extending the period for mortgage deferrals and the second lockdown in Victoria, what are you sort of expecting around the momentum of mortgage holders coming off the deferrals? Is that likely to taper off quite a bit now?

Peter Francis King

CEO, MD of Westpac Group & Director

In New Zealand, you mean, or...

Joyce Moullakis

Across the book but taking into account that New Zealand has extended the period.

Peter Francis King
CEO, MD of Westpac Group & Director

I think -- well, in Australia, I think we're 85% through the check-in. So we've got 15% to go, but we still have a steady flow of people asking for help. So it was probably [1700-style] numbers before the Victorian developments, and it's probably up around [2000] at the moment. So there'll be ons and offs in Australia. In New Zealand, we'll have to just wait and see how long the -- it stays in place, so...

Andrew Bowden
Head of Investor Relations

Okay. I'll take a question from Richard Gluyas, please.

Richard Gluyas

[indiscernible] and the first dot point there on the AUSTRAC and other financial crime matters, you say strong progress made in addressing relevant issues. I'm just wondering, is it correct to say then that Westpac and AUSTRAC have narrowed their differences on issues in the statement of claim that the statement of claim itself could be broadened now?

Peter Francis King
CEO, MD of Westpac Group & Director

I think there are 2 processes, Richard. So one is obviously we haven't hit the mark in terms of our financial crime systems, and we recognize that, and we've admitted a lot of those issues through the court process. But that's ongoing and the reviews from AUSTRAC are ongoing. And as we spoke about before, there was the TTR and SMR release. So that's the core process. But we're not waiting for that to be finalized before we look to lift our capability in financial crime more broadly. So that really just signals it's a focus for us. We're getting on with it. We're recruiting people. We're investing in technology and getting the control, the management control, capability in that area up.

Richard Gluyas

And just one follow-up. You probably saw that Christian Porter said something about Westpac running a PR campaign while it was in remediation discussions with AUSTRAC. Would you agree with that?

Peter Francis King
CEO, MD of Westpac Group & Director

No. We've taken this matter very seriously, Richard. We're deeply sorry for our failures, and we recognize the harm that it's created. As I said before, we've admitted our failures as part of the process in the court. Our preference remains to settle. The court ultimately decides on the fine. And we understand that given the size of this, we will have to pay a material fine. So that's how I think about it.

Andrew Bowden
Head of Investor Relations

We'll take a question from Clancy Yeates, please.

Clancy Yeates

Just a question on your house price sort of forecast there. You're saying a 10% fall this year and then a 1% gain next year. Can you just explain why that is? And I see they're from -- those are from June. Does it take into account Victoria's lockdown? Or are they a little bit dated?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes. I think when I step back and look at the sort of fundamentals here, it's always supply and demand that drives prices. We know there's going to be some people that are going to need help. So whether that be in mortgages or small business. But then the bank is in a really good shape to manage this through over time. So I think that's the macro thing that's recognized in those forecasts. So the alternative would be in other scenarios, if you've got a banking system that's not in great shape, then they'll look to realize security pretty quickly and that drives the price down materially. I just think we're going to work this through over a longer time horizon because the banking system has got good liquidity and pretty good capital levels.

Clancy Yeates

So you're saying you won't be in a hurry to foreclosing people, you'll give people lots of time to work it through even if they...

Peter Francis King
CEO, MD of Westpac Group & Director

It -- time will be important here to work this through. So that's right.

Andrew Bowden
Head of Investor Relations

I'll take a question from Paulina Duran.

Paulina Duran

My question is not very controversial. It's about deposit -- the trend on deposits. I'm curious how sticky you consider those deposits to be just as that challenging economic outlook kind of develops. And obviously, in the context of the term funding facility, just if you can talk a little bit about that, that would be great.

Peter Francis King
CEO, MD of Westpac Group & Director

Well, I think just generally, the deposit market, there's quite a lot of liquidity in the system. The -- we see a lot of people wanting to save at the moment so that -- we'll see deposits go up. In our case, the loan-to-deposit ratio was at 77% -- or deposit-to-loan ratio was at 77%. So I think there's -- it's decent conditions for the deposit market to continue to grow.

Paulina Duran

And does that mean that you then will have to issue less debt, even if your maturities are a bit higher on FY '21?

Peter Francis King
CEO, MD of Westpac Group & Director

I think just generally, with the term facility available from the reserve bank, if there's not demand for lending, then we won't be as active in wholesale debt markets. So that's the way I think about it.

Andrew Bowden
Head of Investor Relations

Okay. I'll take a question from Nathan Zaia from Morningstar, please.

Nathan Zaia
Morningstar Inc., Research Division

I just had 2 quick follow-ups. I know you mentioned that processing times for mortgages have improved. Can you quantify with application volumes or the number of loans that are being approved or time to approval?

Gary Thursby
Group Executive

I don't have the detailed numbers in terms of numbers approved. But we have been able to catch up a lot of the backlog that we had during April and May. In June, it was a significant catch-up on those volumes, and we continue to focus on how we can further improve that processing time and support our customers. It's a really important customer experience.

Nathan Zaia
Morningstar Inc., Research Division

Okay. And just a second one. I know there's still a lot of uncertainty, but I don't know if you're able to provide a little bit more detail about how you're thinking about what a final dividend might be in terms of will it be based on a payout of the last 12 months earnings or just the last 6 months, so the second half of fiscal '20.

Peter Francis King
CEO, MD of Westpac Group & Director

Well, James, what we'll think about is -- sorry. Nathan, what we'll think about is, at the full year, looking at the whole business, our view of the future, and we'll make that decision at that point. So it's too early to be pinning it down to specific metrics or whatnot. We'll look at the business in its holistic situation at the end of the year.

Andrew Bowden
Head of Investor Relations

We'll take a final question from James Glynn from The Wall Street Journal.

James Glynn

Phil Lowe lot at the reserve bank hasn't -- has -- well, last Friday, left the prospect of negative interest rates on the table even though he still says it's extraordinarily unlikely. I was just wondering how a major bank would respond to a move to negative interest rates. Would it improve the situation or would it just add a layer of complexity that might be counterproductive?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, it's probably just worth reflecting on what that -- what negative rates means. And to me, it means the reserve bank rate would probably be negative and the wholesale rates are negative. How that translates into different markets will be very different, but the major piece will be -- the signal is savers should get less and borrowing costs should come down. So that's what the signal says, and that will impact different markets in very different ways. From an internal perspective, our markets and wholesale businesses will need to have technology systems that can handle negative rates, and that's what we're working through. And then I'll leave it to you to decide how the different markets might price negative wholesale rates because it's a territory I can't talk about in terms of future interest rate moves on consumer or business products.

James Glynn

Okay. So net-net, you would -- it sounds like you would consider a positive move.

Peter Francis King
CEO, MD of Westpac Group & Director

No, I can't go there because it will depend on how each market responds.

Andrew Bowden
Head of Investor Relations
All right. Well, thank you very much, everybody, and good morning.