Question and Answer

Operator

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

Jarrod Martin
Crédit Suisse AG, Research Division

Welcome back to Australia, Ross. A couple of questions, no surprise, the focus around asset quality and ultimately, just the progression of the bad debt charge going forward. So with the economic adjustments that you've made today, you're looking at just over $4 billion of collective provision. If the environment turns out exactly as you're -- is in your models and your assumptions, how does that then flow through to bad debt charges in future periods? Not looking for guidance. I'm just trying to understand. Do you get one uplift and then there is limited uplift going forward? Or we see further uplifts until we actually see the peak in the curve? That's the first question.

Second question, we had a peer bank that did a capital raise in the recent past, only to be effectively hit with a surprise impact on the AUSTRAC -- on an AUSTRAC issue. You have a contingent liability around AUSTRAC. So those investors today you're raising capital, can you provide some form of update or guarantee that AUSTRAC is not going to come and sort of come from the side on this one?

Ross Maxwell McEwan
Group CEO, MD & Director

Well, maybe if we start at the base, and then I'll hand over to Shaun on asset quality and our bad debt provisioning and how he sees that emerging through.

We've been quite clear for the last 18 to 24 months that we are in conversation with AUSTRAC about our remediation of anti-money laundering. There's no change to that. There hasn't been any change to that wording for the last 18 months. We just want to be clear about that. We are not aware of anything that will come out of the blue in the next week or 2. But that's not in my hands. It's purely in AUSTRAC's hands. We're not aware of anything of that nature. But we haven't changed our wording and our risk factors, so no change whatsoever.

Shaun, I'm going to hand over to you. I think it's around how you see this coming through, working itself through.

Shaun Dooley
Chief Risk Officer

Thanks, Ross. And thanks, Jarrod. So there are 3 components to our collective provisioning. There's the economic adjustment, and we also have what we call our forward-looking adjustments and then there's the base calculation to our collective provisioning. I'll just spend a little bit of time talking about those 3 components.

Clearly, the base collective provision is calculated based on what we know of the actual probability of default and the expected loss given defaults around our individual customers. So there's a credit risk engine that calculates that each and every day. Now given where we're at in terms of this cycle, we've not seen yet any significant shift in the PDs or the LGDs of our existing customers, in part because coming into 31 March, the book was performing reasonably well. In fact, many of our customers were performing well going into 31 March. So we haven't actually seen that emerge yet in the base calculation. Now if we hold forward-looking adjustments where -- and we've been -- our disclosures in the past will give you detail around both, but where we've seen particular stress, having emerged in parts of the portfolio, we've recognized that through overlays.

What we've done with the economic adjustment, that really reflects, I guess, the outlook for the broader-based macroeconomic outlook. And we've applied, I guess, some assumptions around where we see various scenarios playing out and methodologies based on 3 scenarios, and the calculation of our economic adjustment applies a probability weighting to those 3 scenarios. The 3 scenarios -- or let's call them sort of an upside, which has no weighting in this calculation, what we call sort of a base, which is really a COVID-based scenario. And then we have a sort of severe, which is a much more prolonged, sort of a more U-shaped stress.

So that is then applied to some assumptions around how our probabilities of default and loss given defaults might shift. And I say might, so there's forecast shifts across the various loan portfolios. And it varies depending on the nature of the portfolio. So the shifts that we apply to parts of our non-retail book will be different from what we apply to our retail book as well. So that then drives an assessment of what we think the appropriate provisioning should be for our economic adjustment.

Now to your question, over time, as you would expect, I think there is no change to the economic outlook and our economic assumptions hold true. The stress that we're forecasting might occur will start to emerge in the book itself. So you'd expect to see a transition from the economic adjustment through to the forward-looking adjustments and then thought through to the base-level collective provisioning. Now clearly, as customers default, you would see a shift between CP and the specific provisions that would emerge over time. So you'll see this transition occur over those various categories.

At this stage, we've raised the economic adjustment based on how we see a variety of scenarios playing out in terms of the economy, that could clearly shift depending on many, many factors, including how long the lockdowns occur for, the impact of the various government support programs and the ability of our customers to manage through this with our support in many cases. Hopefully, that answers your question, Jarrod.

Operator

Your next question comes from Richard Wiles of Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

I got just some questions on capital. Firstly, APRA said they wouldn't be concerned as long as Common Equity Tier 1 ratio remains above 8%. What would the Board be comfortable with?

Secondly, you provided some risk weight sensitivity on Slide 24 with a high-end and low-end scenario. If you probability weighted that, like what you've done with the economic adjustment, what do you think the likely impact on capital would be?

And thirdly, given the risk weight sensitivity, should investors expect the common equity ratio to fall below 10% in the coming periods?

Ross Maxwell McEwan
Group CEO, MD & Director

Maybe, Gary, if I just lead in on the first. Our Board, I can quite rightly tell you, wouldn't be happy if down at an 8% or anywhere near that level. But I won't give you the guidance on what the level we've chatted out, but it's significantly higher than that. I think APRA also said they do expect that banks could go down into their buffers and use those, so we take that. But at the same point in time, I want to keep this bank in a very good capital position at all times through this cycle and coming up the back end of it. So we've been certainly working through the scenarios that Shaun and his team and Gary have put up to us. And that's why we think the levels we've gone at today and the moves we've made on economic adjustment, also dividend reduction and capital raise, put us in a very good position. But I put a proviso, we don't know what's coming. We've put the sensitivities out there in these scenarios. We'll see what comes. But I think we've put ourselves in a pretty good position.

Gary, I'm going to move over to you for the other questions and whether you want to take the third one on risk weightings as well or slide that to Shaun, up to you.

Gary Andrew Lennon

Chief Financial Officer

Yes. I'll pass some comments on probably all those. So firstly, in terms of the APRA level, Richard, as you know, APRA's come out and said they're quite happy for banks in this period to move into the buffer level. So they moved away from the 10.5 benchmark, and that's really on the basis you build up these buffers for exactly these types of periods. They haven't actually been explicit that -- at what level APRA would be comfortable. They've left it quite open in terms of they're happy to get into buffers, so that's sort of untested. But the way we think about it is, if you -- even if you're at 9.5%, you still have considerable buffers to the minimum. So that could be where APRA may also feel comfortable. In our sense, we haven't given a hard number, but we'd certainly prefer to stay above that to make sure that we're in a strong position at all times.

In terms of the slide, which hopefully has been useful, Slide 24, and we thought it was important to give you a sense of the risk-weighted asset sensitivities given that really, as you go into the downturn, it's the risk-weighted asset increases that really have the most significant impact on capital. If you look at the -- and how we've come up with the high end and the low end, it's really a more stressed and a less stressed version of the base case that we've just talked through. So the base case is pretty close to that expected loss case based on our probability. So -- yes, and the base case is -- does reflect the COVID-19 environment with the unemployment rates, et cetera. So a base case is going to be -- I haven't done the exact calculation, but it's probably going to be around about the midpoint between those 2 scenarios that we've pointed out.

And I think that's all your questions. Or was there another? Richard, still there?

Ross Maxwell McEwan
Group CEO, MD & Director

I think we'll take it, Gary, as you've done an amazing job of answering the question.

Gary Andrew Lennon
Chief Financial Officer

Thanks, Ross.

Operator

Your next question comes from Andrew Triggs of JPMorgan.

Andrew Triggs
JPMorgan Chase & Co, Research Division

A couple of questions, please. Firstly, just to follow up on that credit risk migration or procyclicality of capital, yes, I think from memory, in 2009, NAB saw about a 30 basis point impact from procyclicality. So can you talk about, please, why this cycle will be so much, I guess, worse than the GFC experience?

And then the second question, just maybe just some initial thoughts, please, on the cost outlook perhaps for FY '21 given you mentioned sort of an investment spend target around that sort of $1.2 billion to $1.4 billion mark, presumably fewer staff year-on-year and a lower [software balance], please.

Ross Maxwell McEwan
Group CEO, MD & Director

Gary, I'll leave that with you. Happy to pick up on cost later if you wish me to, but do you want to start? Or Shaun, do you...

Gary Andrew Lennon
Chief Financial Officer

Yes, I might throw it to Shaun on the GFC point because there is difference in how the underlying calculation works from how it did work in the GFC. But Shaun, do you want to pick up that point?

Shaun Dooley
Chief Risk Officer

Yes. Thanks, Gary. I just want to -- I guess, the observation is in 2008, that was -- we're just accredited actually for IRB. So a lot has changed actually in terms of both sort of methodology in the way that RWAs are calculated but also -- because you'll recall that many banks were carrying reasonably high levels of RWAs over a period of time. And so much of it, particularly as we moved into accreditation, all banks are reasonably prudent around how they are calculated. So that's come down over time. If you think of sort of our collective provision to our loan books at the moment, so based on March '20 numbers, that equates to about 72 basis points. So that's not credit risk-weighted assets. That's -- that number is 121 basis points. But if we just did it straight to loans at 72, the comparable figure in September '08 was 60 basis points before moving up to 82 basis points in '09. That was the peak of the collective provision to GLA.

Now the portfolios are very different. So not only are many of our customers coming into this cycle probably being in a better position, sort of lower gearing, lower interest rates and so on, in sort of 2008, certainly, our portfolio had a number of what I'd call sort of structured exposures. So we had some CDOs and CLO exposures in the U.S. We had a number of leverage lending exposures in Australia and some in the U.K. We also have the Clydesdale Bank subsidiary in the U.K. as well. And there are a number of sort of, what I'd call, sort of more troubled commercial property operators and financial sponsors that existed in that time. So the profile of the portfolio today is very different from what it was in 2008. So I see the reference point that I would try not to draw too much inference from those times to where we have now other than to say, if you sort of step back from that, the level of sort of coverage that we have is very consistent.

One measure that we could look at is our collective provision to credit risk-weighted assets excluding housing, which was the way that we traditionally reported it back and has had -- it was about 107 basis points. The comparable ratio today is 173 basis points. So I'll pause at that point, Andrew, and see if you want me to expand on anything more on that.

Andrew Triggs
JPMorgan Chase & Co, Research Division

So just a follow-up, just on the small business, on the Business and Private Bank division, do you think -- and apologies to continue to refer to the GFC, the most recent downturn that we have. But do you view SME impairment loss performance getting worse than the GFC on your current base case view?

Shaun Dooley
Chief Risk Officer

Well, I think it's really too early to tell as to how this will -- how this downturn will impact the SME sector. What I would say is the best read on the quality of the SME portfolio was really the performance of the book for that sort of 6-month period that we've had from June to December '19. And I'll just give you some metrics. We have over those -- for that 6 months to December, we've seen the density, so risk-weighted EAD improved slightly over the period. We've seen a very small increase in default no loss accounts, so no loss expected on those. Our default accounts are stable over the period in pretty low levels. Our watch loans fell over that period as well. So I think that the SME portfolio going into this position -- this environment was broadly stable and performing reasonably well. I think the -- yes, clearly, the impact on small business is pretty profound, and we've seen that in a number of customers that have approached us for support, both in terms of deferrals of principal and interest and also for new loans and also business support loans. So we're working with our customers. The outcome of this will not become clearer really until probably post September when many of those deferral periods expire.

Gary Andrew Lennon
Chief Financial Officer

Shaun, it's Gary here. And look, I'll just make 2 or 3 other quick points here. One, clearly, since the GFC, there's been quite significant deleveraging in the SME space. So the balance sheets of our SME customers are far stronger than they were when we went into the GFC. And you can sort of see that through the increase in security levels that we've got there. And the SME portfolio tends to be a relatively highly secured portfolio. So that's -- I think that's an important point.

Secondly, trying to compare, the best data that we have is the data we've given you because how we've gone through this process, and you'll see by the chart there, is we've gone to quite a granular level of different sectors which we know will get impacted in different ways, a lower impact in agri, a very high impact in tourism, taken those exact portfolios and shocked all the parameters by greater or lesser amounts depending on the risk and also greater or lesser amounts depending on the existing credit score. So the high-quality credits in tourism gets shocked a bit less. What that gives you a flavor is it's been quite a granular process using our actual data today. So we've tried to put it out there to give you a decent representation of how this could migrate over time.

Now on your second question on the cost outlook for FY '21, look, we've -- and we hope to come back in due course once the environment sort of calms down somewhat, and Ross will have some views on what targets that we should be putting out there at what point in time. It's just a bit premature at the moment. But what -- I think what we'd all agree is, in the current environment, we are very focused on costs. So with asset quality under pressure, revenue under pressure, we are -- rest assured, we continue to be focused on costs. And if we do see opportunities, we'll be trying to take those opportunities.

Ross Maxwell McEwan
Group CEO, MD & Director

Yes. Can I just pick up on that, Gary, because I think we've got to be very careful over the next 6 months. The best thing we could do is make sure we've got our good colleagues on our lines that are helping customers get through this so that we don't end up with accelerated bad debt provisioning. So we are moving a lot of our colleagues from our branch network and other internal jobs here onto loans and NAB Assist, which looks at small businesses and personal customers with difficulties. We will ramp up -- we already have plans to ramp up SBS, which is for our larger business customers that get into difficulty. So those will cost us more money. And normally, you'd take the cost out of the networks they're coming from. But in this case, we're moving them into other areas in volume.

So I think that's the best way we can move the cost around the business, but it doesn't extract it, but it will take out, I think, impairment costs longer term. But we are going to take the opportunity of reviewing how we operate given, for the last 6 weeks, we've had 30,000 colleagues working from home and very successfully. Some enjoyed it, some have not, so we'll have a good look at what things we can do. And I think you'll see some change in behavior from customers around how they want to be dealt with as well. If you don't go into a branch for 3 months, what does that feel like? People don't want to touch cash again. What does that mean? All those sort of things we'll have to feed through into our view. But we'll have a very strong cost focus in this organization.

Operator

Your next question comes from Brian Johnson of Jefferies.

Brian D. Johnson
Jefferies LLC, Research Division

Ross, just an observation. As you're kind of wondering around back in that, you're going to trip over a lot of these single origination things on housing because I can think of 3 or 4 different occasions where we've been promised that. But that said, I had 2 questions. First off, when we have a look at Slide 20, which is going through the implied economic adjustment top-up, is the way to think of it is that if your base case is played out, which you've detailed down below, we should actually expect to see a loan loss net write-back; but even under the worst-case scenario, we would not see loan losses, we would not see a loss from NAB, is that the way to think about it?

Ross Maxwell McEwan
Group CEO, MD & Director

Gary, do you want to pick up on that? And I'm going to come back to an observation a little.

Gary Andrew Lennon
Chief Financial Officer

Yes, I'll talk to it first, and then we might have Shaun sort of wrap up on it. It's not -- I think it's worthwhile to say, if it plays out as at the base case and we get to September, if nothing changes, if we stop the bank today -- because this approach is like a point-in-time balance sheet approach, so if we freeze the situation today, the environment plays out exactly as the base case suggests, then it will be essentially, as Shaun has described, as the individual increases in credit quality flow-through or decrease in credit quality flow-through, there will be a shift between the EA top-up into the underlying bottom-up build, and you have sufficient provisioning.

Now of course, what does happen in real life is we have new customers come through, so they will attract new CP. And then depending on where you end up on impairments and specific provisions will also vary the actual outcome from this. And that's all assuming it turns out exactly as defined in the base case.

If you go to the severe case, though, what that's trying to say -- and the severe case is really severe. And it's, as Shaun touched on, quite a U shape going on for significant years of recession and unemployment up for a significant period of time, which is far more punitive. Then if you believe that, that was the case rather than a top-up of $807 million, it would be $3.8 billion. That's how it works in terms of what the additional amount would be.

But Shaun, do you want to add a bit more flavor onto that?

Brian D. Johnson
Jefferies LLC, Research Division

But Ross, it's right to say you wouldn't make an accounting loss.

Gary Andrew Lennon
Chief Financial Officer

No, even at that $3.8 billion, yes, we'd have sufficient profitability to deal with it. Yes.

Shaun Dooley
Chief Risk Officer

Yes. Because I think Gary covered it really well, but I would add that this is a point in time, as Gary said, based on the portfolio. What this doesn't tell you is when these losses might emerge, right? So that really depends on your view of the [outlook] scenario and the shape and so on. And so it could emerge over time in a severe downside, it could merge over a number of years. What we're trying to do is give you a sort of range of the sensitivity to help you understand why we have arrived at our probability-weighted sort of outcome.

Ross Maxwell McEwan
Group CEO, MD & Director

Brian, can I, let's say, just take you back to your first observation because you are right. You can't write mortgages 5 different ways and expect -- and process will start at 4 different back ends and expect an economy of scales. So probably for the first time, one I've held a long time with this bank, I'm just putting it under one person to write, and they'll be in charge of the home mortgage business for the entire organization, not having it written all different ways. So a lot of the discipline about how we do that under control of one person, and I think we'll see some changes over time. But you don't go from that sort of structure to 1 mortgage system in 1 year. It's going to take us quite some time. And to do that particularly with the now $1.2 billion to $1.4 billion a year, I think it's the smartest way of doing it. Let's start with one person running it. So it's a totally good option.

Brian D. Johnson
Jefferies LLC, Research Division

And then the second question I had, Ross, because that was just one, is that when you have a look at that difference between the base case and the severe downside, can you just walk us through why the base case has got 11.6% unemployment, whereas the severe downside has got 7.4%? I get the fact that it's much longer, but I just want to understand why it doesn't quite generate as much stress in year 1 apart from the decline in house prices.

Ross Maxwell McEwan
Group CEO, MD & Director

Yes. Well, the base case, to my understanding, is more of the V. And the severe is more like a U with a long base to it before it starts to emerge out is the way it's been done. Shaun?

Shaun Dooley
Chief Risk Officer

Yes. Thanks, Ross. Brian, I guess the way I'd answer it is that there is an infinite possible number of scenarios here, right, in both in terms of length and depth and shape and so on. I think it's important to realize that the severe case is not just the base case more severe, right, it's a different scenario, if that makes sense. So we're not taking a base case and then just add it through the scenario. So we've changed the shape of the scenario. And as Ross said, the severe is a much more prolonged downturn impacting many economies for a longer period of time, whereas the base case, which is actually a downside case in itself, is a sharp decline with a reasonably quick recovery into next year. Now we're all in the same position of not knowing what the shape of the recovery will look like for some time. We'll certainly have much better information, but we've given you a range of scenarios here to help.

Brian D. Johnson
Jefferies LLC, Research Division

But is that severe a gentler entry into it than naturally the base case, it's just more prolonged? It doesn't look as severe as I would have thought it could be.

Ross Maxwell McEwan
Group CEO, MD & Director

Well, actually, when you look at the GDP reduction, Brian, in 2020, it's still 3, so it's the same as the base. Your unemployment might be lesser, but your house price reduction is deeper and longer because it runs into another year thereafter before it starts to come out. So you are seeing, as Shaun said, quite a different shape. And it's pretty severe when you're at those sort of numbers of 2 years of GDP reduction in an economy of...

Shaun Dooley
Chief Risk Officer

Yes. And I guess what we've tried to avoid is entering ourselves to a particular shape here, right? So because then you've all got a view, no doubt, on what the shape of the downturn could be. And this gives you -- there's a view of what a V shape would look like versus a U or an L shaped one. So...

Operator

Your next question comes from Ed Henning of CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

A couple, just a clarity one to start with. Just on Slide 24 and the risk weight density there, is that -- the 180 basis points, is that on your base case? Or is that on a severe case?

Shaun Dooley
Chief Risk Officer

That's on our -- that's our high end, our severe case.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay. So that's the top end. Okay. And then just at the moment, can you just touch on the outlook for waiving fees especially around SME? And just obviously, at the moment, it's still very early days. Can you just touch on what you're seeing at the moment on credit applications would be great, please.

Shaun Dooley
Chief Risk Officer

Yes. So I guess we've got a slide in there on Slide 8, which just looks at some of the deferrals there. So we've called out the number of approvals of business loans. So that is actual number of loans. If we sort of equated that back to the number of customers, that's running at about sort of 17,000 customers approximately. So we've got 180,000 customers across our small and medium business segments. So -- and clearly, we're getting more inquiry every day. And this is, as at sort of relatively recent date, it's not largely one number. So less than 10% of the customers at the moment have sought deferrals. You can see we've also quoted the number of customers that have been approved for business support loans, and then we've still got more in the pipeline to process. Where we're seeing those come about would be the industries that you'd expect, so accommodation, discretionary retail and trade, restaurants, property customers and so on. So that would be the major ones that we've seen. Entertainment, clearly. So discretionary retail, trade, tourism, hospitality and entertainment, we've had the highest number of deferred customer inquiries but not the largest balance.

Operator

The next question comes from Jonathan Mott of UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Just following on, I know Brian has asked the question on it as well. So I just wanted to get some final clarification on this Page 25, and then I've got a follow-up question as well. But when you go through your base case and your severe downside, the U and your [steady] shape, for want of a better word, you then weight the 2 probabilities. So am I right in assuming that just to get to the $807 million, you've got about an 85% weighting to your base case and about a 15% weighting to the severe downside? And how do you get to those numbers? Is that just the Board sits around and try to decide what they think is the most likely? Because obviously, that $807 million could be materially higher should you change the weighting.

Shaun Dooley
Chief Risk Officer

Yes. So thanks, Jonathan. It's Shaun again. So well, firstly, what we -- management does is do a series of modeling in the scenarios, and then we take that through the appropriate governance, and then we present it to the Board. And the Board will challenge management on both the assumptions and the timing before ultimately approving it. The -- what we've done is we've actually applied it on a more granular basis. We've taken effectively the stresses across all parts of the book. When you think about the nonretail book in Australia versus the mortgage book in Australia versus the unsecured book, each of those have a different weighting on the scenario because we believe that the downturn will affect customers in both retail and nonretail differently and similarly with the unsecured book.

And we've applied different scenarios to New Zealand, again, through the business book, the mortgage book and the unsecured book. So it's not right to say that you can arrive at one assumption -- set of assumptions in terms of probability. It's -- what you're seeing is the build-up of a number of different weightings that are applied between the base case and the downside to the 6 core parts of the portfolio to arrive at the total number of $807 million. We've also shocked the -- not only the PD in terms of shifting the PD, but we've also shifted the loss given default assumptions differently for each of those portfolios as well.

Jonathan Mott

UBS Investment Bank, Research Division

So this year, you said that you're making multiple assumptions on assumptions because, you look back over time, banks rarely lose money where you expect to lose it. And you look at NAB, you look at every other bank over the last 20, 30 years, models are only great, but rarely do you lose money where you expect to. You always lose money for somewhere else. So the risk is if you're doing a lot of work on the areas you expect to lose money but the risk is that you don't -- you lose money somewhere you least expected. So when you sit back here, you have to think, well, is $807 million the right number? And is that the Board's job? Who made that final decision? $807 million, does it smell right?

Shaun Dooley
Chief Risk Officer

Yes. So it's a process. Well, on one side, I take the accountability for the recommendation on the number. That's -- yes, my team have done a lot of work on sort of modeling the various assumptions in the scenarios. And then I present that through to Gary, Ross on the executive processes. And then that goes through to the Board, and the Board will challenge us on the assumptions.

To your point on losses emerging from different areas, what we're discussing here, I guess, is the assumptions that we make to ensure that our collective provisioning is appropriately set for what we know based on those scenarios so that we got the appropriate level of collective balance of provisions held. And as we've said, we've lifted those significantly. We're covering over $2 billion now of EAs and FLAs kind of provisions.

Your point on where losses emerge is an interesting one. And yes, at this stage, we're watching clearly every part of the portfolio. Every part of the portfolio will behave differently. Your observation is a good one. If you go back to the GFC, there were parts of every bank's portfolio that popped in a different way than what they expect. That's an ongoing process for us. Every single day, we're reviewing the data that we get, hearing from our bankers, and reviewing our portfolio to look for indicators of stress that might mean we might see some unexpected losses. And clearly, that's what capital is for, it's dealing with unexpected losses. The portfolio has never behaved the way you expect them to behave when you look backwards. All we can do at the moment is apply a set of assumptions around the forward view.

Ross Maxwell McEwan
Group CEO, MD & Director

I think it's very clear why. It's Ross here. These are unprecedented times. We have not seen this before. I don't think for Australia this looks anything like a GFC because you didn't have one. It -- does it go back to sort of 1991? Not sure about that either. So what we've done is stress the books [and the areas. I think] you're quite right, it will pop in some other shape that we've never seen. But that's why you have good levels of capital. It's why we've made the moves today. It's why we've taken the EA. It's why we've cut the dividend. That's why we're going after the market, because we don't know, but we want to be strong through it.

And certainly coming at the back end of this thing, we want to be strong because that's where banks want to start to look after their customers through. So you're right, we don't know where it's going to pop, but Shaun and the team, the Board had several conversations with them. This wasn't done over one meeting, had several conversations with them about the shape, was this the right number. With the information of the scenarios we've done, we believe it's the right number for these scenarios, but will the scenarios be right, guaranteed, no.

Jonathan Mott
UBS Investment Bank, Research Division

Can I just ask a follow-up question? Ross, you talked about living within your means. But when you look at it, paying an $850 million dividend to shareholders and simultaneously going out and raising $3.5 billion via an SPP and a placement at a discount to tangible book value, it doesn't really seem economically rational. And what's...

Ross Maxwell McEwan
Group CEO, MD & Director

Yes. Like I said, what we've got there, and we went through all of the scenarios around that at a 0 dividend, at a $0.40 or a lesser amount to how much capital rights, we thought this was the right balance because we're pretty close, and I think 48% of our shareholding is retail. We don't want them running out the door at the same time we're doing a capital raise. So it is the balance of that. And yes, and then it's also around the price that you get for putting the issuance when you got a stable shareholding [tender] for you. So there were a lot of factors, again, that we spent a lot of time on with the executive and also with the Board and our bankers.

Operator

Your next question comes from Andrew Lyons from Goldman Sachs.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

Just a quick question. Just on Slide 23 and your capital considerations, you note your expectation of FY '20 business lending growth of between 13% and 16%. Now you note in that, that will have limited capital implications, which makes sense. But I'm just wondering if you can talk about how that level of growth will flow through the P&L more broadly in the second half and into FY '21. Particularly just as it relates to your NIM, is it simply that your business lending net interest income goes up by that amount? Or is that NIM dilution? How should we sort of be thinking about the various moving parts as to how that flows through?

Ross Maxwell McEwan
Group CEO, MD & Director

Thanks, Andrew. Gary, do you want to pick that one up?

Gary Andrew Lennon
Chief Financial Officer

Yes, Ross, I'll pick that up. Andrew, it's a good question. And we've already seen this starting to happen because we had about $7 billion of drawdowns in March. So that was pretty rapid. And we do expect there'll be further drawdowns as we're going forward. Also, there will be a mix between SME and CIB. If you look at the overall NIM, there will probably be some mix component of that where we're doing more at the CIB end versus SME, and so that will put some pressure on the optics of the margin. But at the current time, once you're in a crisis, then you do start to see a bit more margin expansion. I know David Gall and the team at the CIB end are very focused on making sure that they're supporting their long-term loyal customers but also making sure that there's appropriate pricing for the risk that they're taking on through this period.

So on a like-for-like CIB portion, there will be increased balance sheet, and you'd expect some margin expansion through this period, but that may, net-net across the group NIM, be a bit of a mix impact where the overall group NIM might be a bit lower. But the ROEs that we'll be writing -- well, we'll only be writing business with strong ROEs. So from a capital accretive basis, then that's a good business to do as well as the right thing to do to support those customers.

Operator

Your next question comes from Matthew Wilson from Evans & Partners.

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

Welcome, Ross. Just again, sorry, a question on Slide 20. Your economic scenarios look perfectly plausible given the current conditions that we face. But the expected credit losses, even your severe case of $7.8 billion, that only equates to 128 basis points of your loan book. When I think back to credit cycles I've seen and the ones that you've seen, Ross, and indeed the one that your Chairman has seen, 128 basis points is very low given we apparently live in unprecedented times. Can you help us reconcile, perhaps give us some more detail on what PDs and LGDs you've assumed to come up with that number?

Ross Maxwell McEwan
Group CEO, MD & Director

Yes, we will. Shaun is just picking up the assumptions we've made in some of these areas right now to take you through that because we think we're actually in pretty good shape for this.

Shaun Dooley
Chief Risk Officer

Yes. So thanks, Matt. What I would say, and we won't go through the economic assumptions again because I think we've covered those, but I think if you then think about what we've done in terms of our PDs and our LGDs, we've applied what we believe to be reasonably significant or material sort of shocks to the portfolio both in terms of shifting the scenarios and then also stressing the LGDs. So I don't really want to go through each set of assumptions for each portfolio to say that -- other than it's pretty granular. We've clearly looked at sort of what's happened in sort of other downturns. What I'd say is the loss profile is clearly different for each downturn. If you go back to even the GFC, the books were very different then. You recall that sort of housing assets, for instance, were only about 25% of total banking system assets. Now you roll forward and you've got literally an inversion of the banking system from what it was then. So our housing assets are probably on average 70%. And clearly, the loss rates on housing, typically being more secure than business, has always been much less than business. So you've got that explanatory factor.

You got a very different situation in the GFC, where you saw a lot more institutional and sort of financial sector losses that emerged. What we don't know yet is clearly the impact of the various government interventions. In prior cycles, you've not seen government weigh in, in the way that they have on support for business. And similarly, the programs that each of us and our bank particularly have done to support our customers have -- you've not seen those implemented in prior cycles as well. So we formed a view on our assumptions based on a range of factors, which I've outlined. And I think the comparisons are interesting, but they're not really driving our thinking for the reasons I outlined.

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

Okay. And just one other question. Is it possible to get a breakdown of the expected credit loss number of $3.9 billion at the end of 2019 across housing business and other, just so we can understand the delta in the half? Because it's very clear going out that housing is the vulnerability going forward if the severe case manifests.

Ross Maxwell McEwan
Group CEO, MD & Director

Yes, we'll talk to Sally about what we can do in the context of what's already disclosed in the Pillar 3 reports, but we'll come back to you on that. Thanks very much.

Operator

Your final question comes from Brendan Sproules from Citi.

Brendan Sproules
Citigroup Inc., Research Division

I just wanted to follow on from Matthew's question around the losses. Particularly when you look back in the history of the Australian banks, the real losses have actually come historically in commercial property. And that still remains one of your largest nonhousing exposures. Now in the GFC, APRA has now been able to summarize that something like 5% of major bank loans in commercial property were in default. And on average, asset prices fell 25%. And now that was a lot higher, say, in the U.S., where they did have double-digit unemployment and had something like 40% fall in commercial property. So could you just help me understand how these scenarios compare to the GFC in that particular sector? And particularly, I guess, SME in most of those loans are going to have some sort of security, I imagine there's quite a bit of commercial property that feeds into the LGDs there, and if you can give us a feel there for that second-order effect.

Ross Maxwell McEwan
Group CEO, MD & Director

Yes. Well, I'm pleased we've got you last. Thank you for that.

Shaun Dooley
Chief Risk Officer

Thanks, Brendan. And yes, look, I agree with you, and you're right. I think what I would say is that in our modeling, we've certainly -- we've taken the total commercial real estate portfolio. We've segmented that. Some parts of the commercial real estate portfolio will be less impacted. So let's say, for instance, industrial will be essentially less impacted than, say, commercial real estate that is attaching to tourism or accommodation or others. So we've segmented that and we've applied different stresses on those parts of the portfolio by applying different LGD shocks and PD shocks, those that we described.

So we've not taken a one-size-fits-all approach across the CRE book because we don't think that would reflect what we expect to occur. But what I would say is that part of our commercial real estate book we are clearly focusing on and watching very carefully because of the challenges that are being presented to that sector. The portfolio of the book is different from what it was in the GFC. Don't forget, we don't have a U.K. commercial real estate book anymore. That's been a significant shift in the book as well. It's a pretty well-diversified book. As you said, it's pretty well secured. The proportion of our book that's in development is pretty low. That's been falling over time. That's running down to about 11%. And certainly in terms of residential development, as we've called out in the slide, that's been falling as well.

But I think your point is a very good one. Commercial real estate will experience stress in various parts of the portfolio, and we continue to watch it very closely, and it's been a strong consideration in our EA.

Ross Maxwell McEwan
Group CEO, MD & Director

Okay. Thanks, Shaun. Then I'd just make a couple of comments to finish off. So I think we're just about running out of time, and I think we're into our other session straight away at 12:00. But first off, thanks very much for joining us on the call today. Thank you also for going through the material because I don't think when you woke up this morning, you'd be expecting us to be coming out with our results, capital raise and the strategy about 10 days early. But my view has always been take the decisive moves and get on with it once you've made the decision. And with the EA changes we've made or taken, the capital we're raising and the dividend reduction, we are wanting to put this bank in the best position both to help customers through what's unprecedented times but also to make sure we come out of it strongly.

We do have a plan for the bank, and we're starting to use that plan to drive our decisions and our actions. And as we've spent the last 6 weeks, we've been using some of our future thinking around how do we look after this bank and its customers based on the portfolios we want to move quickly with. We're making some structural changes to actually get this bank to make decisions faster through a better end-to-end decision-making process. And we're looking to actually execute faster than we have in the past. We've got great assets, and we need to start using those much better than we have as well.

So thanks very much for your time. Appreciate it. And sorry about the disruption to your day on a Monday. We'll keep talking.

Gary Andrew Lennon
Chief Financial Officer

Cheers.

Ross Maxwell McEwan

Group CEO, MD & Director

And thanks, Gary and Shaun.

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