Question and Answer

Ross Brown

For the benefit of those on the phone or the webcast, if you could just wait for the microphone and state your name, the organization you represent. Why don't we start with Victor.

Victor German
Macquarie Research

Two questions if I may. The first one is on expenses. So we've -- Andrew, you talked about if opportunity presents wanting to spend more. We potentially makes a slightly better revenue environment on the back of some repricing initiatives that the industry has done. Should we take that as potentially higher expense base of what's the market currently is sort of expecting, which is broadly similar to last year?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Okay. Can we get the second one?

Victor German
Macquarie Research

And the second is maybe a question for Andrew on Business Banking. So I think, Andrew, in your -- one of your slides, you've highlighted that there's improved collection in the Business Bank. Yet the noninterest income in the Business Bank is still lagging interest income. Just want to understand why that's the case and where do you see that going forward? Do you think as you sort of continue to pursue that path we should expect better growth in noninterest income rather than interest income?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Okay, so what I'll do is I'll answer the first one. Gary, you can add, and I'll let the others and Angie [indiscernible] their name, you can add. How's that? So on the expenses piece, so what we're saying is, look, we do see real opportunities for sustainable cost out in the bank. There is -- we need to get leaner given the environment, and we can get leaner. But we want to do that sustainably. And importantly, we see opportunities to invest because we've got businesses that actually are stronger and clearer and simpler and ready to move forward. So we do see it as building a sustainable bank, taking out costs, doing it sustainably and then investing it back into where we can grow. So we do see both. And the guidance that we're giving is we still believe positive jaws are the way to keep managing the bank and our commitment to positive jaws over the full year that we're recommitting to today. So really it depends a bit on the revenue environment and how that goes, depending on what the cost number needs to be and what the reinvestment can be. But positive jaws, cost out, yes, but reinvestment. That's what we'd like to see as the recipe. Gary, your add?

Gary A. Lennon
Chief Financial Officer

I have really 1 point to add. As Andrew went through, there's a whole raft of opportunities, whether that's increasing our level of investments in productivity initiatives that will then drive greater benefits down the track or investments in the migration, the digital offering, customer journeys, which we think is going to fundamentally change the customer experience. So we do. And our pilots from over the last 6 months is reinforcing that these opportunities are absolutely there; they're absolutely real, and the potential is possibly great. So we don't want to have a cost focus that is not investing enough in those type of opportunities.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

And on your second, Victor, I'll start, Angie, you can add. I think what you're seeing is the benefit from our focus back on our core businesses in Australia and New Zealand, simply cleaner, and we can get back to the capabilities in our Business Bank and building it and building more muscle. And -- but one of the things we've been wanting to do, and Angie has been leading this strongly, is not just -- to have bankers not focused just on lending. We need to look at the whole of the customer opportunity, and we need to focus them on returns not just NII. So I think what this has been is a broadening to get more fee collection to say, "Look, it's not just about the prices, not just about the rate and there's other products and services that we can wrap around in that relationship." So I think it's a part of that process. So I don't think we can say how the mix will change, but I think you can be assured that we're going to continue to focus on not just lending, fee collection and fees and other products and services that we build around the customer relationship. Angie, hopefully you can add to that.

Unknown Executive

Thanks. Is this on?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes.

Unknown Executive

Yes. So it was -- we were down about $5 million for the half, so about 0.9%. Some of that was fees, account fees and just the seasonality in the collection of those. And also, industry retail FX margins are tightening and FX volumes decreasing. But on the positive, you saw in the results, we are increasing our fee collection on the front book and also the amount of products that we have, as Andrew said, in terms of focusing on the whole of the customer relationship.

Ross Brown

Do you want to pass the microphone to Jon? Thanks, Victor.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. One of the highlights of the result is the strong capital generation that you called out and the risk-weighted assets going backwards. So I wanted to touch on that if I could. So I'm going to go over to the result pack, Page 96, if I can just take you over there and just call out a couple of numbers.

Gary A. Lennon
Chief Financial Officer

You mean ROE or -- what you gave us...

Jonathan Mott
UBS Investment Bank, Research Division

So one of the things we can see there is credit risk-weighted assets down about 4%, which obviously you've been talking about focusing customers on ROE and getting the risk-weighted assets down. But next to it, you can see total exposures. Total exposures actually rose by 4% during the period. So we're getting a period where exposures are rising, risk weights are falling. And you called out the corporate book, exactly the same trend as being seen in the corporate -- in the book as well. So can you run through why you are seeing this phenomenon of exposures rising? And also, if you look at Pillar 3, exactly the same as your hedge position as well, exposures rising but risk weights falling. So that's the first part. And secondly, if you are focusing on reducing risk weights, and you talked about there's more to go, can you give some flavor of how much more have you got to go in this process? Where do you think you can get to from optimizing your risk-weighted asset position?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So Gary, why don't you kick off?

Gary A. Lennon
Chief Financial Officer

Right. Jon, thank you for that. Look, there's quite a few things that were going on to get that outcome. The first thing there's a big mix component when you're looking at the increase of EaD versus risk-weighted assets, so there's been a big growth in repo, which is low risk-weighted assets. Growth in mortgages have a different sort of concentration of risk-weighted assets, so that's playing out. And there is differences in that growth versus what's happening in risk-weighted assets. The key drivers for why the risk-weighted assets have decreased, there's probably 4 I'll call out. So asset quality has been a significant driver. Part of that is mix; part of that is just fundamental credit quality's been improving. And the tenor of the book has actually been coming in as well. So we've had multiple factors that have resulted in similar EaD, but different mix, better credit quality and the tenor coming. And that's about $6.9 billion of the change. We had some credit hedging this period where we had some real derivative-related CBA exposure that we hedged. And so we took that risk off the table. That gave us about $4 billion of benefits. There's about $2.8 billion which is purely FX. And also, and you'll see it in the Pillar 3 as well in the other category, we did have a receivable at year-end of about $2.2 billion associated with the sale of an insurance business. That came in, in the first quarter of this year, and that gave us another $2.2 billion reduction. So you add all that up, it's about $15.9 billion in decreases, offset by a net growth, and so you can see the number. It is laid out on Slide 101. You can actually track that through on that slide.

Jonathan Mott
UBS Investment Bank, Research Division

So of those -- the recurring bit from there would have thought that credit hedging wouldn't be too recurring though with the FX. So the biggest change there is asset quality. So it really comes down to what goes on with the asset quality. As you improve, the mix quality and surely tenor, shouldn't that be reflected in the lower NIM?

Gary A. Lennon
Chief Financial Officer

Well, that's one of the challenges. We have to make sure that we continue to reprice and balance that up, that we're getting the right NIM outcome as well as -- and as I mentioned, we've been managing multiple tradeoffs. That's exactly one of them. Because you do run the risk of losing NIM if you're shortening the tenor, and we have been generating less revenue because of that tenor shortening, but we're actively repricing the book at the same time.

Ross Brown

Andrew Lyons. Jon, do you want to pass the mic?

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman Sachs. Just a question on margins, particularly funding cost given the apparent divergence that appears to be playing out on the funding cost sector at the moment. Your experience on funding cost appears to have been sort of the impact on margin has been broadly neutral. I actually note that your deposit revenues were up in the half. Can you maybe just discussed these trends in a bit more detail and particularly how those funding cost trends played out through the half and into this half?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Well, maybe I'll just briefly mention -- you've mention deposit cost, Andrew. Gary, you can go through that piece, but funding cost. But I think we've been -- the overall picture is we're focused on returns. We're focused on NIM overall. And on the lending side, obviously, we've had the benefit of some repricing we've done. You've seen that in the home loan book, but also in the business book, we've continued to do that. And you can see the NIM in the Business Bank has actually gone up. So I think this points to one of these things that -- I think customers actually do value the right banker, the right service. Price isn't the issue for all customers, right? So our ability on the lending side to really give the right service proposition, do things at the right time, and in the Business Bank really have that whole service proposition enables us to really keep making sure that the NIM on that side really helps us as we get funding cost pressures because they will be more volatile. But on the funding cost and deposit cost, Gary, what would you answer to Andrew?

Gary A. Lennon
Chief Financial Officer

Yes. So there's a few pieces that's going on. So you're right. There's funding costs, as you'll recall, in prior periods started to go up, so they've got to quite an elevated level. They are starting to come back slightly. So if you look at the wholesale markets, they're a bit better than they previously were. Now deposit pricing and deposit costs are a bit better than they were. Some of the short-term wholesale rates, bills, [always spreads], et cetera, around are stabilizing. So that's sort of net-net a slightly better outlook for funding cost. What's heading the other way that many do not appreciate, this is very much interlinked with an NSFR of 108. We've had to also at the same time, whilst if you look at individual rates, we have to term out the book. So we've been increasingly terming out the book, whether that be on the deposit side or on the issuance side, and that's sort of offsetting somewhat the optics where you're seeing lower funding because you end up in a very similar position with a longer tenor.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

And is that ongoing that tenor now? Is there still more of that to go?

Gary A. Lennon
Chief Financial Officer

I think it will be a feature but at 108, at a minimum of 100, we're feeling pretty comfortable where we're at. We're in discussions with APRA nearly as we speak about what's well the appropriate buffers we need to have in place. But we're not certainly -- it will be moderated and modest, would be the way I describe it.

Ross Brown

I think there might be some questions on the phone. We can take them now, please.

Operator

[Operator Instructions] Your first question comes from Craig Williams with Citi.

Craig Anthony Williams
Citigroup Inc, Research Division

In this result, we see a flat revenue base for the group ex a pickup in market from 3 3 in the period despite some [minor repricing] and mortgages as your largest asset class still growing at sort of 2x normal GDP. It's probably expected that credit rate will likely slow, considering the regulatory focus on the property market at present, and bad debts would appear to be stable but already at relatively low level. But recognizing this revenue backdrop and the fact that you're the large [authorization] we just sort of experienced favorable market conditions over 10 to 15 years, is there opportunities to push much harder on expenses as a lever for earnings growth? Are you being radical enough there? And is the reinvestment that you're making sort of required to keep pace with competitors? Or is it perhaps an opportunity to change some of the focus around the levels of reimbursement that you're making in the business, please?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Thanks, Craig. It's Andrew speaking. So firstly -- just on your first point around revenue. The core revenue of the bank actually did lift in the half $90 million. So that's -- we are getting growth, despite limited GLA growth, and holding the margin. But coming to your broader point, we do see opportunities for cost-out. I mean, I reiterate the point I make in answer to Victor's question. But I think -- now, look, this bank has been around 150 years, and our job is to manage it for sustainability and -- so that during our term of leadership we make it stronger. It isn't our goal to shrink this bank so that it doesn't allow our customers, particularly in the business and corporate space, to grow and expand and help Australia grow. And a lot of businesses have got good balance sheets. And with the likes of proximity to Asia and still the outlook for China and India being positive, we see opportunities. So yes, we see cost out. And I suppose if the revenue environment really turn down, we would have to reevaluate our ability to do positive jaws. But we are saying positive jaws is what we're recommitting to. But the -- some of the cost out is just making sure that we've got the right amount of people for the size of business we have today, that as we do customer journeys and process automation we need less people to actually do things and elapsed time really reduces. And we're investing it into the areas like digital, into newer and simpler products. And we mentioned things like QuickBiz, which I think is a market-leading proposition. And we are investing it in our people to have better bankers, better technology people, better marketers, better product people so that people who work in our bank are proud of being in a bank that actually helping Australia go forward and to grow. So in short, if we needed to be more radical, we could be. And I think we're building a bit of muscle and strengths in where we see cost opportunity. But our strong view certainly at the moment is we see opportunities to invest it to grow and take a longer-term view of the businesses that we have that are in good shape, reflecting generally the prospects for our clients.

Operator

Your next question comes from Azib Khan with Morgans Financial.

Azib Khan
Morgans Financial Limited, Research Division

A question on cost and a couple of questions on home loan volume. Andrew, on cost, if I take a look at the infrastructure component of the investment spend, that's obviously reduced as PBOP has been completed and deployed. Is today talk about redesigning and different customer journeys, so can we expect that infrastructure run rate to pick up over the next -- or tick up over the next couple of years? And the next couple of questions on home loan volumes. Gary, you talked about the decision to lower front-book discounting is one of the reasons for subsystem home loan growth. But we're seeing similar reductions in front-book discounting right across the sector. So is there something else that's causing that subsystem home loan growth? And last question on institutional lending. Can we expect your new institutional lending to not be more than 30% of new lending in the second half?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Okay. So, I'll --

Gary A. Lennon
Chief Financial Officer

You want me to do the first one?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Okay, you got the first one.

Gary A. Lennon
Chief Financial Officer

So, yes. The first one on the outlook of the infrastructure spend. And you are right. So in prior periods, we've had a higher degree of infrastructure spend whether that be PBOP, data centers, new service, et cetera. So that is starting to decrease over time. We do have a new payments platform that is getting heavily investment in that space currently. That will be a program that will continue into the next half. In terms of where we're probably going to be increasing our investment, and you referenced customer journeys and others, that wouldn't be requiring deep infrastructure because really it's looking at end-to-end process reengineering, leveraging digital capability, leveraging process automation and it's less about the infrastructure spend. So I actually think the category that's the -- the productivity and efficiency categories is the one that would start, hopefully, increasing more in future periods and infrastructure coming down slightly.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

And here, I was getting ready to go over the cost question. But -- well done, Gary. So on your second ones about home loan. So firstly, in the half, you can see the market share bars, and we've come through in the end. We've got -- we're at or just above system. And look, the -- given all the changes in the system that the regulators, et cetera, have made, these numbers and reclassifications, there's a lot of moving parts, and I don't think any particular month now is very indicative of the situation. You got to look over a quarter or a half. So overall, we're running around 0.9, I think, for the half. We're happy around 1. But we did have -- I think one of the factors for us was the implementation of our Personal Bank Origination Platform through all our branches and all our contact centers and performance centers. This was a massive change for the bank and for bankers, 8,000 people. And so we did go through some challenges there where the volumes and the time to yes wasn't where it is today. So -- and I think we've built up more momentum, including in the business and private bank. So I think that's that one. And on interest only, I think your question was when will we get there? Well, I think the current requirement is by the September quarter of this year that we have to be at 30% of interest only, and so we will achieve that.

Gary A. Lennon
Chief Financial Officer

Andrew, just 2 other quick points on the second question there on what was going in the first half. There were some -- there were also in addition to PBOP, obviously, getting underneath the investor cap, so that was certainly front of mind that we have to pull back and make sure that we were compliant with that. And we did make some risk-setting changes during that period around nonresident that I think was pretty well publicized. So there was a few other factors that were impacting flow in the first half. But we're largely through that now, just see by the last couple of months.

Operator

Your next question comes from David Spotswood with Shaw and Partners Limited.

David Spotswood
Shaw and Partners Limited, Research Division

Just a question on your cost. The FTEs, are they still falling in the second half, like they were down 711 in the first half? Are they still falling? And just on the repricing, are there expectations that the repricing that you've done already will have a reasonable impact on the NIM in the second half, 2, 3, 4 basis points?

Gary A. Lennon
Chief Financial Officer

Okay, thanks for your questions. On the first one, FTEs. Yes, we have had a good progress on declining our FTEs off the back of the product to the agenda in the first half, so they're down 711. We have a series of further initiatives to go in the second half, so it's difficult to say exactly what the final outcome would be. But I think it's a fair assumption that we're looking to continue to decrease our level of FTEs as our productivity agenda plays out over the course of the year. On the first question on the outlook for NIM and specifically of the back of the reprice, obviously, that will be a benefit for us in the second half, repricing NIM. There is still headwinds within that as -- whilst the front-book discounting on SPI we're being disciplined to come back in, we're still at the stage where the average for the back book is still lower than the front book, so that's got a bit to play out, so there will be some headwinds as we play out on NIM. And funding costs, it's a fickle thing to try and predict what funding costs are going to do in the second half. So depending on what they do, we'll then determine the final outcome. So I suspect there will be ups and downs. So you can form your own conclusion on where you'll get to.

Ross Brown

Okay, we'll take a question back here in Sydney. Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. If you look at the trajectory of your payout ratio, it's falling around about the 1 percentage point per annum. It now has tick down to the 80% mark. And if it's on the current trajectory, it's going to take a reasonable amount of time to actually get back into that 70, 75. One of the key headwinds to that is the fact that you have increased share count each period from the DRP. If you look, your capital is now above that sort of magical 10%. Was there any thoughts to neutralizing the DRP through buying shares on market and to accelerate getting that payout ratio within the 70% to 75% range?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So why don't I just -- I want to restate some principles again for dividend payment. But then, Gary, you can talk about that last -- the specific question. Jarrod, one of the things we talked about at the last half was the board making decisions around a number of criteria about the dividend and ROE, the absolute capital level and obviously risk-weighted assets growth with this sort of subjective earnings outlook and outlook generally. So the board's done that, obviously, this half, and they're very confident paying out the $0.99. Obviously, that can't be a predictor for the future because those criteria are the same, but the circumstances may change, including the outlook. But that was the basis. The board made the decision this half like they did last half. So that's quite a clear set of criteria that we go through to make that decision. But on the specific question, Gary, what would you say on that?

Gary A. Lennon
Chief Financial Officer

Yes, again, consistent with that, Andrew, and consistent with what we talked about last half, your starting point has to be capital. So the payout ratio is an important metric, but it's not the only metric that will look at. And when you're at 10.1, and generating 41 basis point of capital in the half, you're in a pretty strong position even with a dividend payout ratio just under 80. So that's where our starting point is. Our franking credits are still strong. I think they're about $600 million still, so we still have plenty of franking credit capacity. And we did -- it is -- every half, we talk about what do we have in terms of options around capital management strategy. You look at things like DRP as being a possibility. The decision this half was very much it would be premature to be front loading what could come out on unquestionably strong. So I think that is the key piece of missing information that we need to see what that looks like so we can calibrate where our absolute number of 10% compares with where we think APRA might want us to go, whether it's enough or whether it's going to be more required. Now depending on that answer, then it might come back on the agenda.

Ross Brown

We'll pass the microphone to Richard.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. Andrew, since you took over, you must be pretty happy with your performance on capital derisking cost. So I've got some questions about growth prospects. Firstly, do you think you can accelerate revenue growth from here in the current environment? Secondly, in mortgages, given that the market has fundamentally changed, why is it so important to grow in line with system? And thirdly, in the Business Bank, specifically in Business & Private Banking division, your loan growth in business lending was about 1% in the half. What contribution is coming from those specialized businesses?

I think that Slide 20 you pointed to the growth in each of those segments. But overall, how much growth is coming from those specialized segments? And why you're not getting any growth in others? Others at 0. So why no growth in your...

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Overall?

Richard E. Wiles
Morgan Stanley, Research Division

Yes, other business lending grew or didn't grow in the half. Why you're not getting any growth in our other business lending?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Okay, so why don't I'll go on the -- you've got 4 questions there if I count it right. The broad revenue outlook and mortgages, and Gary, you pick up on the business bank ones, and I'll come back and add anything. So what I'm presenting is like there's risks and challenges. And so it's very hard to say what that environment is going to yield for us in terms of revenue growth. All we're saying is that revenue growth is a real possibility, given some of the fundamentals of corporate balance sheets, business confidence, low unemployment, low rate and actual GDP growth. And our business clients, corporate clients, actually quite well positioned and reasonably confident need to see that they can invest with a bit more confidence given the volatility in the world, including some uncertainties in Australia. So I think we're just saying that there is fundamental factors that in our business and what we see from our clients, it actually leads us to growth is possible. And also, I think we are guided by the positive jaws piece. So if revenue is a bit lower, we're going to have to adjust the cost line a bit lower. So that gives us a little bit of a barometer into how we should think about this. Right? But we do see opportunities, particularly in business and corporate, infrastructure, energy, agri. I mean, the agri sector is in tremendous shape. Health -- and provisional services in Australia continues to grow. I mean, the whole economy is being reshaped, and it's going to continue to be the case. And so as that's happening, there are real good businesses that are in good shape and that are growing. So that's why this is not -- this has got substance behind our position here, but positive jaws guides us. On the mortgage side, well, I think we -- the first thing about mortgages, I mean, that's a product. What we've got at the other end is a client, a customer who says, "I would like to buy my first time. I would like to upgrade my home. I'd like to buy an investment property for my wealth creation future." So we've got real people out there making these judgments that we're helping them with. All right. So -- and part of our long-term goal is actually to -- actually help customers do that. That's the motivation of the bank. Now mortgage themselves, one, we have actually made some more conservative settings over the last couple of years, so we feel okay about that. The ways we've dialed back foreign and inner-city apartments and investor. Now we've wound those back, lower LVRs, better LTIs. So look, I think we've done a lot, and we'll continue to be prudent. We're not driving to onetime system as a slavish thing. We want the quality. Right? So we really want the quality of the client. And also, we see the opportunity around the mortgage. I mean, you see it go back to the client. The client's buying a home or investing. And around that, they have other financial needs. So we see opportunities, the superannuation, credit cards, transaction accounts, mobile app, all of things that hopefully make that customer a loyal, long-term NAB customer. So the mortgage is like a really important single event that you then get, if you do it right, the ability to have a customer for 10 years, 20 years or more. So that's why we're interested in mortgages, although we are noting the risk, and we're saying we want to get the right clients. So that's what I'd say on the mortgage piece. But if we were concerned about quality, we would run at less than 1x system, not [indiscernible]. We would grow how we felt we needed to, to get the right client with the right risk profile. Gary, on the business, please.

Gary A. Lennon
Chief Financial Officer

Yes, Richard, on the business side?

Richard E. Wiles
Morgan Stanley, Research Division

[indiscernible] prior segments getting good growth in government, health, agri, how much has that contributed to overall growth? And then why in other are you getting no growth?

Gary A. Lennon
Chief Financial Officer

Yes. So look, the broader answer here, Richard, we would be preferring to get more growth in Business & Private Bank. The SME system growth currently continues to be subdued and continues to be patchy. And as Andrew sort of talked about, a lot of the activity is starting to come through service sectors, agri, et cetera, and we're well placed for that growth. What we really want in future periods, going back to your top question of revenue growth and where it's going to come from, we need that positive outlook around business conditions being at 9-year highs starting to translate across the board for our SME customers to want to grow and wants our support for them to grow. At this point in time, we're not really seeing much of that. Now we have made some decisions in the other part around CRE, so we're been pretty circumspect about CRE. But for the rest, we want to be growing more, and that's really the essence of it currently. The growth is turning up in our specialized spaces. We do have good capability in those areas, and we are growing. But we'd like to see more growth across the board. And it's still pretty modest to date, albeit there are some green shoots that we're starting to see for the second half.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

And on the contribution, we might have to -- if you want, I will have to get that for you specifically. But I wouldn't say, it's not the dominant part of our book because things like retail and manufacturing, obviously, are going through some difficulties. That's probably not growing. But we certainly see this is positive ROE, really good market positions, particularly in agri and lots of other product opportunities around it. So that's definitely where we want to grow. Did we cover everything? Yes, Richard? Thank you.

Ross Brown

Okay. Okay. Next question from Brian. If we can limit them to 2 going forward, it would be great.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Or it was 1A, B, C, D. That's how I [got] it.

Brian Arthur Johnson
Barclays Bank PLC, Research Division

There will be subsets within...

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes, we know that Brian.

Brian Arthur Johnson
Barclays Bank PLC, Research Division

Andrew, I never ever thought 2 results in a row, I would say congratulations on a great result. That comes after 24 consecutive results where the opposite would have held true. But that being said, I have.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So close to a positive, was it?

Brian Arthur Johnson

Barclays Bank PLC, Research Division

No, that is a huge positive. It's the delta that matters. Just 2 questions if I may. The capital improvement that we've seen is stunning. I still don't understand how quite you got rid of the nonrecourse debt problem. But what I would be intrigued on is that if you were to go to back to the Standard & Poor's report that came out last year where all of the banks were well below its methodology risk-adjusted capital ratio, we've got the regulator basically saying that [Basel] could be a long way away, so we're going to look at these measures. But in that report, it was saying that if -- and all the banks were weak on the 10% benchmark that S&P set, but all of the banks were basically short of the 10% target to justify the AA- rating. But what it also said is basically that if Australia was to lose its sovereign rating, then over and above that gap the banks would all be $16 billion short of capital. Can I just get a feeling from you, is that if you are faced with Australia losing its sovereign rating, the -- what do you do? Do you just basically lose and accept the fact that the cost of debt goes up quite a bit? Or do you basically respond by quite a substantial top-up in the capital ratio? I think there's a logical answer there, and it's not the capital, but I'd like to hear it from you [indiscernible]...

Gary A. Lennon
Chief Financial Officer

Leading the witness, excellent. And we've run this scenario, of course, and other scenarios. So our current view, and it's obviously going to be caveated by look, it depends on the circumstance at the time, but our expectation is that if we did -- if the government did lose the sovereign rating, we would go down 1 notch. But we do not think -- and your last part of your -- premise of your question, that, that would have a major impact on rates. We think a lot of that is largely factored into global markets currently, that there will be a point in time when the sovereign will get downgraded, and we will get downgraded. So we don't actually think it would have a -- at a 1 notch a significant commercial outcome for us. Obviously, we'll run the numbers and do the scenario circa what would it take in additional capital to get that back. And my sense at this stage is that those numbers wouldn't add up to actually [indiscernible]...

Brian Arthur Johnson
Barclays Bank PLC, Research Division

So is it of the order of 10, 15 on the new wholesale funding, similar?

Gary A. Lennon
Chief Financial Officer

Well, in terms of -- I don't think, [Shawn] might have a better number. I don't think it's even that much. Do you have it, [Shawn]? If we lost 1 notch down, what do you think the basis point impact could be?

Unknown Executive

Well, it could be a movement of maybe up to 10 basis points, but I think the other thing that you need to think about is capacity that could come into the market. We still have very highly rated credit relative to the rest of the world. We've tested this with investors around the world in terms of their response, and I think we see good support for the Australian banks. But trying to predict what would happen in terms of margins -- and it would really only apply to offshore margins, not domestic margins, it's very difficult to forecast, but you'd expect to see some [more] I think. But it's also going to be driven by macroeconomic events as well.

Brian Arthur Johnson
Barclays Bank PLC, Research Division

The second question is, when you actually have a look at Slide 22, you've given us a feeling for the current mix on the loan-loss charge, the current mix of business historical loan-loss charge. You can see the current loan-loss charge is actually well below that level. But even if we have a look at the 14 basis point loan-loss charge, there's a fairly substantial increase in the collective provision overlay, which I think is on Slide 10. I'm just wondering, is that given during this period, you can't say it, but you probably have fairly substantial top-up requirement for Slater & Gordon. Over and above it, you've got the overlay. But then when we I have a look at what's going on in New Zealand where you've also booked substantial collective provisions in the past, the loan-loss charge, what is the prospect for ongoing write-backs basically coming through?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Right, okay. I was wondering where the question was going to. So yes.

Brian Arthur Johnson
Barclays Bank PLC, Research Division

The loan-loss charge they're really, really low.

Gary A. Lennon
Chief Financial Officer

All of our lead indicators currently -- and that goes from the -- you look at what's happening in the economy, what's happening in business conditions, what our own metrics tell us, does say the outlook is pretty similar to what we have today. Now we have certain pockets that are improving or certain pockets that are deteriorating slightly. But you have dairy, where -- again, which is improving. We think over the next 6 to 12 months, hopefully, if that dividend of 6.40 translates to cash, which all indications are, that will help a bunch of our dairy farmers. And that should over time mean that there's a rerating that has risk-weighted asset benefits and has collective provision write-back benefits. As and when will that happen, in the next 6 to 12 months. On the flip side, we've talked about a little bit of mortgage stress. That could generate some increasing sort of CP of the back of that. Mining seems to have stabilized. So there's sort of ups and downs across the portfolio. But in the broad, Angie's business in SME heartland, credit quality continues to be very strong. And if anything continues to improve through this process, so...

Brian Arthur Johnson
Barclays Bank PLC, Research Division

That [indiscernible] of that New Zealand impaired no loss there, with the collective provisioning on that could be released in 6 months top?

Gary A. Lennon
Chief Financial Officer

That will be the optimistic view. But I'd say, I would go 6 to 12 months because it might take a while for those cash flows to flow-through to deleveraging and everything...

Brian Arthur Johnson
Barclays Bank PLC, Research Division

Also conveniently probably when you need it.

Gary A. Lennon
Chief Financial Officer

All right.

Ross Brown

I think we have a couple of more questions on the phone, so let's take them now, please.

Operator

Your next question comes from Matthew Wilson with JCP Investment Partners.

Matthew Wilson
JCP Investment Partners Limited

Can we get NAB perspective on whether or no you could [share] with the market the breakdown by mortgage [values] of loan-to-income ratio in the book? And secondly, given your exposure to the sort of nonbank financial warehouse facility space, of the recent events has HCG in Canada caused any change of thought in that part of the market?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

All right. Matthew, it's Andrew speaking. I might get David Gall to add something here on the first point around loan to income. I think we've got lots of information in here, but maybe David has some more. But on the warehousing, I have a start if that, and then David or Gary can add. But the warehousing piece for mortgages, that -- our number has been fairly stable over the course of the last year. It hasn't been -- I think it's about 10.5, and we have some very -- $10.5 billion. We have some quite stringent requirements around all that, and the quality in there that we're seeing is fairly consistent with our own. So I think we are -- that that's piece. And David, on the LTI piece, would you like to answer Matthew's question on that?

David Gall

Look, I would. We do have as a risk setting an LTI measure. It's a complementary risk setting to all the other measures that we've got in place, so this is for mortgages. Our LTI that we look at is above and under 6. And on that measure, we've seen that reduced over the last 18 months from approximately 12% to 8% of flows now. So that's well within our risk tolerance.

Operator

Your next question comes from Brett Le Mesurier from Velocity Trade.

Brett Le Mesurier

In the group as a whole, you're talking about achieving positive jaws at [indiscernible]. But the wealth business seems to be particularly problematic on that front. Over the last year, we've seen income fall 2%, expenses increase 3%; in the last 6 months, income fell 4%, and expenses were up 8. What's the outlook for the wealth business? Can you achieve the same outcome in the wealth business as you're hoping to do some with the group as a whole?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes. Okay, let me start, Brett. Gary, you can add. So I think the first thing is that our target around positive jaws applies to the group. It does not apply to businesses. We think of it as a portfolio, and we want to invest in different places. Second, on the consumer bank and wealth piece, well, that has been impacted by the NIM decline in home loans over that year. Although as I said, it stabilized in this half. And with the allocation of cost into that business, particularly the Personal Bank Origination Platform, other technology investments like the new payments platform, that business because of its nature is bearing the burden of that. And there's other corporate allocated cost, which are obviously are going to that business as well. So I think that would be my response to that, Brett. And we, as I said, we really see this as a good business. I mean, the wealth part of it now is obviously mainly on the distribution side, and that's provided significant capital relief for us with the sale to Nippon of the insurance business. But the opportunity of main bank revenue growth and digitization and changing distribution are quite significant for us here. So we do see opportunities in this business. But we don't think of allocating positive jaws as a target for businesses themselves. You want to add anything? Sorry, Brett, wait, Gary's just going to add something.

Gary A. Lennon
Chief Financial Officer

Brett, just to add a couple of specific wealth things. And there's a good reason for why we don't push it down to a divisional level because you do get exposed to such things like the wealth business has been exposed in many periods recently with just as an uptick in regulatory spend, where there's been imposed by the [regulators], we have to do a whole bunch of things. And that's impacted the wealth business, again, this half. You would think there will be a point in time when we're through the hump on that, but -- and hopefully that will give some tailwinds for that business. On the revenue side, yes, I think industry-wide there's margin pressures around the wealth business. But on the contrary, there is inflows that are occurring and market growth, in terms of market growth is somewhat an offset. The bigger longer-term opportunity is this connectivity with the consumer bank and wealth and really unlocking those opportunities. And that's where -- in terms of positive jaws, that's where we hope to see it delivering from the Consumer Banking & Wealth division together working as 1 team, not 2 separate divisions.

Brett Le Mesurier

Can you tell me what proportion of the expenses being [indiscernible] are outside of this [indiscernible]?

Gary A. Lennon
Chief Financial Officer

Oh, I haven't got them on hand.

Ross Brown

Okay, we'll come back to Sydney. Scott?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. 2 questions. First one on capitalized software. The balance there continues to grow versus peers where it seems to be leveling out or, in fact, declining. So just some thoughts there to what extent you got some amortization catch-up related to peers providing some kind of headwind to cost growth going forward? And to what extent can you potentially exceed that $200 million efficiency run rate to potentially offset that?

Gary A. Lennon
Chief Financial Officer

Yes. So well, let me just take it. So -- well, I think all of the premises of your question are correct. So we do continue to invest particularly in the new payments platform and in PBOP new digital capability. All that does add to the software capitalization. There has been a number of years, as I mentioned early, infrastructure spend, which is pretty long dated, so that is somewhat sticky in terms of the amortization period, which is slightly different for peers, and that will be changed depending on what you're spending money on. And yes, we do expect now that we've rolled out PBOP into the consumer bank that our amortization rates will start to increase. I think you've seen some of the averaging period decrease over recent times. I expect that trend to continue. And absolutely, we've got to continue on the productivity agenda and go hard at the productivity agenda to outweigh the impact of that. And you will think over time that, that would start to dissipate. I might say some of our peers have sort of had some advantages in taking sort of one-off adjustments, and that's made us look like a bit more of an outlier than we were.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

And on the second part of the $200 million productivity saves, Scott. Look, I think we -- we're confident we'll get at least that. But our goal, we got to keep an eye on the revenue line. That's the positive jaws piece, and we want to reinvest it. And we are flagging some investment capacity constraints that we're having to work through with all the investments we need to handle with regulatory spend, and new payments platforms, things like this. Some moving parts there, but we're confident around the $200 million least.

Brett Le Mesurier

And secondly, on the new disclosures around the corporate and institutional bank. So just looking at cash earnings for the period on the RWA, the ROE kind of roughly 14%. The provisioning charge there to $40 million of loss is only 3 basis points. So it's a typical point of ROE, I might call it 12 or 13. You've called out on Slide 25 that 40% of the revenues are twice the ROE of the remaining 60%, which a bit back of the envelope, that's what implied that, that part of the book would actually be at or below the cost of capital in terms of the return profile. So I just want to confirm that. We just wanted to understand how much work is actually further required to try and continue to increase that ROE on that remaining part of the book. How much [indiscernible]? How much work is to go on the part of the book?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So Scott, you're -- again, your premise is right. This -- we called this out to say, look, overall, we want to improve the returns on this business. And we've said previously, we're not going to write -- use balance sheet where it's not really meeting our hurdle returns; and we've got some competitors, particularly foreign ones, where their return hurdles are far lower. So I think the team has been disciplined and really relentless around that, and that's going to continue. And we're seeing some really positive improvements as facilities coming up for renewal, and we have new opportunities to get new mandates and negotiate with clients that we're progressively improving there. So I think we're part way through this. I don't know what the number is maybe -- we've been going at probably for 18 months, maybe another 18 months, halfway through. But I think it just depends on what's rolling, what's coming up. So they may get a bit harder or a bit easier. But we're absolutely [on it]. And I think the team in there are really committed to deploying capital in a way that we can get other returns. And I think they're doing a good job around things where we've got great capability like debt capital markets, transaction banking. I think they're really stepping into that space to lift that ROE as well. So it's well underway but still some way to go.

Gary A. Lennon
Chief Financial Officer

And Andrew, I would add which -- the CIB team has now got this mindset that's part of their DNA, which is fabulous. So they definitely have a returns focus, and they're driving this day in and day out. And the right balance between our long-term customer and doing the right thing by a long-term customer and helping them with other opportunities that might be able to improve returns, [thus] we just can't get there, and it's time to move on. And with all of the feedback we get from customers, ones that stay or have actually gone elsewhere, is it's been handled very well, that whole process very professionally.

Ross Brown

Last question from Andrew, please.

Andrew Triggs
Deutsche Bank AG, Research Division

It's Andrew Triggs from Deutsche Bank. A couple of questions. Firstly, we talk a lot on the Business Bank about the system growth outlook. Perhaps on the competitive side of things how are you seeing the competitive dynamic at the moment? And where do you think Business Bank turnover is at the moment and relative to where you'd like it to be in best case? And secondly, a question on the mortgage model change. Back-of-the-envelope calc suggests that might see the risk weight from 25 to 27. Is that a fair estimate? Or are there some changes in the EaD side of things?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

All right, so why don't we do the mortgage one first, Gary. I'll kick off, and Angie, you can add on the Business Bank competitive space and turnover.

Gary A. Lennon
Chief Financial Officer

So you're -- very [indiscernible] calculation on the risk weight is about right, so it moved down from 25 to 27. So this will be interesting now for a period of all the banks doing different model changes and updates [else], we'll then move to that circa 27. There seems to be over time APRA is working with all the banks to recalibrate between the 2. And then it's -- who knows what will happen on unquestionably strong and whether that will focusing on those mortgage risk weights as well.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

And Andrew, on the Business Bank side, I'll let Angie add. She's doing this every day. But I think all our domestic competitors -- the small and medium business what you need is a domestic distribution franchise. So the foreign banks are more playing at the sort of corporate [indiscernible] space. But this is really a competitive market because they see what we see, attractive returns, some business confidence and professional services, and some sectors growing quite strongly. So I think, there's no rocket science here around -- the strategy is similar. We start with a position of a really strong franchise to start with, the #1 franchise, and we're holding share. And we're getting -- our bank is building capability and getting them to think about things and things like capital, not just lending, balance sheet usage. And I think our leverage around specialization has been good, and we're going to continue to do that. So I think the competitors are going to keep coming. And so I think they've been going hard for a long period of time, and we will not be any -- at any time complacent about this. We have to earn that every single time. And look, we've lost some business that we didn't want to lose because we sort of weren't good enough and weren't sharp enough and processes weren't good enough. And that's like things that we need to look at to say we need to get better. So we're nowhere near our best, but we're starting with a good position. And I think coming to turnover, we've done a lot of work on banker capability. And on freeing up time, we've got -- maybe we're only 1/3 on the way through that. Got a long way to go to do that so that they can get in and talk to customers, but I think we've got some great bankers. And -- but some bankers -- we are constantly lifting the bars. So some turnover is not only natural but actually good because they're not where we need them to be but most are. And also, we're doing a lot of work around career pathing for bankers. So good bankers, we don't want them to keep moving up the tree, we want them to stay being bankers, and so we've got to career pathing and incentive schemes right so they stay there. All that's helping turnover reduce, I think. So Angie, she said thumbs-up. That's like -- good.

Ross Brown
Okay. Well, I think that's a good place to end it. Thank you for your attendance and questions today.