Question and Answer

Operator

[Operator Instructions]

[Audio Gap]

Macquarie.

Victor German
Macquarie Research

I was hoping to ask 2 questions. One on margins and one on capital. So on margins, as always, thank you very much, you've been very helpful to provide us with the split of your retail deposits on Slide 25.

I'm just interested in perhaps a little bit more color in terms of how lower rates will impact your deposit book. Travis, you talked about sort of in the first quarter, seeing some pressures that will result in a similar margin to second half, second half '19. But just maybe more broadly, sort of every 25 basis points, how does that pressure feed through your margins? And if you can remind us on hedges -- hedging profile as well?

And then the second question on the capital. Good capital performance in the half, but I've noticed your risk-weighted assets actually declined despite the fact that you've seen some balance sheet growth. So would love to hear some observations as to what drove that. And also noting 16 basis point headwind to capital next period that you've highlighted in your 4E just maybe some observations on what that means for your dividends as well?

Travis Crouch
Chief Financial Officer

Thanks, Victor. I think I've got all those questions down, so we might start at the start around margin.

And as you said, when we got through that June period with the exit margin that was a high, that really reflected the reductions we saw in the rates in anticipation of the cash rate decreases that we did then get in June. So when I look forward into this new financial year, I do expect the margin to get back to the levels around about that 2.36%, 2.37% that we reported for the financial year and for the half, once the effect of the lending rate changes comes through in this first quarter.

I think to your other question, though, around what do I see happening with further reductions. We do disclose on our funding slide, I think we have about 26% of our core funding that is at 0.01 or less. Obviously, those rates can't be moved. The big factor in how we -- how the margin will respond is obviously also from a competitive point of view around deposit pricing, what TDs do.

When I look back at term deposits over the last 6 months, I think there's around about 50 points that have come out of our special TD rates over the last 6 months. That's -- a lot of that is obviously just in the last couple of months in response to the cash rate. But I think that is a big -- the one that's hard to actually forecast and hard to tell what we're able to do with TD pricing.

So we certainly have got a core part of our deposit portfolio that can't move any further, but it is a hard one to call moving forward. It really does depend on the competitive position and where our deposit rates need to be. So I'm not going to be brave enough to pick the impact of that. But what I will say is we will get back to that second half NIM after this first quarter.

The hedging profile, obviously, we do hedge our fixed rate loans. There's also some hedging there against the TD portfolio, which is probably where the volumes are. And that's that benefit that we saw in the half where the received -- sorry, the pay floating side comes down with the lower rates. So that's the benefit there, which is entirely driven by those movements in BBSW rates.

Second question around RWA and the capital. So the RWA improvement would -- reflects the reduction in that commercial property lending portfolio through the commercial book that I spoke about in the performance of growth. We also did the RMBS in June. So we did $1 billion RMBS in June, which is the first time for a couple of years. So both of those would actually be impacting or improving the RWA position.

And then the sense of the impacts of the new standard moving forward and the impact on capital and what that does on dividends. Obviously, we're very comfortable with where our capital ratio is, and the dividend decision is one that the Board considers every 6 months. So -- but from a capital Common Equity Tier 1, we're comfortable with that impact.

Victor German
Macquarie Research

Sorry, Travis, can you just -- with respect to those deposit mix, so you've got 26% of your deposits that effectively don't pay any interest. You got 9% that pay from 1 to 25 basis points. In July, we had additional reduction in rates. Presumably, the pressure on margin is a bit more than just 3, 4 basis points. So are there some hedges that you've got in place? Because historically, you haven't had much in terms of hedges? Or are there other offsets because just mathematically doesn't really add up the margin pressure in that sort of first half 20s? Is that low?

Travis Crouch
Chief Financial Officer

What I'm saying, Victor, is over this quarter with what I can see, I expect the margin to get back down to those levels. It is too hard to actually forecast what's going to happen for the rest of the half. There is so many moving parts in that from a deposit pricing and how competitors respond. So I'm not going to look forward any further than this quarter. And that's what I expect to see over the first quarter. With what we've been able to do with deposit pricing ahead of the cash rate change, that's meant that's what I expect this first quarter.

Victor German
Macquarie Research

Right. So are there any hedges or are there no hedges in place?

Travis Crouch
Chief Financial Officer

We do hedge our interest rate risk in our book, so there are some hedges, as I said, particularly around that -- the TD portfolio as well as the fixed rates, but we use those hedges and also that proactive pricing of deposits. So we've always had hedges there. We don't run a replicating portfolio. We've always had hedges to manage that interest rate risk.

Operator

Your next question today comes from the line of Josh Freiman from Macquarie.

Joshua Freiman
Macquarie Research

So just a quick question on the income reduction. So I did note there was significant fee income reduction this period. I just wanted to ask you if you could provide a bit more color on how you see that moving over the next half. Do you continue to see it dropping? And if you could quantify the run rate some of your competitors have done?

And second question is just how far through the remediation journey are you? Should we expect any continuation of remediation in FY '20?

Travis Crouch
Chief Financial Officer

Thanks, Josh. I might start with that fee income. So it continues to be something that the industry will see declines in I believe. As we continue to meet the needs of our customers through our product set, and they've recognized their behavior, I think we saw a 2%, 2.5%, 2.4% decrease in fee income. It's -- I would have thought there's something like that continuing is probably that run rate that we would expect at the moment given customer behavior and our fee structures that we will continue to review to make sure we're meeting the needs of our customers.

Marnie A. Baker
CEO, MD & Director

Josh, in relation to remediation, we've provided for what we believe is the required amount at this point in time from what we understand.

Operator

Your next question today comes from the line of Ed Henning from CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just a question on expenses to start with. Can you just touch on one, just redundancies, obviously, very high in the second half? What's the trajectory for that? And also just going back onto remediation question from the last person, is -- you said the review's still going. Is that review finished now? Or are you still reviewing your book on potential more remediation going forward?

Marnie A. Baker
CEO, MD & Director

Yes. The review has been completed. We've provided for the amounts that we believe based off that review. So those -- unless there's any new errors or things that come forward in the future, we've provided for what's required. And based on -- and we've had an external adviser that's worked with us on that to ensure that we are appropriately accounting for it and making sure that we are covering off on our obligations.

Travis Crouch
Chief Financial Officer

And Ed, as far as the size of redundancies, so I think we had $11.9 million total for the year, $9.7 million in the second half, $2.2 million in the first half. And I think the 6 months before that's about $2.3 million. So this second half has definitely reflected that organizational review and the work that we've done.

As Marnie said, this is an ongoing process that as we work through in rightsizing and right shaping our business to actually meet the needs of our customers, I don't expect the level of redundancies that we saw in this second half, but that's part of the work we're going through now, and we'll continue to look at what's the right skills to support our customers. So I don't expect it to be at that level though.

Marnie A. Baker
CEO, MD & Director

And I think we don't have a targeted number for redundancies, Ed. And I think it's important also to note that the redundancies occur as a result of us reviewing our business and making calls, which will continue as all businesses should be doing is reviewing their businesses and looking to the future of what are the skills that are required. So there's not a target at all. Let's just say, it is a result or a byproduct of actually transforming our business.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

And just a second question on capital. CBA, their result called out a minimal impact from the potential changes in risk weight as they read them at the moment. Can you just comment on your thoughts on the potential change in risk weight? Is that -- do you see that as a benefit for you guys or a potential headwind or not much there?

Travis Crouch
Chief Financial Officer

Thanks, Ed. So as I said when I went through the capital slide, that's a piece of work that we're still working through at the moment. So we're doing the analysis, and we'll make some comments when we're positioned to.

Operator

And your next question comes from the line of Jon Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

A question about the pickup in the growth of the residential housing book and referring to Slide 39, where you give us the flows broken down between retail, third-party and unoccupied investor into semi and P&I. Just looking at the pickup in growth has been predominantly in the investor market. And you can see that the level of flows coming in owner-occupied has actually been quite soft, and you're still losing substantial share in the owner-occupied market. Now given your brands, given what it resonates to most of your customers, why is the success coming in the investor space? And why haven't you been able to see a material pickup in the owner-occupied space?

Travis Crouch
Chief Financial Officer

Thanks, Jon. Look, I think the owner-occupied is obviously the most highly competitive space. So that is something that is key to our approach moving forward. It is taking a little bit longer to pick up. The work we've done across that retention that I spoke about cuts across all different portfolios. And that -- so that's not going to show through in settlement data, but that's actually been a significant factor in actually driving an improved outcome in net growth through the work we've done from a retention point of view.

If I look at the success or the growth in the investor market, I think that just reflects our processing capabilities, particularly through the third-party side. And just getting our pricing right with where we want it from a risk and return. So I actually think it's a combination of all of those things. We have seen some improved activity through investor, but we're very comfortable with both the risk and the pricing that we've got there.

Marnie A. Baker
CEO, MD & Director

Yes. I think it's also worth mentioning, Jon, that we were well below the investor cap too. We pulled hard on that part of the business at the time when those requirements come in. So we had a lot of headroom there.

Jonathan Mott
UBS Investment Bank, Research Division

Another question was the rate cut coming through. Do you automatically change your customers' repayment schedule? Or they repay the same amount of money that were with less interest and more principal, so therefore, the back book should start to amortize faster as the rate cuts come through?

Marnie A. Baker
CEO, MD & Director

I think it's more a behavioral thing as opposed to whether you actually ask them to adjust their payment schedules. We are saying that borrowers absolutely will take advantage and actually be repaying more of their principal as rates have come down.

Jonathan Mott
UBS Investment Bank, Research Division

Okay. But you don't actually change the repayment schedule itself?

Travis Crouch
Chief Financial Officer

No.

Marnie A. Baker
CEO, MD & Director

No.

Operator

Our next question comes from the line of Andrew Lyons from Goldman Sachs.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Just a quick question, just around your trading income, obviously elevated given the -- what happened within rates in the half? Just can you give us some sort of a feel around how much revenue has been carried forward into the first half of '20? And also, any sort of rough rules of thumb as to how we should be thinking about the noninterest income trading sensitivity if we do see another 1 or 2.25 basis point cash rate cut?

Travis Crouch
Chief Financial Officer

Thanks, Andrew. Look, I think of a normal trading book contribution, probably more around $3 million a half and I've actually said that, I think, a few results each time that somewhere in that $3 million a half is normal. What we saw over this last half, obviously represented that significant change in the outlook for cash rate, and then the June and July cash rate is actually happening.

So when I think about it more in a normal sense, it sits somewhere around about $3 million. You can probably have a go at modeling somewhere between that, and the $10 million we saw in the half, depending on your view of cash rate. But I think $6 million for a year, $3 million a half is probably more of a normal trading book contribution at the moment.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

And so can I just confirm with that, is the delta from $3 million to $10 million, is that just from the June cash rate cut? Or is it how sort of the futures curves and everything else was moving in anticipation of the 2 cash rate cuts that happened in June and in July?

Travis Crouch
Chief Financial Officer

It was the latter, Andrew. It was a combination of both.

Operator

Your next question comes from the line of Andrew Triggs from JPMorgan.

Andrew Triggs
JP Morgan Chase & Co, Research Division

So just a follow-up. A couple follow-up questions on the cost side of things. Firstly, on the redundancies, just in terms of how many FTEs you managed to take out and what benefit, I guess, tailwind into FY '20 you see?

Secondly, just some thoughts on how software amortization expense will evolve from here? I noticed the software intangible balance still increased at a lower pace than it had been the previous half.

And just a final one. In terms of the 50% medium-term cost-to-income ratio target, other banks have been more willing to talk in absolute cost reduction terms, which historically has not been the case with Bendigo talking more about a sort of inflation style cost number and the need to invest in a sort of high-cost model.

Can you give us some thoughts around whether you think you can get closer towards that absolute flat cost in absolute terms or cost reduction over time? Or do you still need to keep investing for the future?

Travis Crouch
Chief Financial Officer

Thanks, Andrew. So I think I'll go back to start with the first one around redundancies. So that $11.9 million was around about $85 million from a headcount point of view.

Marnie A. Baker
CEO, MD & Director

$84 million.

Travis Crouch
Chief Financial Officer

$84 million was it? Thanks, Marnie. And really, I think I spoke to on the consumer slide that actually -- I think there was $40 million, $43 million in the second half from the consumer areas. That was really spread right across the business though.

In the terms of ongoing impact from those redundancies, I say that around about a $10 million ongoing salary reduction at a gross level, though, but we've actually looked to reinvest some of that as I spoke about through the work we're doing around risk and people and culture. So I don't see that as an absolute save. We're actually using that -- some of that where we actually need to invest to support the business moving forward. So that's the quantum of that.

In the terms of amortization, yes, we will expect another pickup because as we've been talking about for these last couple of halves, we have continued to invest, and we've actually seen some of the larger projects start to be amortized in this second half. I actually expect amortization to be up another $7 million or $8 million for the next full financial year, reflecting really that amortization profile of those investments and that full year effect of that.

Andrew Triggs
JP Morgan Chase & Co, Research Division

And in terms of the absolute cost reduction versus inflation style growth?

Travis Crouch
Chief Financial Officer

Look, I think with where we're at the moment, as we've spoken about, we are committing to a medium-term sustainable cost-to-income ratio of 50%. We need to make sure we can do that sustainably, and we need to make sure that we actually do that in the right way. It is a combination of both revenue and expense. So at the moment with low revenue, we need to work hard on the costs. And I think that's where that focus is at the moment. But it is certainly a medium-term target and somewhere that we want to get to.

Operator

Your next question comes from the line of Andrei Stadnik from Morgan Stanley.

Andrei Stadnik

Morgan Stanley, Research Division

Just wanted to ask 2 questions, please. Firstly, on the costs. Could we just confirm that you're going to be using the underlying expenses of $930 million as a starting point from which you're thinking about a lower -- the cost base for the medium term? And kind of really -- and kind of sub-part to that. It sounds like it's unlikely that expenses could fall in FY '20.

Travis Crouch
Chief Financial Officer

Thanks, Andrei. So yes, when we are looking at our cost base and how we think that they're moving forward. It is that underlying cost base, so excluding remediation, redundancies. So that's a $930 million, so you're right. And look, I think with what we see with amortization, it is unlikely that we'll see costs falling as a total. And that's where we will continue to work hard. We'll continue to focus in this low revenue, but FY '19 and '20, I can't see cost is falling.

Andrei Stadnik
Morgan Stanley, Research Division

And look my second question, just wanted to check around the margin commentary you've mentioned. So you've said first quarter margin should be similar to second half '19 margin. Just to be clear, that first quarter '20 margin, that includes the full benefit of the [SBR] repricing that you've done. So in other words, there's a fair chance that if rates go lower or we get some deposit competition or from booking additional mortgages, that the margin could actually fall absent any further repricing after the first quarter.

Travis Crouch
Chief Financial Officer

It's a fair comment, Andrei.

Operator

Next question comes from the line of T.S. Lim from Bell Potter Securities.

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

Just thinking, what's the view of Bendigo Bank, 3 to 5 years down the track? I mean you've got a cost-to-income ratio of 50%. What are your views on ROE? What are your views on Homesafe? Is this still going to be a business on balance sheet? And also, your views on M&A?

Marnie A. Baker
CEO, MD & Director

Good question, T.S. Look, our views in the medium term is that we will be providing a seamless customer experience, focused on improvement in our processes, digitizing our processes, skilling of our people, sustainable growth is absolutely the objective and a reduction to our medium-term cost-to-income ratio. There's going to be a number of contributors that go to that. Over that period of time, we have, and I think we alluded to it there in the packs that, we have been undertaking a complete business review. Looking at all parts of our organization, those customer-facing parts of the business as well as the support areas to see what needs to be done to ensure that we are able to actually meet those targets that we've put before you.

Travis Crouch
Chief Financial Officer

And sorry, just on the Homesafe one. Look, we continue to think it's a really good product for customers. But as we've said, it's something that we think there's opportunity for someone to partner with us. So that doesn't change from the view we've held over the last few years on that one.

Operator

Your next question comes from James Ellis from Bank of America Merrill Lynch.

James Ellis
BofA Merrill Lynch, Research Division

Just can I ask in relation to the remediation cost on the undocumented advice? I know you're big in that business. Just wondering if that slightly draws the line over there or whether there's any potential for further advice remediation.

Secondly, in relation to the redundancies. Just wondering whether that's all being utilized or whether some of that balance thus will be utilized in future periods. And if so, how long that will go on?

And then finally, in terms of the reference to a lower targeted number of company-owned branch of the 168 you got now, are you contemplating the trimming of that network or anything outside also appropriate in terms of what quantum of a reduction?

Marnie A. Baker
CEO, MD & Director

So thanks, James. So in relation to remediation and the advice remediation what that was, like I said earlier that, that was actually worked through prior to the sale of the business. Of course, in selling that business, the party that actually purchased that did a thorough due diligence themselves on that business, so we aren't expecting there to be any further issues to come from there.

I'll touch on the branches before I'll pass over to Travis for the redundancies.

So the branches, we are continuing to review our physical network, and especially our corporate network. We have closed 6 branches, 15 agencies. A number of those are due to the proximity of those branches, the reduction in foot traffic that's going in there. Our customers are making changes in their preferences of how they're choosing to engage with us. And as they change their preferences, we will adjust accordingly.

So you can expect us to be continually reviewing that network and refitting or reshaping what that network looks like and changing even the functions and the way that they're actually represented in their respective areas, too. And I think the Norwood branch that I called out before, and it's actually on the front of our presentation pack here today is a really good example of thinking about it very differently and responding to what our customers are actually looking for. And we've seen a 64% uptick in foot traffic there and a considerable uplift in business that's actually coming through that. So we'll just continue to review this, and we will make decisions as we have in the last period. We'll make decisions that are right for our customers and for our business.

Travis Crouch
Chief Financial Officer

It's just back on the redundancies. So as I said, we had 9.7 in that the second half. But to Marnie's point before, the redundancy is an outcome. We don't have a target. It's an outcome of the work we're doing to reshape our business and make sure we're meeting the needs of our customers. So that's how we think about it, and we definitely don't have a target for what it should be for this year.

Operator

Your next question comes from the line of Brett Le Mesurier from Shaw and Partners.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

This is also on expenses. So I gather from what you're saying, you expect the growth in underlying costs from 2019 to 2020 to be similar to the 2018 to 2019, growth of around 2.5% that would -- that's the conclusion to draw from the comments you've made. Is there anything to think that, that would not be the case?

Travis Crouch
Chief Financial Officer

Brett, it's Travis. I'll be disappointed if we have another 2.6% growth. As Marnie said, we are doing work. We're reshaping the business, and we are moving forward. We've got a medium-term target now. And I'll be disappointed if we're reporting another closer to 2.5%, 3%?

Brett Le Mesurier
Shaw and Partners Limited, Research Division

You're still going to have staff costs increasing by a couple of percent though, aren't you?

Travis Crouch
Chief Financial Officer

We will be managing our staff costs as best we can. And I'd be -- again, with the redundancy work that's come out in this last half, I would hope that we can keep it below that.

Marnie A. Baker
CEO, MD & Director

I think it's important to note, though, that any salary reviews or bonuses or dividend value creation, bonuses that we provide to our staff, our salaried staff, are based on our performance. And directly linked to that as well as their risk parameters. So if we're not comfortable with the performance and where it's at, then no, there isn't an increase now in our staff costs from a salary perspective.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Okay. Now this medium term, 50% cost-to-income ratio assumes that income growth is going to exceed expense growth by 15%. How actually are you going to achieve that in a low growth environment that continues to be low growth, so even keeping flat expenses won't achieve it?

Marnie A. Baker
CEO, MD & Director

Well, I think you can see the positive momentum that we have in the second half of the year. I've spoked shortly to -- or briefly to the enhancing and the deepening of the partnerships that we actually have in place. We spoke to our mobile relationship managers. We spoke to the fact that we're actually seeing and are targeting in on key priority areas where we do have a really strong connection to the customer base. So all of those things you are starting to see now in the positive momentum in that second half. And we will be looking to accelerate that.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

So it'd be fair to conclude then that you're expecting to grow above system without margin decline. Would that be a fair interpretation of what you're saying?

Travis Crouch
Chief Financial Officer

As Marnie said, we think we've got opportunities to grow above system absolutely. With the investments we've made, we can do that. So the number of questions around margin, I think that's an industry thing. We're comfortable with where our pricing is and how we manage both sides of the book there, but there are so many moving parts in the industry margin. That one's a hard one to call.

Operator

Your last question today comes from the line of Richard Wiles from Morgan Stanley.

Richard E. Wiles

Morgan Stanley, Research Division

Just one follow-up on Brett's question around this cost-to-income target of 50%. That size of improvement is what banks were achieving when volume growth was around double-digit levels. So it looks like a very ambitious target in the low rate environment.

I'm interested in why you chose 50% and not something a little higher than that given that your current cost-to-income ratio is 57.5%.

Marnie A. Baker
CEO, MD & Director

It is an ambitious target, Richard, but it needs to be. I think if we want to be the organization the way we are talking about, we actually do need to do this. We've got and have been working on plans to be able to actually achieve that, and we believe it is achievable. We're going through and validating those plans at the moment. But if we act and be a true competitor as we move forward and get the growth and the sustainable growth that we're looking to, that's what we need to do.

Richard E. Wiles
Morgan Stanley, Research Division

To correspond to a particular return on tangible equity target or other financial metrics?

Travis Crouch
Chief Financial Officer

Look, Richard, as Marnie mentioned then, we are validating our thinking on a number of those ones. So that would be an outcome, obviously, of sustainable growth and then improve profitability. But we will provide details as we work through that.

Operator

[Operator Instructions] There are no further questions at this time. I would now like to hand the conference back to your presenters for any closing remarks. Please continue.

Marnie A. Baker
CEO, MD & Director
I'd just like to thank everyone for dialing in and also being here in person to listen to our results presentation, and thank you all again for your support. Thank you.