Question and Answer

Unknown Executive

Okay, before you ask your questions, please wait for the microphone and please state your name and the organization you represent. Jarrod, do you want to kick off?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Credit Suisse. Cameron, Mark, in the past, NAB has come under criticism for a lower collective provision coverage ratio at which you've responded by saying that when looking at your provision coverage ratio, you need to incorporate the GRCL, and that's the way that NAB look at it. Ten days ago, you increased your economic cycle adjustment by $250 million. However, that was funded out of the GRCL. So pre and post that announcement, there was absolutely no difference in coverage that NAB have, the way that NAB look at it and the way that NAB have told the market they look at it, which begs the question, was it actually a management decision to increase that overlay? Or was it a rating agent, regulator or an order to force that change?

Cameron Anthony Clyne
Former Executive Director

Completely a management decision. There's no influence of any other parties that you suggest. The -- we also factor in -- I mean, we do look over the GRCL and we've actually seen, and it's a good measure to look at because it will move if we -- if there's a view that we're under provided. But we also take into account that there is not a lot of progress on it if there's none. It was faster than we probably anticipated, which we'd see that convert through reserves into the P&L side. So it was a decision we took in light of the data we saw out of the U.K. And particularly, it was entirely a management decision. There was no influence at all from any other party.

Jarrod Martin
Crédit Suisse AG, Research Division

But as the way you look at it, there has been absolutely no increase in provisioning. So...

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Yes, we look at it both ways. Some people look at it with the GRCL, which is the right way to look at it from a capital point of view. And some people look at it without the GRCL, which is the better way to look at it from an earnings sustainability point of view. So you got to be cognizant of both pressures.

Unknown Executive

Jon?

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. I'm just going to follow-on from that question actually. If you look at the -- some of your comments before, you said that you've shown really good cost disciplines during a difficult time. But some of the other settings that you've had over the last couple of years for expectations of credit growth, asset valuations, the economic inventory cycle, the U.K. recovery have consistently proven to be way too optimistic on what's outcomes have come through. Do you actually think you need to move the whole bank to a much more conservative business settings for probably a much tougher economic environment on both the balance sheet and the way you're managing the business as a whole?

Cameron Anthony Clyne
Former Executive Director

I don't think we've been alone in having more optimistic settings. So I think if you like at -- there has been an expectation if you look at the, for example, the Business Bank pipeline some years ago, it was supporting an optimistic setting. We weren't alone in that. We haven't, by any means, assumed that was going to occur. We've always maintained the cost discipline in the event that revenue didn't arrive. And we've also maintained the focus on our technology investment to get to that settings. I think it's clearly evident now that optimism is not arriving and nor are we the only ones predicting a more difficult operating environment. So we're actually extremely pleased as we've had the cost discipline and the investments in technology. Now we'd obviously all like to see revenue rebound more quickly. But in the absence of that, I think we feel very comfortable that we haven't just relied on that. We've had that investment in cost discipline and technology. So we're obviously looking at lower revenue growth environment and we've -- I think we're set for it.

Jonathan Mott
UBS Investment Bank, Research Division

And do you need to move the balance sheet to being -- as from the balance sheet for more conservative environment -- I mean [indiscernible]

Cameron Anthony Clyne
Former Executive Director

That's what we've been doing. We've grown deposits by more than $48 billion over lending. We're dollar-in, dollar-out. The capital position is strong. We're increasingly making the progress towards our net stable funding ratio. So there's been plenty of progress on strengthening the balance sheet over the last couple of years.

Unknown Executive

Victor?

Victor German
Nomura Securities Co. Ltd., Research Division

It's Victor German from Nomura. My question relates to Slide 24 on U.K. Commercial Real Estate portfolio. We've seen a rise in the last 6 months, which has been the most material rise in the level of impairments. And arguably, U.K. economy has been doing it tough for some time now, and we also haven't really seen necessarily similar rate of increase in impairments for U.K. peers. Can you just give us a sense for how different do you think U.K. portfolio, CRE portfolio for NAB relative to peers? And how comfortable you are that now, having reported this number, the experience going forward should be a little bit more consistent with what U.K. peers are reporting?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

I'd say that the peers had a more obviously problematic CRE portfolio early in the crisis. There was a lot of -- in a various case-by-case, obviously, but there was some quite aggressive lending around CRE. Now it became obvious that, quite earlier, a lot of that was in bad shape as was always smaller, had a skew to house building and was arguably more manageable through a cycle if you did get a rebound in economic growth. You could have house build to sell, there's more number of properties, they could fund the facility through and so forth. So really, what's happened here is 2 things. The economy has gone into a double-dip, and so you can't really take a view through a cycle if you're in a doubled dip because it's going to be too long and you have to basically stop liquidating these things. And the other thing that changed was that the peers you mentioned that heavily provided the CRE portfolio has then started to dump, so we found lots of properties being put to auction, no reserve on the auction, that sort of thing. And that's what's been driving down this valuation. So we've had a combination of weaker economy, falling values and a realization in the organization despite the different flavor of our CRE portfolio that's no longer appropriate to say, well, in 2 years, this will be fine, that we've had to -- so we've now put it in run-off, et cetera. So we've -- a combination of those things is driving this. And we've had a change in the -- we've obviously got the group risk people deployed now to manage this portfolio. So you got new eyes, if you like, looking through it. And that's really bringing in -- bringing probably more realism to bear in declaring facilities impaired and taking the provisions, and that's why you see it step up, combination of those factors.

Victor German
Nomura Securities Co. Ltd., Research Division

So just if I could confirm. Now that you've done that exercise, you're not expecting a recovery, could we expect going forward that you'll experience to be a bit more consistent with the peer group?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

I haven't spent a lot of time looking at the peer. I don't know, Bruce, if you have a view but...

Bruce F. Munro
Former Group Chief Risk Officer

It's a portfolio of very small loans. The average size is about GBP 1 million. And so it'll be handled a little differently than the peer group, which got large exposures or highly leveraged. But I agree with Mark, we do not spend a lot of time analyzing the peer group at the moment. We spend a lot of time analyzing our own book.

Unknown Executive

Andrew?

Andrew Lyons
RBS Strategy

It's Andrew Lyons from RBS. Just one of the areas where your ex-U.K. business does appear to have -- underperform your peers, just in the recent half is, just on funding costs. Just to this end, your Stable Funding Index does appear to have been flat for over the last 3 halves. Can you maybe just make some comment on how comfortable you are now on your funding structure? And just to this end, whether you'd expect the recent fall in wholesale funding spreads will continue to translate into better retail deposit spreads?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

We -- again, I haven't spent any time really picking through what the competitors have done on cost of funds. But we did -- we were fairly aggressive on deposit rating through this year, and that's partly how we got the good outcome. And we did prefund a good chunk of next year. And when you're replacing short-term wholesale with long-term wholesale, that and being aggressive on the TD side, does tend to drive your cost of funds up. And those things ebb and flow as you go along. So if there's a difference there, I imagine it's relatively small, but it will be to do with the extent of the growth in that book and the pre-funding, I would think. And then what was the second part of your question?

Andrew Lyons
RBS Strategy

Just whether the -- the fall that you've seen in wholesale spreads in recent weeks, whether you expect that to continue to show through in a [indiscernible]

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

I don't think it's really going to affect what's happening on the retail side. I think it's not like you can go to -- in any -- to any significant degree to the cheapest source of funds because the regulatory rules appointing you very much in a qualitative direction. So I think it will be what it will be. If everybody is of the view that asset growth is likely to be low, you'll probably find the scramble on the retail side is less pronounced. And so you will get a bit of relaxation on the retail side. That's probably what we are seeing in the last few months.

Cameron Anthony Clyne
Former Executive Director

And yes, as Mark mentioned, what's masked in the CFI numbers is the critical focus on the quality of deposits. I mean, it's quite clearly the range of deposits will suffer significant regulatory haircut, so we've been targeting our efforts, in our part innovation and pricing, and our frontline salesmen against those ones that we think we're going to have the higher quality. So that's been a significant -- particularly in the last year as we've got quite a clarity on what the haircuts are likely to be.

Unknown Executive

James?

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. I just wanted to ask about the risk income on Slide 20. It's gone up a long way on the treasury portfolio, particularly just a bit of an outline as to why that's been driven. I know you mentioned that was just some spreads. But also just an idea as to where we should expect that. It seems to have been climbing over the last couple of halves. Is that a trajectory you expected to continue or was this just a good half that run through?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Well, I think it's a good half. There's no denying that. It's a function of a few things. I mean, we got a larger liquids book. You've seen a significant contraction in spreads over that period and you've had falling interest rates, which increases the value of the underlying instruments. And about half of the economic impact of that is finding its way into the P&L. No, we still have falling interest rates. I'm not sure spreads are going to come in as much, so you probably won't see so much contribution from the treasury next time. But on the other hand, the rest of the markets trading activities were fairly subdued. So there was not a lot of activity in the FX markets, for example. It's relative stability there, and relatively little customer activity on the interest rate hedging as well. So these things tend to also ebb and flow. So I think, to some extent but a lesser extent, treasury will have the wind on its back. But hopefully, we'll get a little bit more volatility and activity in other parts of the trading book.

Unknown Executive

I think we have a couple of questions on the phone.

Operator

Your first question comes from the line of Ben Koo from Goldman Sachs.

Ben Koo
Goldman Sachs JBWere Pty Ltd, Research Division

[indiscernible] can you comment about [indiscernible] as well. In terms of cost balancing [indiscernible] view of the cost structure of the bank now? We had a very good performance in the [indiscernible]

Cameron Anthony Clyne
Former Executive Director

It's been hard to hear the question, Ben, but I'll try and answer what I think you're asking. In terms of -- yes, I mean, I think we recognize we've had subdued business consumer confidence for some years now. That flowed into low business and consumer activities, system credit grade side. So I think that benefit us for some years, so we think FY '13 will be a challenging year. But the reality is that this is not a recent dawning to us by any means. We've had good cost performance over a number of years. And we've -- I think the pleasing thing about our cost performance is, one, we haven't sacrificed investment. We've continued to invest at the same level, and we're now starting to see some of the customer-facing and usually just come online, and our flag what we didn't deliver over the course of the year and what we're going to deliver next year. But our cost performance has also come when -- this year, in this half in particular, the bank has experienced the highest customer satisfaction and the highest staff engagement in its history. So it's not short-term cost reduction. So I think because we've been at it for some years, recognizing the environment may remain challenging, so we've always had, if you like, as you should have an option play which is that we want to be ready if revenue arrives and make sure we've got the right marketplace and things. But you can't just rely on that, and we've got to focus on costs. So one thing we are entirely optimistic about is we've got exactly the right settings for a lot of revenue growth environment.

Unknown Executive

One more question on the phone.

Operator

Your next question comes from the line of Matthew Davison from Merrill Lynch.

Matthew Davison
BofA Merrill Lynch, Research Division

Just some further questions on costs, and I guess the potential to repeat things going forward. If we look at this half, a lot of the improvement was in the Corporate Center and your lower average FDA count. I'm just interested, going forward, you've got FDA's were pretty flat in the spot since this half. And looking forward, you're also talking about the pension deficit blowing out in the U.K., potentially having a cost next year. So just interested in realistically how confident you can be about that repeating on the cost side. And just as a second big question, in the previous half, your redundancies in the Corporate Center went above the line. And then the U.K., this half, that went below the line. Just wondering if you could elaborate on that?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Yes, so the Corporate Center cost did come down. We had a lot of the redundancy costs that I mentioned in the first half we took the Corporate Center. They don't recur. Some of our incentive compensation is accounted for the corporate level, and that was reduced. There were operating efficiencies taken from areas like finance, marketing and the like. And there was also some lower investment OpEx spend given where we are in the capitalization cycle. So a combination of those sort of things occurred at the Corporate Center. I wouldn't expect period-over-period to have the same reduction because a chunk of that is about nonrecurrence and the like, but it's certainly explainable what happened at the Corporate Center. And as to the U.K. pension, what's happening on the deficit doesn't really affect the P&L. That really gets set and forget according to a 3-year cycle with the trustees. And last -- the last triannual review we had took the P&L expense from, I think, GBP 28 million to GBP 40 million per annum, which is designed to accrue for the staff still engaged and, over time, close the gap. So that shouldn't change just because the deficit swings around because of discount rates and the like. And then as to future cost reduction, well, we have a lot going on in the business. But as I've always said, eventually we need to deploy some of these technologies, and that's going to create an amortization headwind. I think, in the past, we've said that we thought over the medium term, amortization would rise at about 7% per annum. So we've got other things. We've got an EBA locked in it at plus 4%, I think. So there's certainly headwinds in the business, but we continue to simplify products, simplify processes and find ways to take out unnecessary work in the business model.

Cameron Anthony Clyne
Former Executive Director

I think we've always maintained a management philosophy. We try to run jaws [ph], and we've done that. I mean, obviously, as the revenue comes down, it gets harder as you, being choppy, go into it. The cost sales gets more difficult, but I think that's the reality with -- it's an environment that we said we feel quite well set for.

Unknown Executive

Okay, Mike Wiblin.

Michael Wiblin
Macquarie Research

Mike Wiblin from Macquarie. Maybe this is a question for Joseph. Just on the Business Bank, bad debts were up 40% half-on-half, and obviously put in a bit of a top-up talking about deterioration into next year and other things are going to be pretty tough. Can you talk a little bit about what you're seeing on a sector basis, on a state basis and why you are so bearish going into next year because I don't think that's the consensus here across some of your peers?

Joseph C. Healy
Former Managing Director of Institutional Banking

I'd be happy to get that question. As Mike mentioned, the first half benefited from credit on the collection line. The second half was impacted by top-ups, largely impacted by top-ups on existing exposures, largely our larger corporate exposures. The SME book has performed within our expectations at this stage in the cycle. With the exception, probably the Queensland has been a significant contributor to our SME bad debt number. If I close well in excess of 40% of our SME charge, the share came from the Queensland market. but we've seen that market stabilize and we've seen those several months of stabilization. So touch [ph] there might be a problem with this on demand. As with regards to the rest of the book, I mean, really, we are -- a reflection of what happens in the broader economy and the issue is in the broader economy are well documented. And we are comfortable with the performance of the portfolio given where the economy is at. And whilst I don't want to forecast what might happen, I'm comfortable with the overall quality of the book, and we're not seeing any marked deterioration and that the leading indicators are at least in line with what we've been seeing in the past, to some extent we've seen some evidence of improvements on some of our leading indicators. But I don't want to make any predictions because just as with credit system growth, I mean, it's sort of -- it is a reflection of what's happening in the economy, and we don't dictate what happens in the economy. But I'm comfortable about how we are positioned given all that we know about the economy today.

Cameron Anthony Clyne
Former Executive Director

I wouldn't characterize this as being bearish relative to peers. I think, we're just -- I think actually echoing the commentary that it's been a tough couple of years with subdued business activity, and FY '13 looks much the same. Now what we are calling out is of course that the longer they goes on, the more you got to focus on productivity and efficiency and that kind of stuff because it seems like the pipeline are not going to move. I wouldn't characterize this as having an out-of-step view. I think of at least the public commentaries will be much the same. It's going to be a challenging FY '13, but so is '09, '10, '11, '12.

Unknown Executive

Craig?

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi. A big dislocation between so-called cash earnings and statutory earnings, again, this year about $1.3 billion or 24% due to a number of business-as-usual items, legal, restructuring charges, due diligence cost which keep seeming to appear in the accounts every half below the line. So can shareholders expect the board to be adjusting more conservatively for this fact when signing off on exact compensation, which incorporates return metrics driven off this so-called cash basis, because I understand that this is being done at one of your peers this year?

Cameron Anthony Clyne
Former Executive Director

Well, cash earnings is not the only driver of our remuneration. We got a whole balance series of factors. And we also have to look through what's -- I mean, certainly, some of those are genuine one-off items as we restructure the business and we look at the strength of the capital position, but the board look at a range of factors when determining compensation.

Unknown Executive

Richard?

Richard E. Wiles
Morgan Stanley, Research Division

It's Richard Wiles from Morgan Stanley. So I refer to Slide 96 which has group provision movements. Mark, several times this morning, you've mentioned the economic cycle adjustment of $250 million. I think you even said that you'd look through it in setting the dividend for the half, and yet Slide 96 suggest that economic cycle adjustment simply offsets for releases in retail and non-retail collective provisions. Can you explain why we have those releases in retail and particularly non-retail? And if it is something to do with the model, it's a fact that you're taking an economic cycle adjustment to offset provision releases suggests that you don't have a faith -- a lot of faith in what the model is telling you about your provisioning level?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Yes. Okay, well, those releases really reflect 2 things. One, I mentioned, which was the natural disaster overlays that we put in place, which is a way to quickly acknowledge the impact of a natural disaster. But you've got to expect that, over time, the reality finds its way into the book. Customers actually experience hardship and go delinquent and things like that. So it's appropriate that they have a fairly short half-life. And they need to be brought back. And secondly, we've been doing a lot of work to effectively de-risk the business. So when I talk about things like collateral matching, that's really doing things that treat the models or get the models to recognize, for example, that certain loans are secured when previously it was provisioning on the basis that they were unsecured. And so we've had a lot of work on tidying up our RWAs because NAB was really behind in its sophistication when it became Basel II accredited. So those things have really driven some bottom up releases, if you like. And the ECA is really coming from the other end. It's really a top-down and saying, well, that maybe true, it may be that we've got double counting. We're releasing double counting. We're de-risking the portfolio. But looking forward, we see a more stressed economic environment, and we should make sure that we've got an appropriate level of provisioning. So it's not really to compensate. They're quite different decisions I arrived at on a completely different basis.

Unknown Executive

BJ?

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Cameron, can I just ask, if you have a look on Page 27, it says at the bottom of the text, it says that your housing loss rate has increased by 1 basis point to 7 basis points, which compared to some of your peers is more than 3x higher. And then if we look on that same page, it says when it's talking about the collective provision movement, it talks about some refinements in the collective provision methodology. I'd be interested, can we get some comments on net deterioration in the housing book write-off rate? But also, did the refinement of the collective provision methodology release collective provisioning over the period, Mark? And is that one of the explanations of the fact that you've tipped $250 million into it but it doesn't seem to have moved up very much?

Mark Andrew Joiner

Former Executive Director of Finance and Executive Director

You might have to repeat. I went to 27 in the slides and I wonder what the hell you were talking about.

Brian D. Johnson
CLSA Limited, Research Division

Right at the bottom on Page 27 of the result. That says that the housing loss rate has gone from 6 to 7. The peers are probably 2 to 3. So that's the first question. Can we just get some explanation what's going on there because it is a substantially different?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Bruce, can you comment on that?

Bruce F. Munro
Former Group Chief Risk Officer

27 in the MD&A you're talking about?

Brian D. Johnson
CLSA Limited, Research Division

Yes, yes. I would caution I have read the whole thing though.

Bruce F. Munro
Former Group Chief Risk Officer

[indiscernible]

Cameron Anthony Clyne
Former Executive Director

What I would say is that we have to distinguish whether U.K. was part of that because that might very well be the case. I draw your attention to the improving asset quality of the book. If you go back historically, Brian, you would have seen this growing at half system with poor asset quality, and we're now growing significantly above the system with improved asset quality.

Brian D. Johnson
CLSA Limited, Research Division

That's [indiscernible]

Cameron Anthony Clyne
Former Executive Director

Well, it may very well be the U.K. because we're certainly not seeing anything like that evidenced in the Australian portfolio, which was evidenced in the slide. So we can certainly determine whether that's the U.K. most likely.

Brian D. Johnson
CLSA Limited, Research Division

Okay. The second one is the change in the collective provision model, the way you've refined it. Did that actually result in some kind of reduction in the collective provision or an increase?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

On the mortgage book?

Brian D. Johnson
CLSA Limited, Research Division

No, no, no. On Page 27 of the MD&A. It also talks about the collective provision movement. It talks about the refinement in the collective provision methodology or the auto [ph] release of...

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Now that led to some release in the first half.

Brian D. Johnson
CLSA Limited, Research Division

In the first half, not the second half.

Unknown Executive

Brett?

Brett Le Mesurier
Asia Pacific Prudential Securities Pty Ltd., Research Division

Brett Le Mesurier from BBY. More questions about provisioning. So the collective provision on the way you like to look at it has fallen whether you look at it relative to risk-weighted assets or including the GRCL. But the specific provision has gone up significantly both at March and both at September. It happened for the group, but happened for the U.K. obviously significantly. It also happened for New Zealand. It happened for the Business Bank. What lessons have you learned about the need to increase your specific provisions? And to what extent are you confident that the increase in that has finished?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Bruce again on that one.

Cameron Anthony Clyne
Former Executive Director

Do you want to defend your specific provisions, Bruce?

Bruce F. Munro
Former Group Chief Risk Officer

Well, I mean, the short answer to the question is that we've got quite a robust process to arrive at a specific provision number. It's independently verified and it's then verified by -- external auditors as well. If the answer to the question is we're at the end of a specific provision increases, then the answer to that is it depends on what happens in the economy because when you realize assets, you're subject to market price whether the asset might be realizing. So once again, we are somewhat of the side to what happens in the economy. But I'm confident that we've got the right approach and we've got the right number against the specific provisions at the moment.

Unknown Executive

Scott?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. One of the themes that kind of worked its way through over the last 6 months is one of dividend yields and capacity to maybe stretch the payout ratios to keep things looking good while cash earning struggles. In that context, on that adding up 1.1 billion of hybrid conversion plus the 2.5% discount on the DRP previously sees the share count up a lot, not a lot of growth in cash earnings here. So what's your outlook in terms of the appropriateness of the payout ratio in light of the high dividend count? And do you think it can go north from where it is?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Yes. Once we are -- once the regulator stops moving the goalpost on exactly the capital calculation and the like, and we attain that level, then if 2 things are maintained, one is relatively high ROEs in the industry and the other is relatively low asset growth, then you can sustain very high dividend payout ratios. You don't need to retain the capital in the business. And you will generate a lot of capital given the ROEs. And so if ROEs holdup and asset growth stays weak, and the board is convinced that that is likely to be an enduring pattern, then the board will be comfortable moving to a high payout ratio. So I think the longer that goes on, the more the payout ratios would creep upwards.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

So there's not a stated case to say that there's a disconnect between the change in the share count and change in the earnings growth that the dividends should like earnings growth next year?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

It might do next year. I'm trying to give a medium-term view or a longer-term view, really. Next year, there's still -- we've got a hybrid conversion going on. We've always said that we wanted to get our Core Tier 1 above 8% initially. So there'll still be some cap, and the regulators still has a few decisions to make. So we're not quite done on it. But once we get to steady-state, then I would expect that the industry can sustain higher dividend payout ratios.

Unknown Executive

Chris?

Chris Williams
UBS Investment Bank, Research Division

Chris Williams from UBS. Just wondering if you could provide some attribution of the $250 million economic cycle adjustment between the U.K. and Australia? And in that context, when we look at the U.K. results, the core earnings or pre-provision earnings fell about GBP 40 million in the second half or 16%. If we view the economic cycle adjustment as something of a pull-forward of potential bad debt charges from next year. What -- how likely is that business can actually be breakeven in 2013? And when I include -- when I think about U.K., I think including the CRE portfolio that you're spinning out.

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Well, the ECA isn't attributed. It's available for whatever purpose. So certainly, the U.K., well, Cameron said the U.K. reported growth, but I don't think that anyone's going to declare a victory there. So what kind of recovery is it going to have? Certainly, our view of the Australian economy is weaker than the federal government's view, so we would see issues on the Australian fronts. So it's there really to cover any of that. As to the profitability of the business going forward in the U.K., we've given you a pro forma there that says it made GBP 50 million in the second half. The B&DD of the remaining book there is relatively low and hasn't increased much. I think it was GBP 85 million in the first half, GBP 100 million in the second half, so it's up GBP 15 million, for example. And the lead indicators are not bad on that. And it's also very well provisioned relative to the group despite having virtually no CRE.

Chris Williams
UBS Investment Bank, Research Division

So what is the risk that in 12 months time, given the run rate of losses from the CRE book that you have to top up capital in that book?

Mark Andrew Joiner
Former Executive Director of Finance and Executive Director

Well, it's not in Clydesdale. The CRE is in the NAB branch in London, so there's no chance of having to top up the capital because of CRE.

Hany Messieh
Former Investor Relations

Okay, last question, James Freeman.

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. Just probably a question for [indiscernible]. Just trying to get an idea if you could, just how much the additional rate rises over and above your peers have contributed to the profit results for the personal division that you've had obviously above peer growth here. I'm just trying to get an idea as to how much of that is catching up on the standard variable rate. And the second question is just around the other operating income. Also you had some good growth in the second half of the year as you say, again, this is more of a timing issue between half and half because from a year-on-year perspective, it looks pretty much stable.

Unknown Executive

Sure. In terms of the SPR, we were able, in the second half, to reprice at a reasonable amount coming through, so we anticipate being able to do that into the future. So that's contributed to some of that net interest income growth in the second half, and that's why you can see the difference between the first and second. In terms of other operating income in the second half, we had some elements of continued growth in some fee elements of cards and so forth and also some one-off elements that we were cleaning out, which we do periodically in terms of the book. So I don't anticipate that level of growth going forward. It was more to do with the second half.

Hany Messieh
Former Investor Relations
All right. Okay, well, thank you very much for your time today.