Question and Answer

Andrew Bowden
Head of Investor Relations

Thanks, Michael. Today, it's a combined media and analyst conference. So we'll take some questions from analysts first, and then we'll flip across to the media as well. I'll do the normal, introduce each speaker. And of course, if we just keep it to a couple of questions for start, that would be great.

So I might take the first question from Jarrod Martin, please from Crédit Suisse. Okay. I'm not sure that's -- I'll try in to someone else on that list, maybe they're on mute. It's a common stand at the moment. I'll take one from Andrew Triggs, please. Okay I hear some noise but not quite yet.

Andrew Triggs
JPMorgan Chase & Co, Research Division

Andrew, can you hear me?

Andrew Bowden
Head of Investor Relations

Yes, I can now. Thanks, Andrew.

Andrew Triggs
JPMorgan Chase & Co, Research Division

Okay. Perfect. Just a question firstly on the NIM pressure. I'm sorry, there's quite a bit of feedback. So I'll push through of it. We saw that the NIM pressures continued in Q4 with the group NIM down another 3 basis points, which suggests that revenue momentum continues to be under pressure. Could you maybe just talk about some of the liquidity impact on that Q4 trend and some of the moving parts looking ahead into the first half of '21 around the funding cost piece, please? Because I would have thought that the Q4 might have seen greater funding cost benefits than you saw.

Peter Francis King
CEO, MD of Westpac Group & Director

So I think, Andrew, I'll start off. I think macro, what we're seeing is competition on the lending side, some repricing on deposits. BBSW was obviously been a benefit, and we built liquidity. So I think that's all in Michael's slide. And then probably the other piece there is that Q3, Q4 cut that we've given in the slide as well. There's always timing differences on these, but really at a macro level, the -- with interest rates moving down and the tractors coming down, the margin will come down, I think. Michael, anything to add?

Michael Rowland
Chief Financial Officer

I'd just add that we've got to remember, there's still a lot of competition in the mortgage market, so that's putting pressure on asset rates. But also, as Peter indicated, we have built up a lot of liquid assets as there's so much more deposit coming into the system.

Peter Francis King
CEO, MD of Westpac Group & Director

And probably just one other thing on the liquid assets is we do expect the CLF will be reduced. So having that liquidity will be required as the CLF comes down.

Andrew Triggs
JPMorgan Chase & Co, Research Division

And just a follow-up question. On capital and divestment of the specialist businesses. So what message is I think around the underwriting of the DRP and essential timing on those asset sales? Maybe talk to how we'll progress potentially as far as those businesses, please?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes. Well, the first thing is, so Jason's team are up and running, and we're working pretty hard. But as you know, with asset sales, you can't control the timing. It depends on partners and getting an appropriate transaction that meets criteria. So we've got to meet those pieces. We're not in a position to say exact timing at the moment, but they are still there, and we're working very hard.

Just on the DRP underwrite, we just felt it conservative, and that just reflects the fact that while we've seen very good and better performance in deferred loans and in the credit portfolio, I think next year will be when we find out which customers have lasting impacts from COVID and this interplay between domestic economic growth coming back, government stimulus being wound back is still unclear. So we decided to be conservative and underwrite the DRP.

Andrew Triggs
JPMorgan Chase & Co, Research Division

And so just one follow-up there. I mean is complex -- reduction in complexity is still the overwhelming driver of the exit of those businesses, i.e, if asset quality and capital is looking better, does it make you a little bit more price-sensitive on exits?

Peter Francis King
CEO, MD of Westpac Group & Director

The driving thinking behind that is to simplify our portfolio of businesses. So we want to be in businesses that have scale and competitive advantage. And so that thinking still holds on the specialist businesses. And we've got to get the right transaction economics from our perspective.

Andrew Bowden
Head of Investor Relations

I want to try Jarrod Martin again just see whether he can log in. From Credit Suisse.

Jarrod Martin
Crédit Suisse AG, Research Division

Can you hear me?

Andrew Bowden
Head of Investor Relations

Yes.

Jarrod Martin
Crédit Suisse AG, Research Division

Welcome, Michael. So a couple of questions. First of all, can we come back to the -- to the DRP underwrite because there's a bit of a sort of a change here. So you're 11.2% pro forma-ing. You announced international consolidation is going to release $5 billion of RWA. You're flagging 65 basis points of RWA inflation. And obviously, you've got the sales of specialized businesses, which are unknown. But putting the first couple of things together, you're still above 10.5%.

And Peter, you last -- in the last half, have been saying that APRA have given you permission to use buffers and you will use buffers. So I'm just -- what sort of change such that you are doing a dilutive DRP underwrite?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, Jarrod, I think it's, as I said before, when we sat down with the Board and we looked at dividend, we looked at where we're at. I agree, we've got a very healthy capital position. And while credit has performed better than what I thought, and certainly, packages are coming down, we still have this unknown about economic activity, the interplay between economic activity domestically. We also have the unwind of stimulus. And of course, what happens internationally is the other piece that we thought about. So yes, it was conservative, but it's also small in the sense of it's a $0.31 dividend.

Jarrod Martin
Crédit Suisse AG, Research Division

Sure. Okay. On second question, maybe for you, Michael. I refer to Slide 20, at least of the pack that I have in front of me, this is the second half '20 expenses and acknowledging that you're going to come up with a cost plan at the first half. Just wanted to understand the permanency of the investment risk and compliance and COVID-19 expense build and clearly, the productivity plan is going to be ultimately to address the cost base. But those 3 items, to what extent has that build occurred and how permanent are those builds?

Michael Rowland
Chief Financial Officer

I think that's -- it's a good question. I think from our perspective, we would expect a fair portion of that build in FY '20 to roll into FY '21. And so that's why our cost reset plans will address the broader productivity, but there will be a roll into FY '21 for those costs.

Peter Francis King
CEO, MD of Westpac Group & Director

And Jarrod, just to add -- Jarrod, just to add. Maybe where we have added resources is in the COVID -- COVID assist packages. So we want to get in front of the number of people that are going to call us and ask for assistance. So -- and when you bring people in, they need lead times to be effective. So we've been up -- we've effectively been bringing people on ahead of time. Now if the impact of COVID is not as big as what we think, then that resourcing will roll off relatively quickly, but we'll wait and see on that one.

On risk management, we've certainly taken the view that we want to accelerate the resolution of our risk management issues. Again, a lot of that in the half was actually, what I would say, project resource getting on to fix it. So that will roll off. It's not going to roll off for a couple of years because we've got a few years ahead of us. And then there will be some lasting increase in risk management, but not what we've got in this half.

Andrew Bowden
Head of Investor Relations

Take a question from Jon Mott, please.

Jonathan Mott
UBS Investment Bank, Research Division

I'm just going to follow up directly on from that question from Jarrod. And if you flip over one more slide to Slide 22. And this kind of, I think, summarizes it pretty well over the last 5 years. The whole risk and compliance spend has gone up threefold, but your investment in growth and productivity and other technologies has actually fallen during that 5-year period. So question with that is, yes, you've got more spend on risk and compliance to come. But aren't you falling further and further behind your peers, where you haven't been able to keep the growth and productivity up where you'd like? And when do you actually be -- intend to be able to accelerate this and move from the fixed to the simplicity and perform? Because from our perspective, getting the first step risk and compliance right, you're still going backwards while other peers are going forward. I've got a follow-up question.

Peter Francis King
CEO, MD of Westpac Group & Director

Jonathan, so the first thing is in terms of simplifying the portfolio, that's about what businesses we're in, and we've taken some pretty big steps this half in terms of the specialist businesses. And we're working through how we exit those, the international consolidation. But you're right. If you look back historically, our risk management and responding to new regulatory requirements has dominated the investment spend increasing over time, and we're very conscious of that. And so one of the things, though, is I want to get through that fixed bucket as quickly as I can, so I can move forward to simplicity and growth.

But I would just say on growth. So we will continue to make investments in digital and in data. And that's, in particular, in the Consumer Bank, where we think we can get growth. So we've got the new app is -- our new Westpac app is out, and we've got significant investment actually coming in behind it in terms of how we use the data.

Jonathan Mott
UBS Investment Bank, Research Division

Second question, if I could. There's a lot of talk about risk-weighted asset inflation. I think on Slide 24, over FY '21 and '22, you're still talking up to 100 basis points of pro cyclicality or inflation coming through there. If you look at the numbers, risk-weighted assets actually fell 1% in the half. And if you look at the number, you're starting around for $430 billion, $440 billion of risk-weighted assets. If you have this 100 basis come through, you'd be somewhere around $480 billion. But when we think of that, if you look at Westpac and all the banks over the last couple of years, the one number that you've consistently beaten this on is much lower risk-weighted assets than people thought. You talked about lower business credit growth. You talked about capital efficiency. Where do you actually think that risk-weighted assets number will be able to land? Will it still be around the current sort of $430 billion, $440 billion number? Or do you expect that full 100 basis points to flow through and be up near that $480 billion in the next year, year or 2 years' time?

Peter Francis King
CEO, MD of Westpac Group & Director

I'd just say on that slide, what we've set out is what I would call modeled outcomes. So they use our stress testing models and we run economic forecast through them. Right now we're not -- the performance of the portfolio is better than the model. So everyone was pretty keen to understand what they would look like. We've given 2 scenarios over a couple of years. But right now we're well better than those portfolios. So that's how I sort of see it. But as I said, there's still this question mark about what happens next year.

Jonathan Mott
UBS Investment Bank, Research Division

So can you still -- with the numbers coming through, you said 16 basis points so far and still had risk-weighted assets going down. I do think you can keep risk-weighted assets flat in a decent scenario if you not give us some modeled outcome, but your actual gut feel on where that will at.

Peter Francis King
CEO, MD of Westpac Group & Director

Yes, I think there's 2 pieces there. If you look at mortgages, we expect to grow business. Wow the economic forecasts are for contraction next year, and then we've got some portfolios that we're actively looking to shrink. So you can do the numbers. And then the credit quality piece is deteriorated, not at the rate that we thought.

Andrew Bowden
Head of Investor Relations

Okay. I'll take a question from Andrew Lyons, please.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

I have 2 questions. Just a -- 2 questions just on your payout ratio. Your return on risk-weighted assets and sort of around, say, low single-digit risk-weighted asset growth would appear to support a sustainable payout ratio in the high 60s or low 70s. Can you maybe just talk about how the Board might be thinking about the payout ratio as that for potentially removed its payout cap at the end of the year? I guess I'm just wanting to understand whether we'll be going back to a situation where you'll be looking to maximize your payout to get franking credits back to shareholders? Or going forward, having reset the payout ratio, do you think you want to maintain a little bit more flexibility in relation to capital generation going forward?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes. I think, well, this year, obviously, the decision was really influenced by the current APRA guidance. We understand that will be reviewed, so we'll have to wait and see what that looks like. But we would certainly think about it exactly as how you've outlined it actually, look at growth, demand for capital through which growth in the business, look at return and have a payout ratio so we can return the franking credits as quickly as we can.

Andrew Bowden
Head of Investor Relations

I'll take a question from Brian Johnson, please.

Brian D. Johnson
Jefferies LLC, Research Division

Thank you for the opportunity to ask some questions but also for the great disclosures. I just had two, if I may. The first one that I'd be intrigued about, just if APRA restarts the amended Basel III, your housing portfolio still looks to be skewed towards interest-only more investor. But I'm just wondering, could you give us a feeling on what happens to that housing risk weighting on your current modeling if we were to do Basel -- the amended Basel III as it is proposed?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, Brian, I think I'm -- rightly, I'm really waiting for the new model. So it's hard for me to give you a number. But I would highlight that since they were announced, our portfolio has significantly reduced in IO. So that's been something that we've managed down. And so I don't expect IO to be as near as big an impact as it was in the past. Likewise, investor. But we're -- we need these final calibrations to understand it. When I look at it, some of our business risk weights are probably a little bit higher than peers as well. So there's always puts and takes when you get these models. So we're just going to have to see what the net wash is.

Brian D. Johnson
Jefferies LLC, Research Division

Peter, the second one, I just be intrigued, a dividend with a 100% DRP discount at a -- with a 100% underwritten DRP to 1.5% discount. You can call that a dividend, but it actually sounds like your capital raising or we can call it, basically passing the dividend. I was just wondering, could you give us a feeling for philosophically what the Board thought that actually was. Is it a way just distributing franking credits? Is it -- or is it a dividend plus the capital raising? Can you just run us through your thinking on it, please?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, it's a dividend, Brian. And if you talk -- if I talk to retail shareholders, they're pretty focused on dividend that we pay. And so the pleasing thing about the second half is we've returned to paying dividends. In relation to the capital management aspect to it, I think I've covered that in the previous question about how we thought about that.

Brian D. Johnson
Jefferies LLC, Research Division

So it's a dividend plus the capital raising?

Peter Francis King
CEO, MD of Westpac Group & Director

Brian, it's a dividend, and then we're looking to encourage people to participate in the dividend reinvestment plan. So that's not a cash outflow as such. And then we will offset the remainder through an underwrite.

Andrew Bowden
Head of Investor Relations

I have a question from Richard Wiles, please.

Richard E. Wiles
Morgan Stanley, Research Division

Just wanted to clarify a couple of things from the outlook commentary. On expenses, there's a lot of moving parts. Is your expectation that expenses will go up in 2021? And on loan growth, I think you've suggested that loans will be down in the first half but up in the second half. What's your expectation for loan growth for the full year?

Michael Rowland
Chief Financial Officer

So on the first question, Richard, as Peter explained, we will see some growth into FY '21 from the project work we're doing in risk management. Depending how long the COVID support needs to be in place, we will probably see some early uptick there and also on some other investments that we've made. More broadly on offset, it's a bit hard to say at this stage. But you would say that costs will be slightly up next year, which it's just a bit early to say exactly how much.

And then on asset growth, again, as Peter indicated, economic forecasts are that business lending will be down. So we expect that to flow through our book. And as we did say, we will look to get back to growth in mortgages in the second half. So that should give you a bit of a sense with the trend that you've seen in -- certainly in the second half of this year.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. And if I could just ask a second question, please, Peter. Could you outline the strategic rationale for providing the transaction and saving account capability to Afterpay? I mean there are -- they've taken a lot of share in the payment space. Clearly, credit cards are under pressure for various reasons, but Afterpay has been a big influence there. So why provide a competitor with 3.6 million customers access to your transaction and savings account capability? And do you think you'll lose customers from Westpac, St. George and Bank of Melbourne as a result?

Peter Francis King
CEO, MD of Westpac Group & Director

On -- I'll broaden that out to talk about the banking-as-a-service strategy. So when we look at banking and how it's provided, we think it's fundamentally changing. Customers are choosing to bank in different ways. Certainly, we're aware of a number of banks that are either at or looking at launching these type of platforms both offshore and in Australia. And so it's an important market that we want to be part of.

Now the flip side of this strategy is if the 10x strategy, which looks like good technology develops in the way that we think it will, it's a fourth generation product system type capability, which gives us options for our systems within the bank as well. So it's not only giving us options within technology within the bank, but also, it's a market that we think will be here. And then I think the other point is that open data in

Australia, customers own the data, and they will choose where it is. It might not be in the next couple of years, but it will happen. So we've looked at those trends, and we thought this is a market that we need to have a foothold in. It may develop. We hope it will. And Afterpay was the first partner for that particular business.

Andrew Bowden
Head of Investor Relations

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

Brendan Sproules
Citigroup Inc., Research Division

Just on Page 79, you show the movement in credit risk-weighted assets for the period. And you show that credit quality increase risk-weight assets by $5.4 billion over the half. If you show us at the third quarter that, that figure was up like $13 billion. I was wondering what was the change in the fourth quarter.

Peter Francis King
CEO, MD of Westpac Group & Director

Brendan, I think the big thing there was we put the overlays. We estimated the credit deterioration in the third quarter. You might recall a $7 billion overlay for risk weights. That's reduced down to $2 billion, and that reflects the work that we spoke about with looking at high-risk accounts and regrading them. So you've got the movement between overlays and what's actually flowing through the portfolio coming through the fourth quarter. And that was an example of where things have come through a little bit better than what we originally thought back in March and April.

Brendan Sproules
Citigroup Inc., Research Division

Okay. And I've got another question on mortgages if I could. 12 months ago, we were talking about some issues that you were having in the mortgage market. And obviously, you've had a weak year. It does -- the mortgage flow chart on Slide 17 shows that net refinance EBITDA was quite low relative to peers. I mean what steps do you have to put in place or have you put in place to kind of rectify your position in the market when we look into 2021?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes. It's a combination of processes. So we've made our process too hard, which mean time to yes is too long. It's a combination of looking at credit settings compared to peers. So nothing major there, but just lining up to peers. And then it's the operational processing and with the impact on our offshore operations of COVID, it really blew out the times. And so we weren't hitting the mark. So unfortunately, all those have come together, but the new -- that line of business that we've created for mortgages has that as their top priority.

Andrew Bowden
Head of Investor Relations

Take question from Victor German, please.

Victor German
Macquarie Research

So 2 questions from me as well, if possible. First one on expenses. Michael, you talked a little bit about expenses already. But I just want to understand when we think about expenses in 2021, do you think we should be looking at your second half '20 as a starting point, the 2 halves '20, excluding notable items and sort of annualize that number as kind of the starting point for expense in 2021? Or a full year and some growth on -- as you suggested, on a full year basis, is a more reasonable starting point? And then I have a question on credit quality as well.

Michael Rowland
Chief Financial Officer

I think the way we think about expenses is that as I indicated, we did increase our resources to support customers through COVID, and we did bring some more resources onshore and we increased our investment in risk management and compliance activity. Now not all of that will flow into next year. And it depends, as Peter indicated, about how long customers are going to stay on packages and how long we need to continue to support them. So I don't think it's as simple as just rolling forward the second half or the full year. I think we will see some of that roll into the first half, but I don't think we'll see all of it. It's a quick answer.

Victor German
Macquarie Research

Right. So if we look at second half -- sorry? So I was going to say, if we look at second half '20 expenses, you're saying that some of it, at least some of it should enroll through into first half '21.

Michael Rowland
Chief Financial Officer

Hard to say at this stage, but we can't -- I can't say that it's definitely going to roll through. It will depend upon -- on how our customers and the broader economy reacts. But no, you can't just necessarily roll it forward.

Victor German
Macquarie Research

Right. And the second question on credit quality. So if I look at your economic assumptions that you've made in March relative to September, obviously, the September forecast was significantly better, yet we've seen collective provision increase from first half to second half. I'd be just interested to understand sort of the key drivers around that. And as we go into 2021, what do you think is going to drive CP changes going into next year?

And kind of more broadly as well, maybe, Peter, you can touch on as well. I mean everyone is focusing on those deferrals as a guide for where credit quality is going to go and where impairment charges are. But do you think we need to be looking kind of more broadly than just deferral programs? And whether you have any observation in terms of the rest of your portfolio, how it's performing outside of the deferral programs, what proportion of customers are on JobKeepers and things like that would be highly useful.

Peter Francis King
CEO, MD of Westpac Group & Director

I think -- so the first thing is one of the things I'm very conscious of is if customers are on deferrals, you can't use your risk -- your historical risk sensitive metrics to work out what's going on. So that's why we have increased resources to get contact up. It's also why we've chosen the mortgage book to have effectively an opt-in at 3 months and at 6 months. And I think we're starting to see the benefit of that through the reduction.

So to answer your specific question, I think the historical trends of stressed business exposure and delinquencies and people in hardship will be more important metrics as we go into 2021, and that's why we put those in the slides. So certainly, what we're looking at is the regrading of business exposures, what are the portfolios and regions where we're seeing high levels of downgrades and stress, and that's where we have to focus.

So I think the -- yes, there has been a large focus on deferrals. Come January next year, I think we'll be past that, and you've got a good read on what we're seeing today, and it will be in the logistics of managing customers. And I think event is slightly different to the GFC. The GFC was about large exposures, big companies. This is about individuals and small business. So the logistical part of this particular event is very different to what we saw in the GFC.

Victor German
Macquarie Research

Do you see a scenario where your collective provisions are lower next year relative to where they are now?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, it had come back to the weightings. The big decisions are the weighting between the downside and the base case. That's a big decision that we've got to look at regularly. And then it will be the performance of the portfolio through gradings and stress will be the other piece. So they're probably the 2 biggest. Obviously, the economic outlook is important in it, but they are the 2 things I'd highlight. Thank you.

Andrew Bowden
Head of Investor Relations

Okay. I'll take a question from Ed Henning, please.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Thank you. Couple of questions from me. Firstly, just in this period, you've written down some capitalized software, but yet you've only expensed 40% of your investment spend where last week, a peer, is expensing about 76%. Why so low? And what's your expectations going forward on capitalized software?

Peter Francis King
CEO, MD of Westpac Group & Director

So Ed, I think peers have different approaches. But if you look at we're amortizing $800 million a year on the balance, so we have a higher software capitalization but a higher amortization of that balance. That will go up again next year as we -- as Michael called out, that the investment that we spent this year will be amortized next year. So I think it's just slightly different settings. We're capitalizing more but we're amortizing more, and it will go up next year.

Michael Rowland
Chief Financial Officer

And I'd just add that on the software we wrote off, that was for software that was no longer in use. So it was appropriate for us to write that off.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

And just on that, do you expect the ratio to stay similar? Are you still expecting to capitalize majority of your investment spend going forward?

Peter Francis King
CEO, MD of Westpac Group & Director

I think we've averaged 3-year type amortization rates, amortization to balance. That feels about right.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay. And just a second question on noninterest income. Can you just give us a little bit more color there on that? Do you expect any fees to start coming back next year or waiver still staying in place?

Peter Francis King
CEO, MD of Westpac Group & Director

Michael?

Michael Rowland
Chief Financial Officer

Yes. So as we indicated because of the COVID settings and the reduced activity in the economy, particularly in the second half, we saw a reduction in fees. But we would like to think as activity comes back, that those fees do increase. But as Peter indicated, it's a bit hard to tell at this point, but that would be our hope.

Andrew Bowden
Head of Investor Relations

Take question from Matthew Wilson, please.

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

Two questions, if I may. Firstly, now that provision coverage is a much more relevant measure, can you explain the consistency between P&L bad debts, which you quite quickly assess against gross loans and balance sheet provisions, which industry is now using credit risk-weighted assets, so a more appropriate provision coverage against gross loans to be consistent across all your asset quality metrics? And that sits today at 88 basis points in the context of where your impaireds are, where 90 days past due are, where deferrals are, it does look like.

And then secondly, just on deferrals -- and this is an industry trend. SME loans have cured much faster than housing loans. Can you sort of articulate some of the reasons behind that significant better level of improvement?

Peter Francis King
CEO, MD of Westpac Group & Director

So on the first one, Matt, we look to disclose a number of metrics, so you can choose. We've chosen to have a look at total provisions to risk-weighted assets because of the -- one of the challenges is we've got a big mortgage book. The theory is it's better quality, which I think it is. But -- so it makes some adjustment for that. But I think most of our disclosures allow you to cut in whatever way you look at. So I understand if you want to take a different view on it.

On deferrals, I think one of the points I made was on mortgages, we had effectively a 3-month opt-in and then a further 3-month opt-in, and we've seen 97% of people actually make the repayments when they sort of -- they're going to pay. So mortgages, I think we've got good line of sight.

On small businesses, we're at the end of the 6-month period, a lot of people are indicating they're going to commence repayments, but I do want to see it. So we're in that period in the next month, where we've got indications of repayment. We want to see those come in. And then I think we'll have a good view on whether the small business portfolio is as good as what it looks at the moment. So I'm just naturally cautious on that one, but the indications are pretty good, but I'd like to see the repayments made at the first repayment.

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

Okay. Fair enough. Then maybe just squeeze one more in. What is the level of capitalized interest? Is it about $700 million?

Peter Francis King
CEO, MD of Westpac Group & Director

I think it's -- on the remaining mortgages in deferral, I think it's around $400 million, actually, Matt.

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

But obviously, the people that have been deferred wouldn't have repaid all that capitalized interest?

Peter Francis King
CEO, MD of Westpac Group & Director

Sorry, I've got the $400 million number on me. We'll have to have a look at the other number.

Andrew Bowden
Head of Investor Relations

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

Azib Khan
Morgans Financial Limited, Research Division

So firstly, just on expenses again. So Michael, if I heard you correctly earlier, you said that expenses in the area of risk and compliance will remain elevated. There was obviously a large jump in risk and compliance spend to $806 million in FY '20. What risk and compliance and run rate -- investment spend run rate do you expect going forward, particularly next year?

Michael Rowland
Chief Financial Officer

Look, I think we don't provide that sort of level of detail. As I indicated, we will see some of that run rate into FY '21, but that's not a number we're disclosing at this point.

Azib Khan
Morgans Financial Limited, Research Division

Okay. Secondly, on the WIB loan book, that contracted by 16% over the half. First, [indiscernible] to continued run off of low-returning exposures. And secondly, you flagged as part of your announcement about international consolidation that you will be looking to run off over $5 billion of risk-weighted assets in WIB. Is any of that $5 billion part of some of its contraction we've seen in the second half?

Peter Francis King
CEO, MD of Westpac Group & Director

So we were active in the WIB portfolio. And in particular, it was in Asia with trade where we saw the large reduction in balances. But more generally, I think we also saw corporates who had drawn down our facilities early in the half to get liquidity, actually start to give that back to us. So there was a bit of liquidity management in the customer base as well as actions. We took -- they would have -- part of that, what we did this half would have been in the $5 billion, Azib.

Azib Khan
Morgans Financial Limited, Research Division

Right. And you said, as part of that announcement, you said over $5 billion, there will be over $5 billion. Are you still expecting $5 billion? Or could it be significantly more than $5 billion of that runoff?

Peter Francis King
CEO, MD of Westpac Group & Director

It -- have a look at the Pillar 3. I just can't remember how much we've run off this half, but it will be in the Pillar 3.

Azib Khan
Morgans Financial Limited, Research Division

Okay. Just one last quick question for me, if that's okay. So it's been reported in the media that Westpac had a correspondent bank relationship with Peter Schiff's Euro Pacific Bank until 2018. What was the reason for seizing that relationship in 2018?

Peter Francis King
CEO, MD of Westpac Group & Director

It's reported in the media. But as you know, when it comes to customer matters, and particularly Financial Crime, I can't comment on individual customers, Azib.

Andrew Bowden
Head of Investor Relations

Take a final question from the analyst from Brett Le Mesurier, please.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

What's the expected ROE on your Afterpay line?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, Brett, it's a development that we will report on later on, but I'm not going to forecast what we're going to get out of Afterpay. It's a business that's broader than Afterpay.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

I wasn't really -- I wasn't really looking for a profit number. But when you enter an alliance, you got to think -- you've got to have some expectation as to what ROE you're going to get? Are you saying you didn't work it out or you just don't want to say what it is?

Peter Francis King
CEO, MD of Westpac Group & Director

I'm not going to disclose it publicly, Brett.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Okay. The -- just moving on to the other question then. The credit loss provisions that you've got, how do they relate to the capital? Is it the central economic estimate on your capital or the downside or a mixture of both? How does that relate?

Peter Francis King
CEO, MD of Westpac Group & Director

The way to look at it, Brett, is that the reg E -- the reg expected loss, reg EL is what is used for capital. And to the extent that the accounting provision is higher or lower, you get no deduction or a small capital reduction. I think we've got a small capital deduction for reg expected loss at the moment.

Andrew Bowden
Head of Investor Relations

Okay. I'll take a question from James Ellis, please.

James Ellis
BofA Merrill Lynch, Research Division

Peter, my question was with respect to the RBA and the expectations in the market that tomorrow we might see driven both the cash rate target and the cost of the TFF and potentially some QE in terms of buying at the 5 to 10 year part of the bond curve. On the QE, is that a good idea? And with the results showing today, some ongoing NIM pressure, part of which is due to the deposits around the 0 lower bound. Could you just describe any impact from the combination of potential RBA action on your margins, please?

Peter Francis King
CEO, MD of Westpac Group & Director

I think generally, lower interest rates, no matter what they're from is not great for bank margins, and we've seen that in this result. So that's the general trend. But if I step back and look at what the country is attempting to manage and doing a good job at the moment is we've got domestic economic activity which is held back at the moment because of the appropriate restrictions for health reasons. We've got international activities held back. We've got government stimulus, and then we've got liquidity being provided by the Reserve Bank and lower interest rates. And we also have to think about the currency in this picture. And so having a competitive currency is also very important in this picture.

So I just think when we think about this, the potential moves and what the Reserve Bank does, they have very good information. They're looking at bouncing up pretty complex information. And so we'll respond appropriately to what they do.

I would just highlight, though, that we know that depositors are very much hurting in this environment because it is savers who are the people that are getting lower returns on their investments. So I think we can debate the merits of a potential move tomorrow. But if we step back, the authorities are doing what they can to navigate the country through a pretty tricky time.

James Ellis
BofA Merrill Lynch, Research Division

Just sort of a supplementary there and just sort of staying some steps back. Do you think there's much in the tank for monetary policy? If we get what we sort of think we'll get tomorrow, what's the likely effectiveness of that? Is there any risk of rising asset prices?

Peter Francis King
CEO, MD of Westpac Group & Director

We'll see. I mean the asset price piece fundamentally depends on supply and demand at the moment. The turnover in the market is not great in terms of its low. So that's actually held prices up pretty well. From my perspective, all the banks have got good capital and funding position. So that gives us time to manage and help customers in need. So that should be good for asset prices, particularly house prices.

So I think it's always -- this is a fine balance that we're managing through here. And to date, I think it's been managed pretty well.

Andrew Bowden
Head of Investor Relations

Question from Peter Ryan from ABC.

Peter Ryan

Look, I just wanted to see if you might be able to look ahead to early next year or March or so with the JobKeeper being tapered back in your deferrals also being managed back. How confident are you feeling about the economy? And do you think there might be a requirement for the government to step in with an extension of JobKeeper or other stimulus to deal, so people aren't hit with an additional, I suppose, shock when that's all wound back?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes, I think the first thing I'd say is we will move from what I would call generally available deferrals. So everyone gets the same arrangement to individual arrangements next year if customers need them. And one of the things I've said is if customers foresee that they need help, please come and talk to us early. Don't leave it until next year. So Peter, I think that -- that's important that it's not like it goes away, just the nature of it changes.

In relation to -- and as I said before, on the economy, the interplay between domestic activity and the wind down in support from JobSeeker, JobKeeper is important. We don't know how that's perfectly how it's going to work, but the federal government and the state governments are aware of that. And you got to believe that they'll make the right choices at that point.

Andrew Bowden
Head of Investor Relations

Okay. We'll take a question from Jennifer Hewett from AFR.

Jennifer Hewett

Two questions. One is just after James' question. The changes on responsible lending laws. Are they going to make any difference? Or is it really banks being much more cautious about their lending anyway? Real estate agents tell me, for example, that Westpac is definitely one of the slowest in the market to approve loans.

Peter Francis King
CEO, MD of Westpac Group & Director

Well, in terms of responsible lending. The first point I'd make is we don't want to make any loans that people can't afford. So there's alignment between the bank's interest and the customers' interest. The opportunity that we see in the changes is actually to speed up the process. So at the moment, we do tend to have a one-size-fits-all approach. And so we see it as speeding up the process. That will be good for activity, Jennifer. So that's good, but it's not about how we -- we don't see this as an opportunity to fundamentally change our credit settings.

Jennifer Hewett

Okay. And the other question was to do with AUSTRAC settlement. To what extent was the delay in reaching a settlement with AUSTRAC about the quantum of money involved? And to what extent was it the determination by Westpac to avoid any risk of criminal penalties for its executives?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, on the AUSTRAC matter, that was a civil matter, not a criminal matter. So it was a civil matter. This is a complex matter. So it just took time for us to work through, Jennifer. And any settlement had -- you had to agree the facts and you had to agree the penalty. But in the end, it was up to the court to determine the penalty, and that's what the court did a couple of weeks ago.

Jennifer Hewett

Okay. Can I just ask one last question? That was a, they got quite a lot of flak from national ministers for its climate change policies. Can you explain what you think Westpac's responsibility in this era is in terms of moving away from or supporting our customers with high exposure to fossil fuels?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes. So we've been consistent with our policy for a number of years, Jennifer. We talk about transition. So we know that customers, particularly those are in higher-emitting sectors, will need to transfer and transition into a new world, and we want to work with them. That's what is we're thinking. These are complex areas, they take time, but we've got to work on transition.

Andrew Bowden
Head of Investor Relations

Take it from Joyce Moullakis from the Australian, please.

Joyce Moullakis

I just wanted to follow up on deferral issue. I wondered what proportion of customers across mortgage customers and small business customers are actually not responding to communication from the bank in terms of the update as to how they're going and whether they aim to start repaying again?

Peter Francis King
CEO, MD of Westpac Group & Director

In the mortgage book, from memory, it was 20%, 30%, but that's why we track the -- did they make their payments metric pretty tightly because some weren't responding because they just will start and off we go. In the small business book, it's about double that. So it's been a higher nonresponse rate, and that's why I made the point of saying that the next month is really important about working out who will actually make the repayment versus who needs more help.

Joyce Moullakis

Is that quite worrying in this book or were you anticipating that given that the period is just coming up now?

Peter Francis King
CEO, MD of Westpac Group & Director

I don't know. I wouldn't describe it as worrying at the moment. It's just what it is. People -- we'll see in the next month how many people make their repayments. That's the important metric from my perspective.

Andrew Bowden
Head of Investor Relations

I'll take a question from Charlotte Grieve from The Age, please?

Charlotte Grieve

Just on AML compliance. I'm wondering, Peter, if you think that relaxation of the tipping off laws to enable a greater information sharing between institutions might help banks like Westpac keep on top of financial crime?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, I think -- Charlotte, I think the -- the challenge in financial crime is we have actors who are continually creating ways to move money for activity that shouldn't be moved. So rather than talking about tipping off, I think if we can find ways to share information in the industry more broadly, that will be useful because we're sharing knowledge and information. So that's not possible under the customer privacy approach at the moment, and that's something that we could look at.

Charlotte Grieve

And I mean, on this, how confident are you that Westpac anti-money laundering procedures are rock solid, and we won't see a repeat of what we saw in the last year?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, we're investing heavily to get them to the standard that we need. So the reason the AUSTRAC case came around is they weren't where they needed to be. We've recognized that, and we've committed to a multiyear program to uplift them. So we will make improvements incrementally over time to get it where they need to be.

Charlotte Grieve

And just one more question. Westpac supported the federal government policies today when it comes to the budget and other stimulus, but what do you think about the leadership in the state? Do you think that borders now need to be reopened so we can see the economy sort of get back to where it was?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, I think we need domestic activity to increase. That's the best thing for the economic of the country. We can't keep borrowing money to pay income forever. So we've got to get activity back. We'll have to learn. It looks like we'll have to learn with how to live with COVID. The vaccines are promising, but they still take time to roll out, so we do need more domestic activity.

Charlotte Grieve

And just on the state leadership specifically, how would you characterize this closure of borders?

Peter Francis King
CEO, MD of Westpac Group & Director

Each state is making a call from their perspective. My perspective is we need more domestic activity because we can't borrow. We can't continue to borrow to pay income into the economy.

Andrew Bowden
Head of Investor Relations

I'll hold that and come back, and then we'll take a question from James Frost, please, from Australian Financial.

James Frost

The shrinking on loan book, it seems to be an approval processing issue and a demand-side problem from investors as far as I can tell. What can you tell us around the turnaround time as they stand and where you hope to get them to? And just on the investment front. Over the last few weeks or month on an anecdotal level, at least, is there any sense of a mini bounce or recovery across any of your key geographic markets?

Peter Francis King
CEO, MD of Westpac Group & Director

Well, just more recently, as Michael said in his presentation, we have seen apps go up in the mortgage market as a whole. And I think it's fairly broad based including early signs of extra activity down in Victoria. So I do think there is more activity. Investors are always, I think, invest for price appreciation. And certainly, our economist is indicating a much better outlook for next year in terms of prices. So there is the possibility that we do see a better outcome.

In terms of our turnaround times, really for a basic loan, you need to be in a couple of days, and we're not there yet. More complex loans, people will require longer, but we've got a fair bit of work to do to get back to a couple of days.

James Frost

Do you reckon you'll see any improvement by January, for instance?

Peter Francis King
CEO, MD of Westpac Group & Director

We're starting to see improvement in apps now. And certainly, I've asked the business to be improving in the first calendar quarter next year.

Andrew Bowden
Head of Investor Relations

Good. Thanks. Okay. I'll try Paulina again, Paulina Duran from Thomson Reuters.

Paulina Duran

My call is around the alliance with Afterpay. ANZ had, on Thursday, mentioned that the customers that he -- that they have that use buy now pay later are definitely showing risky -- riskier credit metrics with about 2.5 double the time or double propensity to pay late, for example. Can you give us a little bit of a gist of what your clients that use buy now pay later systems kind of look like, please?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes. Well, in terms of the arrangement, how we've thought about this is we're offering -- deposit products is what we're offering. So how people pay off is not relevant to deposit product, but I would just highlight that we all start out in our lifetime as riskier customers because you've got to -- if you're a student, you're building into it. If you're starting the work, you haven't got your credit history. So would naturally see customers who are higher risk when they start off at the early stage of their life.

Paulina Duran

Right. So is it fair then to think about it as a [new sort of] arrangement that you expect to get sticky -- a sticky relationship in the future, I guess?

Peter Francis King
CEO, MD of Westpac Group & Director

Arrangement is about deposits. Afterpay -- the buy now pay product is Afterpay's.

Paulina Duran

Yes. I'm just struggling to get what you get out of it.

Peter Francis King
CEO, MD of Westpac Group & Director

Well, we get -- as I said, it's about the development of the technology, which can have application into our core business. And we see that customers are going to move the way they bank. So they're not just going to come to banks. Some will. Some will have arrangements through different partners. So this is a trend in the market that we see. And we want to be in that marketplace.

Paulina Duran

If I may, just on the second topic, and that's the guarantee scheme for business lending. You -- I think you said your lend -- you used about $300 million of that. That's just relative to the $40 billion total that the government guaranteeing half of it, it looks more from my point of view. But can you just tell us a little bit of how you're thinking about that? And what has been the uptake since the changes and the tweaks were announced about 2 months ago?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes. I think it's an important initiative from the government. In terms of our customer uptake, they've chosen what's best for them. So some of them have used that particular product. Other have drawn down on existing limits, others have taken out different lines. So it just depends on the customer uptake.

Paulina Duran

And what do you expect then? Do you expect that to still be the same in the next 6 months or 12 months?

Peter Francis King
CEO, MD of Westpac Group & Director

Yes.

Andrew Bowden
Head of Investor Relations

Okay. I think we've got a few more calls online, but I think I'll call events to a close. So thank you very much for dialing in, and good morning.

Peter Francis King
CEO, MD of Westpac Group & Director
Thank you. Good morning.