Question and Answer

Jill Campbell
Group General Manager of Investor Relations

Okay. Given that you've all done this a million times, I probably don't need to tell you, but wait for microphone, give us your name, and we'll start with James.

James Ellis
BofA Merrill Lynch, Research Division

James Ellis from Bank of America. Just in relation to the franking. Obviously, there's been some structural reductions in the earnings from the Australian business. But as remediation falls away, is there scope for franking to move higher than that adjusting -- for the current business mix? And then related to that, in terms of remediations. So you've sort of left the door open as to remediation may not have -- still some way to go. That statement is sort of much broader or much more open than say 6 months ago when the light seemed to be at the end of the tunnel. So just interested in what's changed in the last 6 months.

Shayne Cary Elliott
CEO & Executive Director

Yes. Maybe I'll deal with that, but first because it kind of leads to the second part. So when we're talking about remediation, there's really 2 parts of it. One is actually -- so to some extent, we found a whole bunch of issues that we need to remediate, and we are really well advanced on that because we have started what we call a collateral review where we've gone through literally every single product and service in the business and to see whether there is a remediation required. So that's not finished, but we started with the high-impact, most complex products, and we're well through on that.

We still got work to do there, and I can't tell you what we might find tomorrow, et cetera. But then we -- once we find those issues, we then raise a provision. To some extent, that's sort of the easy part. We then actually have to get through and actually get the money back into the hands of our customers, and that's why you see quite a significant difference between the amount we've provided for and the actual amount that's left the building. And so that still requires a lot of work, James.

So when we're talking about the remediation effort, it's not just meaning -- or finding new issues. A lot of it is just the actual work done to locate customers and get the money back into their hands. So that's the piece that will require -- and that's when we think about the 1,000 people, a lot of them are actually just focused on that. So that will continue for a period of time.

In terms of franking, there has been a reshape in terms of the business, obviously, partly because of the conscious decisions we've made around selling some businesses and partly due to the -- just underlying change in profitability within the business. We're very conscious that shareholders, to the extent possible, want some level of predictability: a, about the level of dividend; but also the level of franking. And so we've taken it into the account, and that's why we talked about resetting the base of franking at 70%. There are no guarantees, obviously. We'll make those decisions as a Board as we go through. But I think it's fair to say we've taken it into account, and you should read that as you do.

Michelle Nicole Jablko
Chief Financial Officer

I should just add on -- specifically on your question remediation, the tax impact of that is actually on a cash basis, not on an accrual basis. So we've got $1 billion sitting on the -- over $1 billion sitting on the balance sheet. So that's going to take some time to actually impact tax, if that make sense. Yes.

Jill Campbell
Group General Manager of Investor Relations

Could you hand to Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Credit Suisse. If we go to your purpose and strategy, in your first line, "Our strategy is to generate decent returns." So a question for you, Shayne, is given the environment, what now is a decent return? And to put -- give that some context, you have been quoted as well as -- on the RBA that businesses should lower their return hurdles, and you've spoken about cost of equity now for ANZ at 8%. So is a decent return now 9% versus 11%, 12%?

Shayne Cary Elliott
CEO & Executive Director

Yes. Good question. So like a lot of business -- so we've always -- we've historically calculated our cost of capital at around 10% and moved around a little bit. But in terms of the way we set our hurdles for the business, we generally assume 10% over the last 4, 5 years, right? And that was in particular part of the reason that we set a target for the Institutional business that said, hey, through the cycle, we'd like that business to be generating a return of around 12%, yes, for a buffer. I think it's fair to say that with the structural change and level of interest rates here in Australia, we've had to go back and rethink whether that cost of equity is reasonable. And we came to conclusion that it's not. And that in fact, our cost of capital today's probably 8.5%, yes? And so I think it would be negligent of us to then not consider changing the hurdles and the expectations we set for our businesses as a result.

And as I mentioned, that's -- we haven't done that just yet. We're literally going through that process at the moment of resetting hurdles for the various businesses. The business that it will impact the most is Institutional because Institutional is the business that has more marginal returns. I mean the Australia business that Mark and Maile look after, their returns is significantly above the hurdle today. So it won't really change too much. So if our cost of capital is reduced to 8.5%, clearly, our return expectations will change.

I don't know. We said decent because I don't think 9% is the right number. That's clearly not sufficient. I don't think that's decent. I don't think it's indecent, but it's certainly not decent. I'd say I don't have a target for that, Jarrod. But we're still going to be in those kind of low teen areas, is what we would see as a decent return. The reason we've changed the language on that is we just recognized that our cost of equity is going to shift over time. And we don't want to have just a simple, absolute number and say, oh, like 12% is right number or 15%, et cetera.

Brian D. Johnson
Jefferies LLC, Research Division

[indiscernible]

Michelle Nicole Jablko
Chief Financial Officer

That's backward looking. We're talking 2019 versus forward looking.

Shayne Cary Elliott
CEO & Executive Director

That's backward looking. So -- yes.

Jarrod Martin
Crédit Suisse AG, Research Division

That's in the economic profit, B.J., do you mean?

Shayne Cary Elliott
CEO & Executive Director

Yes.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Brian D. Johnson
Jefferies LLC, Research Division

[indiscernible]

Michelle Nicole Jablko
Chief Financial Officer

Yes. No, but that it was for 2000...

Shayne Cary Elliott
CEO & Executive Director

And what I'm saying is that we just -- we've literally just done that with our treasury team at the moment, we went through it with the Board and agreed that from here, our cost of equity were -- is at 8.5%, and that is a number that we'll assume, and then we'll go through a process of -- that doesn't mean that all the businesses will get 8.5% as a hurdle because they'll have different -- we have different risk assumptions in Institutional versus New Zealand, et cetera, et cetera. So we're going through that process at the moment.

Jill Campbell
Group General Manager of Investor Relations

Could you hand to Motty?

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. I'm going to keep going on this topic. You then said the Australian business is well above this, yet at the moment, we've another ACCC investigation because the banks are repricing the back book and competing aggressively on the front book. So won't we get to a situation now with the new entrants and investment banks and international banks now competing who do have a lower ROE target than you continuing to drive down that front book and eventually back book profit? So why won't the Australian business's ROE eventually settle a lot closer to your cost of capital over the next couple of years as well?

Shayne Cary Elliott
CEO & Executive Director

Well, so the theme of what you're saying, I agree with. I mean that's no different than what we've already seen. We've already seen returns in Australia business come down significantly for all sorts of reasons, partly because of capital intensity, partly because of competition. So I think that trend is intact. I mean I don't disagree with that. What we -- I think the only, perhaps, difference we are talking about here is timing, is really how quickly will that happen and what actions can we take to mitigate or offset that. And so that -- but I don't disagree that that is exactly what you're seeing happening over time.

And the question -- we have other tools available to us in terms of what we -- how we allocate our capital, how we compete, et cetera. Part of that -- that's part of the reason we're so focused on simplification and taking our cost base down. I mean it's a recognition that those returns are going to be under pressure and that we can't take it for granted like we have historically.

Jonathan Mott
UBS Investment Bank, Research Division

I'll give you my question now, which is on the NIM. I'm sorry. That was Jarrod's question.

Jill Campbell

Group General Manager of Investor Relations

So one statement, one...

Jonathan Mott
UBS Investment Bank, Research Division

Yes, exactly.

Jill Campbell
Group General Manager of Investor Relations

Ah, tricky.

Jonathan Mott
UBS Investment Bank, Research Division

Sorry. On the NIM, you kind of call out on Page 24 that NIM has been driven down by the pressure on deposits, and you called that there. But if you look actually at the breakdown geographically, Australian NIM in the half, down 3%; insti, down 5%, which you say is due to the lower lending margins and most of pressure coming through from New Zealand. So how do you reconcile it? Because I can't really see when you break down the business unit mix how that reconciles the big pressure in the NIM coming through what you're calling out as the interest rate mix -- interest rate impact on the deposits...

Michelle Nicole Jablko
Chief Financial Officer

Yes. But you're looking at the outcome NIMs as opposed to what's going on in...

Jonathan Mott
UBS Investment Bank, Research Division

The waterfall doesn't match the outcome.

Michelle Nicole Jablko
Chief Financial Officer

Correct. Yes. But within the businesses, deposit NIMs definitely had an impact, particularly in Australia. So through -- when I talk about I think it was 4 basis points of deposit NIM compression, about 3/4 of that was Australia. So the bulk of it was in Australia. The Institutional part of it's probably coming through now more just given the timing of it, yes.

Jill Campbell
Group General Manager of Investor Relations

We'll go to Victor.

Victor German
Macquarie Research

Victor German from Macquarie. I'll borrow Jonathan's way of asking questions and follow up in his question first.

Jill Campbell
Group General Manager of Investor Relations

See what you started?

Victor German
Macquarie Research

That 4 basis point decline in deposits, it's only -- I mean we've obviously seen a reduction in cash rate, but it occurred halfway through the period, and we know that with every incremental increase in -- or reduction in interest rates, the impact on deposit book is higher. I'm just wondering, how do we reconcile your guidance for next half with respect to deposits, with respect to this issue? Because mortgage repricing will presumably give you about 3 basis points benefit. So even on net basis, I'd just be interested in your reconciliation.

Michelle Nicole Jablko
Chief Financial Officer

Yes. So in terms of -- so we've talked in the presentation about $110 billion of deposits that are at or near 0 rates. We've had -- there's been quite a few -- a bit move into that bucket over the course of the last rate cuts. The amount -- there is still some left that could move, but it's smaller, if that makes sense. So it's probably becoming more linear than it would've -- than it was in the past.

Victor German
Macquarie Research

But presumably, that October rate cut would have a reasonable impact. I'm just wondering, should that 4 basis points be bigger in the first half?

Michelle Nicole Jablko
Chief Financial Officer

So when I talked about -- in my presentation, I said the impact of all the cuts that have happened to date that includes October and includes the Fed overnight, across the group, because the RBA doesn't just impact the Australia division, is about 3 basis points. So that's how I think about it. Yes.

Victor German
Macquarie Research

And I just don't want to disappoint you with not asking a question on cost. So you've got a target of $8 billion, which is a medium-term target, but in the short term, you're talking about some headwinds for the cost base. When we're talking about medium term, and I don't want to suddenly just draw you into specific dates, but I mean is it reasonable for us to expect at least for the next 3 years with all -- everything that you know, the sort of keeping cost kind of at broadly similar level to today would be the most kind of reasonable outcome?

Shayne Cary Elliott
CEO & Executive Director

So it's a fair question. I mean we've talked about the medium term and our aspirations to get -- to simplify the bank with an outcome of a cost around $8 billion. Our initial planning on that would say that, that would be achievable within the year of 2022, yes? So it might not be the number we print for 2022 but, let's say, a run rate towards the end of 2022. And that's not perfect science, maybe a little before then or after that.

Clearly, we've got 2 things happening in the meantime. One is there just is a general uplift in cost. We called out BS11. But in general, some just sort of compliance remediation work that has put pressure on the business, and then Michelle also talked about some accounting changes, et cetera. So we've got some sort of general inflation, if you will, that we've got to deal with. In addition -- and so that will see the costs up a little higher than they are today left unmanaged.

Secondly, in order to deliver that simplified outcome, we have to invest. This is not just canceling newspapers and flying economy. This is about process redesign. What does that mean? That means investing in technology and systems and in the way we do business. That will come at a cost. And so that cost will have to be borne over that period as well. I can't tell you how much that is because we haven't done the work. I think you can -- might do a back-of-an-envelope calculation yourself.

The good news is that we know historically and when we've taken -- when we've made those sorts of investments and taken restructuring charges, we're really, really good at delivering a return on that. And so -- and we've done that time and time again, particularly over the last 3 or 4 years. And so we're really confident in our ability to generate a return, but it will come at a cost.

Michelle Nicole Jablko
Chief Financial Officer

And even some of the regulatory and compliance spend actually simplifies our processes. It's things we should be doing in the business anyway.

Jill Campbell
Group General Manager of Investor Relations

So we'll go to Andrew and then back to you, Ed.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman. So just a quick question on the capital and the dividend. In your capital discussion, you note a number of offsets to -- potential offsets to APS 111. Can you maybe just give a bit more detail on that? And then secondly, just around to the extent that you're going to have to likely retain more earnings within the New Zealand subsidiary going forwards, just wondering, are you comfortable that you can still sustain the $0.80 dividend within sort of the current payout ratio settings with sort of the medium-term target of 60% to 65%?

Michelle Nicole Jablko
Chief Financial Officer

Yes. Do you want me to take those?

Shayne Cary Elliott
CEO & Executive Director

Yes, you take it. Yes.

Michelle Nicole Jablko
Chief Financial Officer

Yes. Sorry, on the APS 111 changes, we -- just even within the existing rules and the way they work, there's some opportunity to look at the way we value our international subsidiaries that didn't make sense under existing rules but would make sense if APS -- under the APS 111 changes. Then on top of that, there may be some potential depending on the RBNZ to issue Tier 1 securities to sort of -- to the external market. And then there may be some other things as well, but they're just some examples.

On the dividend, if I go back through the math I spoke about in my presentation, we don't know when New Zealand -- the RBNZ is going to land on New Zealand in terms of amount, timing type of instruments. But let's just say for argument's sake that it's $6 billion over 5 years. We're already $3.5 billion above unquestionably strong. But also the New Zealand Board's already retained $1.5 billion. So of the $6 billion, you'd need $4.5 billion, and we're already sitting at $3.5 billion, and we're generating capital. That's why I said it's more about capital efficiency, I think, than it is about quantum.

Jill Campbell
Group General Manager of Investor Relations

Ed.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just going back on your talking about risk-adjusted returns. On Slide 59, if you look at the Institutional business, across every region, the margins are falling somewhat dramatically. How should we think about that in the Institutional business going forward?

Shayne Cary Elliott
CEO & Executive Director

Oh, I think -- probably, Mark, do you want to talk about returns in the -- I mean I think -- the reason I made the point about risk-adjusted return is really to be really clear about our philosophy, if you will, of how we run the business and what we ask the business to deliver. So that is at front and center in terms of the disciplined approach we're talking about returns. But clearly, it's not going to be one-way traffic. And do you want to -- just want to talk through?

Mark Whelan
Group Executive of Institutional

Now we're going to -- we'll continue to see volatility in that. And the second half -- the first half, we had very good returns coming through from pretty much all the businesses. Second half, we started to see some stress particularly from the rate reductions that we saw coming through with 3 reductions in Australia. We had 2 that came through in the U.S. and another one overnight. And that's actually affecting our business. Remember, we've been shifting our business away from just direct loan bidding tools, so payments, cash management, so you get a bit of that impact almost immediately.

Our loan book in international, which you'll see some of those big reductions coming through, is 80% of it is -- I think it might even be a little bit higher these days -- 80% of it is less than 1 year, and a lot of that's in trade. You saw a significant trade shift in the second half particularly with the liquidity in the marketplace moving margins down. And that's all basically had an effect on our risk-adjusted margins.

But our strategy remains the same even in these conditions. It's to stay, as Shayne said, with core customers and deepen our relationships with them. That just doesn't mean in lending or in trade, it means in payments, cash management. What you haven't seen in these numbers as yet is that we're still onboarding a number of customers in payments and cash management mandates in NPP agency transactions. They'll flow through to us in the second -- or next year. And that's likely to give us some volume uplift. So again, that's a capital good -- it's a capital-low product, low capital product which will give us continued benefits. But it's not going to be linear. You're going to see some of these movements half-on-half based on market's positioning but also with regards to what's happening particularly in interest rates.

Michelle Nicole Jablko
Chief Financial Officer

The other thing I'd just add to that is when you look at the growth we did in Institutional in the loans businesses this year, which is really what drives the margin outcome, almost all of those customers did other business with us outside of lending. It was literally almost all of them. So if you look through a customer lens, the returns are still appropriate.

Jill Campbell
Group General Manager of Investor Relations

Brian?

Brian D. Johnson
Jefferies LLC, Research Division

Brian Johnson, Jefferies. I apologize. I'd like to go back to the Institutional business as well. On Page 62, I think it is where you talk about the economic capital. Perhaps, it's Page 42.

Jill Campbell
Group General Manager of Investor Relations

42.

Brian D. Johnson
Jefferies LLC, Research Division

You talked about the allocation of it based in regulatory capital. I just want to check, Shayne. Since today, you were saying that not -- after the review, not all the divisions will have the same target. So are you changing it? Is that changing?

Shayne Cary Elliott
CEO & Executive Director

Yes. So what I'm -- so we're -- during that review, so we've agreed that our group cost of capital is at that 8.5%, and I've asked Michelle and the treasury team to go and look at -- because we don't allocate -- we don't have the same cost of capital across every single division, so we've got to work out through -- work that through. So no, they won't all be the same, Brian.

Brian D. Johnson
Jefferies LLC, Research Division

But is that -- so...

Shayne Cary Elliott
CEO & Executive Director

But I don't know what the answer is yet, but they won't be the same.

Brian D. Johnson
Jefferies LLC, Research Division

But in the page in [the deck], is that based on the common core equity? You say you allocated on regulatory capital. Is that not saying that you've got a common core equity target across each of the divisions?

Michelle Nicole Jablko
Chief Financial Officer

I think you're talking -- there's a difference between the amount of capital which goes into that and the hurdle rate of the capital, if that make sense. So the cost of the capital, they're not the same.

Brian D. Johnson
Jefferies LLC, Research Division

Well, then if we go through and we have a look at the Institutional business -- and I apologize. This is a question I've asked in past years. But if we have a look at the Institutional business, you've got a business where we basically saw a big increase in the net loans and advances in the second half which corresponded with the housing book basically declining in Australia. The ROE in Australia is higher. In the Institutional business, it's clearly lower. What saved this result again was the fact that there's virtually no loan loss charge in the -- in the long-run loan loss, you actually disclosed that figure. If we were to actually put that normal loan loss on a normal capital level in that business, the ROE it's doing is about basically half what you're doing in Australia on the same basis. So isn't this the business, Shayne, that should be shrunk?

Shayne Cary Elliott
CEO & Executive Director

Well, it has been. It has been. I mean we did that.

Brian D. Johnson
Jefferies LLC, Research Division

Well, not in this half.

Shayne Cary Elliott
CEO & Executive Director

No, no, hang on. So let me answer that question. So we're -- I'm not going to go into the -- an argument about the maths, but a couple of things. So one, we have shrunk the business. We shrunk it like 30%. And that's part of the -- that is the reason that the business has got better returns. When we think about returns for that business in terms of hurdles, we do not do it on a current actual loss basis. We do it on an expected loss basis. And so when we set -- so we set that very, very clearly to Mark, and so the way the Mark operationalizes that through his team, they have a revenue-to-RWA target. But as I said, it's done on an expected loss basis.

Brian D. Johnson
Jefferies LLC, Research Division

So on that basis...

Shayne Cary Elliott
CEO & Executive Director

So I'm not -- I totally agree with...

Brian D. Johnson
Jefferies LLC, Research Division

[You didn't make] cost of capital this period or not?

Shayne Cary Elliott
CEO & Executive Director

Sorry?

Brian D. Johnson
Jefferies LLC, Research Division

If we were to normalize for the loan loss, normalize for the capital, you must have done an ROE of about 9%. Am I -- Is my math wrong?

Shayne Cary Elliott
CEO & Executive Director

You're not wildly wrong.

Brian D. Johnson
Jefferies LLC, Research Division

Well, given the Australian business on the same basis [got 20%]...

Shayne Cary Elliott
CEO & Executive Director

Yes, but the implication of what you -- the implication in your question is that we sit around the table and decide to take money away from Australia and give it to Mark and to -- from Mark to the other. That's not actually what happens, right? So there is no capital constraint on the Australian Retail & Commercial business, none whatsoever, because, clearly, the returns are significantly higher than Institutional Banking. There's no debate about that. For the Institutional business, we have very, very clear targets in terms of using expected loss but a return target that they have to meet, and they run to that.

Michelle Nicole Jablko
Chief Financial Officer

And, sorry, Brian...

Brian D. Johnson
Jefferies LLC, Research Division

So why did the NIM -- risk-adjusted NIM fall so much?

Shayne Cary Elliott
CEO & Executive Director

Because the business is not on a straight line and because, as Mark just mentioned, a big chunk of the business in Institutional is deposit based. And with interest rates falling, that puts pressure on.

Michelle Nicole Jablko
Chief Financial Officer

Yes. And we -- and if you -- again, I come back to the new business we did. So if you take -- you look at the new business we did during the year, we all met those hurdle rates looking at long-run loss rates. So -- and we also -- we've got a set of assets on the balance sheet that are below returns, and they're there for legacy reasons, and we've been continually shrinking those. So it's about how we overall manage the balance.

Shayne Cary Elliott
CEO & Executive Director

Yes. And let's not forget that business in Institutional is not just about that. It's also about its cost base. And we've seen now, whatever it is, 7 consecutive halves of cost coming down, and we still got work to do on that. We agree. We are not done in terms of the restructuring of our Institutional business. We're much more confident about our ability to execute, but it's going to be a business that continues to offer us opportunity because we can invest capital and generate a decent return from it.

Michelle Nicole Jablko
Chief Financial Officer

Yes. But it's definitely economic profit-based. It's not -- we don't sort of have short term.

Brian D. Johnson
Jefferies LLC, Research Division

Just the second question. In past years, you've franked the dividend, basically, out of the next tax installment from the next year. The cut to 70%, is this doing the same thing again? Is it 70% with that same approach where you're kind of like predistributing the next installment's tax? Or is this going back to basically...

Michelle Nicole Jablko
Chief Financial Officer

It takes account of both. That's right.

Brian D. Johnson
Jefferies LLC, Research Division

So there is an element of...

Michelle Nicole Jablko
Chief Financial Officer

There is an element.

Brian D. Johnson
Jefferies LLC, Research Division

Element of predistributing the franking credit on the next tax installment.

Jill Campbell
Group General Manager of Investor Relations

Yes. Yes.

Shayne Cary Elliott

CEO & Executive Director

Yes.

Jill Campbell
Group General Manager of Investor Relations

Could you hand back to Richard, please, B.J.?

Richard E. Wiles
Morgan Stanley, Research Division

Rich Wiles, Morgan Stanley. I've just got some questions that will help clarify exactly what you're expecting on costs. So are we right -- firstly, are we right in thinking that Michelle's commentary on what happens in the first half implies that the cost base for 2020 will be about $8.8 billion? Secondly, with the $8 billion by 2022, last time, last results, that was when you first mentioned FY '22. This time around, you're saying it's an FY '22 run rate, you're saying it's not a perfect science. So is -- how confident are you on that FY '22 number? Is that guidance? Or is there reason you're not putting it in the slides or in any of the official documents because it's not an official target?

Shayne Cary Elliott
CEO & Executive Director

So it's not -- well, it's not an official target. I'm trying my best to give you insight into what we're working on and what our aspirations are. I'm very conscious of the fact that if we were to do as you suggest and I tattooed it on everybody's arm and said that it's going to be at $8 billion, organizations like this have a tendency to do almost anything to achieve the $8 billion. Actually, achieving $8 billion is not that hard. Doing it well and not destroying the franchise is the hard bit. So rather than just say, hey, we got a blank target of $8 billion, what we've said is this is about simplifying the organization, making it easier to deal with and making it a better experience for our customers. We believe that, that will deliver an outcome of around $8 billion. That's why I've probably been a little bit vague about that.

We haven't walked away in terms of timing. I am very confident that we can do that. I don't have exactly all the answers to the decimal point of exactly how -- where that's going to come from. We've done a lot of work on it to -- before we even told anybody about the $8 billion of what -- where we think would come from and how we would deliver it and obviously the timing. So I am confident, but I'm not for a minute suggesting it's going to be easy, and I'm not for a minute suggesting that I have execution perfection so I can deliver it on a certain day and time of that year.

Michelle Nicole Jablko
Chief Financial Officer

And then in terms of next year -- we haven't given a number for the full year. So when we spoke about the half, the accounting change of that $150 million to $200 million, the accounting change is, call it, roughly 1/3 of that. And then Shayne spoke about BS11 being $350 million over 3 years. You could assume you're a bit north of $100 million next year as well.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. Can I also ask restructuring and investment, Shayne, you mentioned? So on Page 20 in the results, it shows that restructuring for this year was $59 million, something like that. It's about $150 million last year. It was $300 million a few years ago when you kicked off some of your cost-cutting initiatives. So in order to achieve this $8 billion target, does restructuring cost need to go up in future years and...

Shayne Cary Elliott
CEO & Executive Director

Very likely. Very probably, yes. But I -- as I said, because we don't have the -- because we're still working on the exact plan on how we're going to execute, I can't tell you at any level of certainty what that number will be. If we knew it, we would take the charge. But yes, your assumption is right.

Michelle Nicole Jablko
Chief Financial Officer

But what I would add to that is when we've taken restructuring charges in the past, we've had more than 100% payback pretty much the next year. So very good track record.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. And then on the investment, $1.4 billion this year was 70% expensed. You've said that will go up. Can you give us some sort of indication? And can you confirm that you'll still be expensing at least 70% of that?

Shayne Cary Elliott
CEO & Executive Director

So we haven't changed our policies in terms of our CapEx thresholds. So we only capitalize things that are above $20 million. And over and above that, actually, we have a quite strict judgment factor around -- even if a project is more than $20 million, it doesn't mean necessarily we will capitalize. Obviously, we're pretty strict about what we will capitalize under what conditions. So that isn't changing, yes? So we're not going to backpedal on any on that.

So we will increase investment. I can't give you a number. You saw the number go from sort of $1.2 billion to $1.4 billion, and I would -- we're going to have another step change up in investment. That investment is, as I mentioned, mostly around -- it's going to be mostly in Australia. It's mostly to start the work on that process redesign, and some of it has to do around data and payments, which will actually enhance the franchise. So -- but that step-up, I imagine, will be sort of semipermanent. So it's not going to bump up just the $20 million and then come back down. It's a recognition of the new environment that we're operating in, and we'll continue to expense it, Richard.

Michelle Nicole Jablko
Chief Financial Officer

Yes. And I think if anything, the expense component probably goes up more than -- it won't go down.

Jill Campbell
Group General Manager of Investor Relations

Could you hand it to Andrew Triggs?

Andrew Triggs
JP Morgan Chase & Co, Research Division

Andrew Triggs from JPMorgan. Two questions, please. The first one on the noninterest income line. Despite Markets income disappointing, you did see reasonable fee growth, and you also saw an improvement in other operating income. So just the drivers in the sustainability of that line, please. And the second question, just back to, particularly, risk-adjusted NIMs. All 3 divisions had sort of fallen in the half, including in New Zealand. I would have thought, ahead of some of the RBNZ changes, pricing tension may well have gone out of some areas of market there. So just any comments around the adjusted NIM performance in New Zealand and the outlook there.

Michelle Nicole Jablko
Chief Financial Officer

Yes. So in terms of the NIM impacts, again, most of it was deposit compression -- deposit margin compression, not all, but most. And on other income, the increase was -- we spoke about that at the first half, and it was largely better earnings from our associates.

Andrew Triggs
JP Morgan Chase & Co, Research Division

But the fees and commission line was also...

Michelle Nicole Jablko
Chief Financial Officer

In the second half, there's some seasonality. Yes.

Jill Campbell
Group General Manager of Investor Relations

Okay. Do we have anyone on the phone? Two. Can we put those calls through, please?

Operator

[Operator Instructions] Your first question today comes from Matthew Wilson with Evans & Partners.

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

Matt Wilson from Evans & Partners. At the half in May, you outlined 5 key priorities, next 3 years. Today, you've got a 6-point plan. It's slightly different with respect to its emphasis on conduct, New Zealand, Institutional and cost. Can you talk us through those subtleties? And then secondly, is there anything you can do in New Zealand with respect to structure that could improve franking efficiency, deal with the capital and more holistic sort of solutions as well?

Shayne Cary Elliott
CEO & Executive Director

So I'll take the first question. I'll ask Michelle on the second -- in reality today, we've got 40,000 people at the bank across doing a range of different things. As I mentioned, the amount of pressure on our staff today is quite intense for all sorts of reasons. And the amount of change that we -- is being imposed on us as an organization partly because of things like remediation, partly because of regulatory change and partly because of just good old-fashioned competition out there means that we really need to enhance clarity for a number of our people. So what we've tried to do through the 6-point plan is deliver that, is to say to people what are the most important things that we're doing. It's also going to help us in terms of our resource allocation and being prepared to say what we're not going to do.

So Matt, there was no real nuance or subtle hidden message between the shift in those -- the wording there. It's just -- as I said, it's an attempt -- it's really a response to our people. As we've said -- just there's just a lot going on. What are those most important things that we're doing? And that's obviously being shared. That comes from the Board all the way down. So I wouldn't read too much else into that. I think it just recognizes the complexity of running the banks today in this environment and the need for us to be really focused on what we're achieving. So that's the point there. Did you want to talk about New Zealand?

Michelle Nicole Jablko
Chief Financial Officer

Yes. Just in terms of franking again, it's really, I think the -- if you're assuming the dividend is at $0.80, and just for argument's sake at the moment, then it's the absolute level of Australia geographic earnings. I don't know that changing New Zealand would change that unless you changed the overall dividend.

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

However, you couldn't raise equity in New Zealand and create a structure for New Zealand institutions to receive franking directly?

Michelle Nicole Jablko

Chief Financial Officer

There are some other -- we do look at things like that from time to time. There are some other capital implications of doing that, that don't make sense. So you never say never on them, but...

Shayne Cary Elliott
CEO & Executive Director

Yes. I would say, to be fair, the work that -- we do have a weekly meeting on that in terms of New Zealand capital issues and what our responses can be. It is very much focused on capital efficiency, right? We don't -- we haven't, to be honest, looked at it through a franking lens or in a New Zealand imputation credit lens. But clearly, any decisions we made in New Zealand, whatever they might be, structural or otherwise, will have implications around imputation credits for New Zealand. That's true.

Operator

Your next question comes from Brendan Sproules with Citigroup.

Brendan Sproules
Citigroup Inc, Research Division

I just had a question on some of the pressures you've called out on the margins. I just wonder if -- tell us how should we think about the change in rates over next year, particularly, I referred to Page 122 of the results pack where you show that it's basically term deposits of circa $230 billion which, in the half, you actually paid 2.5% average cost. When I look at sort of rates that you've got published in Retail and also some of the wholesale benchmarks, most of those are now below 1%. I was just wondering how you -- we should think about balancing the fall in that rate versus some of the deposits that are sticky.

Michelle Nicole Jablko
Chief Financial Officer

But might be with Mark talking about some of the changes in customer behavior. Yes.

Shayne Cary Elliott
CEO & Executive Director

Yes. I'm not sure though. I think that -- I think your -- the page from -- we can talk to you off-line on that, Brendan. But I think part of the problem of that page is that's not -- if I'm not mistaken, that's not just Australia...

Michelle Nicole Jablko
Chief Financial Officer

No, so that's [globally]. Yes -- exactly.

Shayne Cary Elliott
CEO & Executive Director

So that's global. So there's a whole bunch of noise in those numbers. They have the potential of being a little bit misleading in terms of when you're averaging the businesses. And they, of course, include Institutional and Commercial and all sorts of other bits and pieces...

Michelle Nicole Jablko
Chief Financial Officer

Yes. They have [indiscernible]. Yes.

Shayne Cary Elliott
CEO & Executive Director

But in terms of behavior, there are changes. Just want to talk through -- it is important because, clearly, lower rates means people -- our customers behave differently in what they're looking for.

Mark Hand
Group Executive Australia Retail & Commercial Banking

Specifically in the deposit space?

Shayne Cary Elliott
CEO & Executive Director

Yes.

Mark Hand
Group Executive Australia Retail & Commercial Banking

Yes. I think what we're seeing in recent times, there's obviously been a heavy focus on interest rates that are in the home loan space. The deposits has been probably a little bit less forgotten. We were quite aggressive chasing deposits. Because we had the growth in our mortgage book, we've been less aggressive in that space. So we've seen some moderation around that. The customers are much smarter around their money than they have been in the past. You've only got to listen to the radio at night, and the disk jockey is telling you how to ring the bank and get a better mortgage rate, but also talk to your bank about the returns that you are making. It's a much harder topic.

So I think we're seeing customers use their money smarter and sweep it into higher-yielding deposits. More so online, it's very simple for them. It's -- there's a lot less lazy money than there was before. It's a little bit different in the small business space where we still get a lot of transaction accounts that earn 0 interest on them, effectively, and customers are quite comfortable to have that money there in case they need it. But certainly, the consumers are getting smarter with their money.

Jill Campbell
Group General Manager of Investor Relations

I think we still got one on the phone.

Operator

Your next question comes from Brett Le Mesurier with Shaw and Partners.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Michelle, you talked about having no change in revenue from 2019 to 2020. Should we also expect no change in credit risk-weighted assets from the end of this year to the end of next year?

Michelle Nicole Jablko
Chief Financial Officer

I don't think I did talk about no change in revenue. I talked about a number of the drivers in terms of volumes in home loans and some of the margin pressures we're seeing. In terms of risk-weighted assets growth, I -- we will probably have risk-weighted asset growth as we grow the business subject to appropriate returns.

Shayne Cary Elliott
CEO & Executive Director

Yes. I think growth would be small. I mean that -- I think that's a fair assumption. As we talked about, there's a natural amortization particularly in the home loan book in Australia, which makes it a little bit harder. There will be a little bit of moderate growth and well-disciplined growth in Institutional. I'll say -- so I'd say the balance sheet is going to grow. Growth's going to be small. I made comments about the fact that revenue growth is going to be hard to come by. That's true. Volume is going to be close to 0, very small. And margins continue to be under pressure. And so -- and we haven't talked today, really, about fees, and fees continue to be under pressure as well with banks obviously eliminating or reducing fees as a general trend. So yes, revenue growth is going to be tough. And that's why we're really, really focused on capital efficiency, and that's what we're really focused on simplification and getting our costs in order.

We've talked a lot today about the simplification, the $8 billion. It is really important to us. We -- it's not news. We have been talking about this certainly as long as I've been in this job, about the need to simplify the bank to derisk it, to make it easier to deal with and to, frankly, make it more productive. We know when we benchmark globally and around not just the banks and other industries that we can do better on costs and still deliver great outcomes for customers, and that's what we're going to be focused on doing.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Right. So -- yes, back to my question then. You'd be surprised to find that credit risk-weighted assets increased by more than revenue over the next year. Is that a fair way to interpret what you just said?

Shayne Cary Elliott
CEO & Executive Director

No.

Michelle Nicole Jablko
Chief Financial Officer

No. I don't think...

Shayne Cary Elliott
CEO & Executive Director

No. I think the opposite.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Shayne Cary Elliott
CEO & Executive Director

Sorry. Margins will be under pressure so I think no, I think the reverse. I think revenue growth will be very low, and there will be some modest growth in credit risk-weighted assets.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Right. So we'd be expecting to see then capital increasing faster than revenue and expenses increasing and the bad debt charge, at best, staying where it is. That's a fair summary for what we are looking at for 2020.

Shayne Cary Elliott
CEO & Executive Director

There's a lot in there I can't...

Michelle Nicole Jablko
Chief Financial Officer

[There was a lot.]

Shayne Cary Elliott
CEO & Executive Director

Yes. As I said, 2020, revenue is going to be tough to come by. Growth is going to be moderate, if any. And costs are -- clearly, we've -- Michelle had been very clear, certainly, for the first half anyway, in guidance, giving you a number. Cost will be up between $150 million and $200 million for a whole range of reasons. So yes, there's going to be -- there is undoubtedly pressure from a financials point of view.

Our point -- our position is it's still the right thing for us to do. It's the right thing to do to go and invest in those projects that we have in mind. It's the right thing to do to continue to be really targeted about our growth in Institutional and in the Australia business in particular.

And we haven't really talked about New Zealand. The New Zealand environment is tough as well. I mean it faces a lot of the same challenges we have here in Australia, probably not to the same level of intensity, and then you overlay the changes around the Reserve Bank, which we don't have yet. We're going to get those in a few weeks. We've got lots of ideas and smart people thinking around what might happen. It will have implications for the nature of the industry in New Zealand.

As I said, we can be -- we can whine about it. We kind of got over that. We're focused now on what we're going to do about it and where we see opportunity. And there will be opportunity, and -- in New Zealand. And New Zealand business has been well run for a long period of time. It's sort of time for a reset anyway, and it will force us to be more focused, frankly, and that's the approach we're taking.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

So we should also be thinking about the Institutional business growing faster than your domestic Retail business in 2020 as well.

Shayne Cary Elliott
CEO & Executive Director

I don't think about it like that. I don't know. I mean I...

Michelle Nicole Jablko
Chief Financial Officer

I think, as you said, capital is not constrained.

Shayne Cary Elliott
CEO & Executive Director

Capital is not constrained. They have their targets. We'd like them both to grow and achieve decent returns above our -- their cost of equity.

Michelle Nicole Jablko
Chief Financial Officer

And partly, that will be market dependent.

Jill Campbell
Group General Manager of Investor Relations

Okay. With that, we're going to finish up. We'll be around for the rest of the afternoon if you have follow-up questions.

Shayne Cary Elliott
CEO & Executive Director

Yes, thank you very much. Thanks, everyone.

Michelle Nicole Jablko
Chief Financial Officer

Thank you.

Jill Campbell
Group General Manager of Investor Relations

Thank you.

Shayne Cary Elliott
CEO & Executive Director
Thank you.