Question and Answer

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

Thanks, Jon. We'll be taking questions from analysts and investors only. For those in the room, can you just please wait for a microphone and state your name and organization you represent. Let's begin with the room first. To my left. Jonathan?

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. I've got a question. It's actually from the results -- the bigger result, Page 15. There's a table at the bottom there that you can see, which breaks down the movement in the lending book for the mortgages across BOQ, the Virgin Money and BOQ Specialist. And you actually see that the BOQ brand has run off at an accelerating rate? And if you go through why that probably is, if you go back to 2012, there were 200 owner-managed branches, and you're now down to 115. And as you close branches, it's kind of like a store rollout working in reverse, where you close it and then the book will amortize, and after a few years, the amortization accelerates and customers start refinancing away. So as this continues and the branch network shrinks, wouldn't you expect this runoff of your back book to, if nothing else accelerate, and so while you're getting a pickup on your front book, which we can all see coming through now, won't that be offset by an increasing runoff of the back book leaving it pretty hard to grow the book going forward in future years?

Jon Earle Sutton
Former MD, CEO & Executive Director

Well, it's always good to have you ask the first question, Jon. So -- and thank you for that lengthy pointy question as well. Really pleasing to say, look, we're looking at our application volumes every day. And Owner-Manager network is at about 113% of its target over the last few weeks. And Matt, our Head of Retail, has just been around the country, and optimism amongst our network is at the highest it's been for a considerable period of time. I've spoken a lot about channel diversification over the last few halves and in results presentations. We need to make sure that our branch network is optimized. We need to make sure that we're in all the mortgage channels that customers choose to deal with and significantly, the broker channel has been increasing significance. And with both Virgin, BOQ Specialist and I am confident that our Owner-Manager network will get back to growth that we will see an uptick in our mortgage growth. What's really important is for us to be open with customers how they want to deal with us. And that's a combination of the brands that we talked about. Our Owner-Manager network is increasingly important. We had a reduction of branches in this last half, but a lot of those branches were actually are -- some of the Owner-Managers actually retired, but other Owner-Managers bought those branches. And where we've seen those Owner-Managers take on those additional branches, they have actually done very, very well. So we're comfortable with where we're at with that at the moment.

Daniel Ryan
Head of Investor Relations

Question just here to the right.

Andrew Triggs
Deutsche Bank AG, Research Division

It's Andrew Triggs from Deutsche Bank. A couple of questions, please. Firstly, on the -- it is the strong cost performance in the half but maintained the 1% underlying cost growth guidance for the full year. Just that I think my numbers assumes about a 3% step-up in cost in the second half, is that a seasonality issue around the timing of wage increases? Or is that amortization expense coming through? The second question, just on the change in funding mix during the period, we saw a sizable reduction in the reliance on wholesale deposits and a step-up in retail deposits. Do you think that mix has now improved and that 107% NSFR level seems about that where the peers sit now? Is that -- any more work to do there, please?

Jon Earle Sutton
Former MD, CEO & Executive Director

I'll let Anthony talk about the cost base. But what I will say just at general level for those things, on cost, we remain really, really focused in what I described attacking bad cost out of the organization. There is still plenty of space for us to look at optimizing what we do across our cost base over the time. I'll have more to say about that at the next set of results. What we have done successfully is absorb the amortization cost, absorb the rollout of Virgin, which is proving to be a great product for the market and really proves the power of that brand up. So we'll remain really focused on cost. In terms of the deposit mix, we saw a significant cost to us with the term deposit pricing that we saw as all banks run up to get to their NSFR. We've seen that moderate. But what's more important is that we're actually been using a lot of data analytics actually manage that term deposit pricing mix. We've done a lot of that around our, what I would call, our treasury retail deposits, and we'll be rolling that out to our Owner-Managers. So again, it is -- we've got a nice tailwind coming through on that at the moment as the industry reprices TDs, but we're also looking to do better than just that tailwind.

Anthony Rose
Executive Officer

I might just add just to make -- give a little bit of clarity on the cost guidance. We gave very clear guidance for the full year around the 5, 10, and we're saying that we are comfortably on track to deliver that outcome. We're obviously calling out separately the additional $4 million from the acquisition of the insurance-premium funding business. We -- when we say we're on track, yes, there'll be a little bit of an uptick in amortization, the salary increases would have been in this half as well, so there's nothing in that to call out. But we -- we'll obviously be working hard to try and achieve better than that profile albeit we're not in a position to make that a definitive point at the moment. So -- but we're -- yes, you can see by the numbers in the first half we're pretty comfortably on track for that profile. So potentially a little bit of an upside from that if we can achieve our targets.

On the next table, funding ratio, I think it clearly comes out in what's happened in the term deposit space that we saw some very aggressive activity, which was very clear, I think, in the chart that we provided, which coincided almost like a perfect storm with what regulatory changes were sitting across the top of it. We are at 107% of NSFR. We believe that that's an adequate level to commence the compliance with the new framework on 1 January 2018. There's probably a progressive uplift in that over time, call it, to the 110 area, but there's a 3-year implementation time frame for that, and we don't see anything significant that as far as stress is concerned for the industry to orderly transition to that profile.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

I think we've got one question behind Andrew.

Victor German
Macquarie Research

Victor German from Macquarie Bank. I was just hoping to follow up on Jon's earlier question around volumes because one of the, I guess, disappointments or challenges in this result was around margins and volumes. I think Anthony provided some good color around margin piece. But I think it'd be quite useful for us to get a little bit more insight in terms of where the volumes had been driven by. And I appreciate your comments around seeing better flow. Would be really interested to hear about -- we know that you've got a new product out there that is actually very competitive now in terms of pricing. To what extent that's one of the drivers of better flows? Also, some insight in terms of the outflows from a less competitive SVR product that potentially is driving some of those challenges around SVR volume growth would be really useful.

Jon Earle Sutton

Former MD, CEO & Executive Director

Yes, so let's just expand a bit on that because there's quite a bit in Jon's question and quite a bit in your question. So let's just start with underwriting. The regulator has been very prescriptive about their underwriting standards for mortgages, both regulators have, and particularly around responsible lending. So we've always validated 100% of the mortgages that come through. We've always asked for detailed income and expense assessment. And there's been pages and pages written recently about him. And what we did see over the last 6 months was, one, was super competition. So a number of the majors scooped up an enormous amount of mortgages in a very short period of time at very competitive pricing. So we made a decision not to match that price. So that's part of not getting -- that's part of the flow that we didn't see. The second part that is really important, which we are now seeing the market come back to us, is around the underwriting standards. Now there's any number of articles being written in the last 3 weeks about banks that have been sending out to brokers detailed income and expense assessment questionnaires to validate income. What we found particularly in the Sydney and Melbourne market when we're on the consideration set that we could not match the maximum loans that we're being offered. So for example, family, husband and wife, both working, we might offer, say, $900,000 as a loan, whereas competitors were offering $1.2 million. So we saw that as well. In terms of what we've seen over the last 6 weeks, so I just want to be really clear on this. This -- our increase in mortgages, the 30% uptake in application volume is not because of investor flow at the moment. We're not -- we're seeing a good range of owner-occupier and investor across the various brands. And we've seen our Owner-Manager network also pickup in terms of their flow. So sure, we would have liked more growth in the last 6 months, there's no doubt about that. But what price do you want at that? And what we have seen over the last 6 weeks is front to back book margins narrowed. You have seen a lot of banks change their competitive position around LVRs. You've also seen a significant movement probably more towards where those regulatory practice guidelines have been around income assessment and expense assessment. Our Virgin Money product, it is not the cheapest in the market. It is -- it does have some bells and whistles, particularly around the frequent-flyer points. It is priced at different price points for different LVRs. BOQ Specialist continues to grow its mortgage book at 27%. And we have -- we're at $250 million now for Virgin on the sheet already. So that's $50 million in the last month, and those applications are increasing. The next cab off the rank for Virgin will be a deposit product. So in the last 6 weeks, I am confident that we are getting back to growth in our mortgage market and it is coming across all the channels. Interestingly enough, just the last few days, when you look at where some of the flows are, we are starting to see an uptick in the investor flows. We are well and truly below our 10% cap. But again, we're going to watch closely at where those flows are and manage that very closely.

Anthony Rose
Executive Officer

I might just add to that, that yes, we're all aware that the investor space has been rapidly growing across the sector. There is an appendix to the presentation on Page 31 where we set out our portfolio metrics. Our investor flow -- our owner-occupied flows were 70% of our volume through this half in settlements, and obviously, our portfolio is much higher weighted to investor than that level of flows. What we have seen over the last 6 weeks is a lift in investor back to our natural portfolio position, but it does demonstrate that we haven't been in a part of the market that has obviously been the highest growth element through this period as well.

Victor German
Macquarie Research

Sorry, just to be clear that we're getting the message right. It sounds like you're saying that predominantly the issues are around flow rather than back book amortizing.

Jon Earle Sutton
Former MD, CEO & Executive Director

Yes, but all back books have the natural element of amortizing. In fact, our back book is probably doing a little bit better than what we thought on what the natural amortization would be. We do a lot of work around retention as well, and we've had some success around retention. But a couple of halves ago, I talked about the velocity of mortgages and how quickly and dynamically that flow is moving across the industry. And the influence of brokers is quite large and the influence of brokers in terms of customers wanting to deal with brokers. We don't have a problem with dealing with brokers. We think it's a great part of the industry, but again, brokers were influencing heavily what customers are doing. Customers are very savvy as well. They sit and watch their morning breakfast television, and if someone's saying your mortgage doesn't start with a 4, they need to change. So we are seeing that velocity across the industry. But in the last month, there has been a significant change in the industry, particularly with what we're seeing with flows and how banks are pricing and also the bifurcation of pricing for risks across the mortgage market. They are significant changes that we think provides us a lot of opportunity as well.

Brendan Sproules
Citigroup Inc, Research Division

It's Brendan Sproules from Citi. Just a question on your capital position. You described it today that as very strong. But I did notice that you've retained 30 basis points this period, but you decided to keep the dividend flat, and you've also maintained the discount DRP which, obviously, is diluted EPS, a little bit relative to cash earnings. Just some insight into why you took those decisions.

Jon Earle Sutton
Former MD, CEO & Executive Director

At a high level of capital front, and Anthony will take you through the dividend and the discount, there is a lot of uncertainty still around the capital position and what's going to happen with Basel IV. And I know a lot of you analysts write a lot about this, and it's still very uncertain. You've got the Europeans on one side wanting something, you've got the Americans on the other side wanting something. And then you throw in our own regulator, APRA, who's appointing on unquestionably strong. And there were some notes out yesterday that said that over next couple of months that, that will become much more clearer. So we're probably a bit conservative on where our capital stands at the moment, but we do believe that once there is greater clarity over what the regulatory environment will be, that we'll be in a position to either optimize capital. We've got a great balance sheet at the moment that will allow us to grow. So we're probably running a tad rich, but it's probably -- it's the right time to be doing that as there is a high degree of uncertainty over what the capital outlook will be. And more importantly, it helps us with our growth in the second half and future periods.

Anthony Rose
Executive Officer

And just adding to that. Nobody knows the answer to that question. So whilst I think our view would be on a central estimate basis, we're probably adequately covered and comfortably covered for where the new standardized framework may land in APRA's unquestionably strong position. But there is always the risk that they could set the hurdle for the industry sufficiently higher that we require more. So I think the answer is -- to your question, Brendan, that we've kept the settings consistent. We've delivered a dividend which is consistent with our guidance around starting to track our earnings per share growth. And albeit there's some degrading of EPS in this half, but I think the message we've provided for the outlook in the second half is consistent with the profile. And -- but once -- and we were hoping we would be further advanced given Basel's meeting, which was kicked down the road, with some greater clarity. It still is -- does appear that within the next 3 to 6 months, we'll have some sufficient guidance as to where the industry is headed and where APRA wants to move in particular around unquestionably strong. Post that and when we understand what the landscape looks like, we clearly need to go through an exercise of understanding how to best optimize our capital position relative to that framework. As we've said in the past, we don't want to run a lazy balance sheet. Our preference would be to optimize our position, balancing our expectation for medium-term growth aspirations. So we'll obviously have to look at that in the context of when that becomes clear.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

Brendan, I think Ed behind you would like to ask a question.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

It's Ed Henning hear from CLSA. Just a couple of questions from me. During the period, you closed 14 branches. Is there any more headwinds going from there? You've converted 60% of the owner-manager branches and you've got 40% to go. Is there any headwinds there? Also just a clarity, just on the margin, at the moment, you guys seem to be heavily discounting your front book, both on owner-occupied and investors. One of the sharpest rates out there. Is this factored into your NIM guidance?

Jon Earle Sutton
Former MD, CEO & Executive Director

Just on the pricing. It is not the cheapest pricing in the market. We review the pricing almost on a daily basis, weekly basis, given what some of the competitive tensions are, and I'd draw you back to Virgin. We do differentially price on that for LVRs and through investor in other pieces. On the balanced scorecard, really, really happy with the progress we've made, that the balanced scorecard has significantly changed the performance of the Owner-Managers. You go back 5 or 6 years ago, it was very unsophisticated. It was pretty much like a simple broker-type arrangement with an upfront trial. And the balanced scorecard now rewards our Owner-Managers for looking after both sides of the balance sheet, for also looking after the customers that they care for, also has significant weightings around behavior and ethics. We will continue to roll that out. So as a new owner-manager comes up for a renewal and agreement, they are signing up. And the examples that we've had, some of our best Owner-Managers significantly increased their earnings through concentrating on the balanced scorecard. It's helped us with deposit gathering. It's helped us with opening up current accounts. It's helped us in making sure that we look for the cross sales across our business. And even in Hedland it's been a key finance business. We've had some outstanding results with our Owner-Managers on that. So we'll continue to push on that. And I think I've given a fair commentary on the -- around the branches. BOQ, a few years ago, we had over -- what was it, Matt, 280 branches on any size of -- if you looked at footings, that was an enormous branch network and no broker. So again, what we have done over the last few years is diversify our channel optimization. Sure, we could have done -- had better growth the last half, but we've got Virgin coming online, BOQ Specialist doing well, our Owner-Managers are getting back to growth, we're back on the consideration set with the brokers, we're well under our investor cap. We've built a mortgage Center of Excellence to look after front, middle and back office. We're pretty much put nearly all of our mortgage processing into that, and we're getting much better outcomes in terms of turnaround times for our Owner-Managers and their brokers.

Anthony Rose
Executive Officer

Just to cover off on the -- your margin element of the question. The guidance that we provided is based upon the current settings, and I think the -- what we would say is that we have not moved pricing that's seen this uplift. It has really been -- our levels have been maintained. We would call out broader changes to the competitive environment that have shifted in our favor to make us more competitive in that regard. So that guidance is based upon the current position. We obviously can't make any assertions as to any future pricing decisions that we make from this point going forward. What I can say is that guidance is -- does not include any pricing changes from this point.

Jon Earle Sutton
Former MD, CEO & Executive Director

And I do look at the front-to-back book margins on a weekly basis, and we have seen an improvement.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

We'll take one more question in the room before we go to the phones.

Andrei Stadnik
Morgan Stanley, Research Division

Andrei Stadnik from Morgan Stanley. Just a couple of quick questions. Firstly, on this the SVR repricing, so pretty much only competitors have repriced in the last couple of weeks, very aggressively, in some instances. Why isn't BOQ repricing? Is that signaling a little bit more appetite for volume over margin?

Jon Earle Sutton
Former MD, CEO & Executive Director

As you well expect, we don't signal anything comparing pricing because you're not allowed to. What I will say is that we constantly monitor where our pricing is, and we'll continue to do so. And we're acutely aware of what the industry has done over the last few weeks.

Andrei Stadnik
Morgan Stanley, Research Division

Just on credit quality, something hasn't received a lot of attention, but BOQ Finance, in particular, had a big fall in the loss rate from about low 70s to low 50s, and Commercial was better as well. What's driving that? And how sustainable do you think these rates are?

Jon Earle Sutton
Former MD, CEO & Executive Director

The BOQ Finance credit portfolio, we've always said that would trade in a range because it is asset financing. We did see a significant uptick when WA started to hit -- the economy started to soften considerably, and we did see an uptick in central Queensland around those mining-related areas. But again, BOQ Finance is one of those unsung heroes within the bank. We're spending about $10 million on upgrading our leasing systems, and we've already seen a significant uplift in novated leases. Under Hugh Lander's leadership, we started to move away from some of the really cheaply priced broker-originated equipment financing into some other sectors. I'd expect that, that business would continue to trade in the range that we've indicated in the past. There's probably not much more in terms of improvement. On the Commercial side of things, look, we've been judicious with our credit settings. What we have seen is we've had a lot of development finance runoff at this point of the cycle, which we're happy about. We have a little bit of develop finance left on the book. Loans, over a certain size, get a pretty rigorous scrutiny at the executive Risk Committee, but we are seeing -- we've seen very good growth in Brendan's portfolio in those niche businesses. There is benign credit settings out there at the moment in the market. That's not to say that, that won't change. I think on the credit -- on the retail books, the one thing you've got to watch is underemployment. It doesn't get talked about a lot, and I think underemployment drives -- can drive stress in mortgage books. And where we do see stress, underemployment has been significant in those regional economies. Property seems to be holding up well. Commercial property seems to be holding up well. Development finance, it's tough out there at the moment. It's -- I think, there's some tail risk in the market out there at the moment. But we're happy with where we are at the moment. It's a good outcome for the cycle.

Anthony Rose
Executive Officer

Specific to your question on the equipment -- the BOQ Finance portfolio, that was a really good bended out of debts expense result for the half, but a really powerful leading indicator for that performance is actually the arrears position and the arrears position, this time of year, for that business now is very low. So we're reasonably confident that, that does point to a sustained level at where we are -- that level sustaining for at least the medium term.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

Okay, we'll go to the phones now.

Operator

Your first question comes from Craig Williams from Citi.

Craig Anthony Williams
Citigroup Inc, Research Division

On Slide 19, your non-interest income -- challenging headed slide. Trading income is $5 million this half and described as being at a more normal level. If you look at the previous 3 or 4 halves, flowing 3 of the halves were sort of double that level and the other was also comfortably above. So why can $5 million this half be considered normal? And what contributed to the flow weakness of this half?

Anthony Rose
Executive Officer

I think we've been saying for some time that 8 to 10 range that we've been operating at was not consistently repeatable. And there were things like contraction in semi-government credit spreads that had helped us through periods in the past that weren't evident this year. You've also got the instance that we actually have had a flat rate environment over this have. There hasn't been any movements in the RBA rate. And also the volatility in the curve has been less pronounced. Just I think simply lower opportunity, but again, it's probably at a level that we would say is more at the repeatable position. And sometimes, we might do a bit better than that and sometimes, we could actually -- it is trading income. You could always produce 0, right? So that's in and around that area, if that helps.

Operator

The next question comes from Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

I've got a couple of questions. Firstly, on Slide 31, you -- as you pointed out, there was a big drop-off in settlements of investor loans in the half. Can you tell us if you actually had some growth in the owner-occupied book? And the 30% uptick in settlements that you referred to, Jon, is that being driven by investor property lending?

Jon Earle Sutton
Former MD, CEO & Executive Director

So the 30% uptick we've seen in the last 6 weeks is not driven by investor property lending. It's been a nice, even spread amongst owner occupiers and investors, and it's returning back to what we would see as the more normalized levels. Just in the last couple of days, we have seen a little bit of an uptick in investor. Who knows where the macro prudential caps will go and what will happen over the next few months, but we're well under the cap. We are very mindful of the right sort of lending at the right point of the cycle as well.

Anthony Rose
Executive Officer

The areas where we did have growth, being BOQ Specialist, mortgages and Virgin Money mortgages, both over-index in owner-occupied product over and above investor. And as Jon said, the 70-30 mix has returned more to -- whilst there has been a bit of tick-up in investor, it has been a tick-up across the board, with levels now more -- a mix between investor and owner-occupied, consistent with our portfolio mix.

Richard E. Wiles
Morgan Stanley, Research Division

So does that mean the owner-occupied book did grow in the first half?

Anthony Rose
Executive Officer

Yes.

Richard E. Wiles
Morgan Stanley, Research Division

Yes?

Anthony Rose
Executive Officer

Yes.

Richard E. Wiles
Morgan Stanley, Research Division

On credit quality, couple of points you've mentioned, some of the challenges in Queensland outside of the southeast sort of regional and northern Queensland. Is it too early to comment on whether Cyclone Debbie will have any impact on credit quality in Queensland? And can you tell us what happened to your credit quality after Cyclone Yasi?

Jon Earle Sutton
Former MD, CEO & Executive Director

I'll have to go back and have to look at the -- going back to Yasi, we didn't see a significant change at all in arrears or write-offs, but my understanding from our people underground up there, this one has been just as bad, if not worse, than Yasi. And it will have a significant impact, particularly on the agricultural sector in that region. I've spent quite a bit of time with the executive committee in the last 6 months where we actually go out to regional locations. And no doubt towns like Townsville, Rockhampton and Mackay have gone through a significant structural change as the investment in those mining-led regions has come back -- has diminished significantly. Those big gas plants are now fully operational and will be delivering national income to Australia, but again, you don't have the same sort of people that are there. I was in Cairns a few weeks ago with the executive committee, and Cairns is certainly doing really well for tourism, and the town has real vibe about it. And it was really interesting to see big cruise ships pulling into Cairns. And I asked the local Chamber of Commerce what does that do for the local economy? And he said everytime one of those cruise ships pulls in, it fills up the place to the tune of $6 million. So we're actually starting to see tourism come back. I think the tourism industry will be sadly impacted, unfortunately, by this most recent cyclone. A lot of the islands have really, really been hit hard. But it is too early to say yet what those ramifications will be, but we've already put in place packages for our customers to ensure that they're looked after during what is a difficult time. I'll just say one thing, too, a little bit more about mortgages. And we looked the other day that the number of mortgagee in possessions this bank has, it's 40 or 41. It's quite low. It's very, very, very small compared to the total number of mortgages we have.

Anthony Rose
Executive Officer

Traditionally, the -- I think the sector across the whole hasn't seen credit losses as a result of natural disasters, other than really at the fringe, and no meaningful impact out of that. Perversely, what we -- maybe in some a specialized agri sectors and things like that, if you've had exposure to that, there can be implications, and we don't have any concerns at this stage in regard to our exposures in those locations. What can often happen, though, is the repair and maintenance activity that is required to correct everything does actually create a local economic boost to those regions. And we've seen that reasonably consistently time and time again when there have been these types of disasters, whether they be earthquakes or cyclones or floods, and it may well help in a medium-term horizon given that activity level.

Operator

Your next question comes from Ashley Dalziell from Goldman Sachs.

Ashley Dalziell
Goldman Sachs Group Inc., Research Division

Just first one on capital and advanced accreditation. Can we just get a rough update on the time, I suppose, to application and maybe any quantum of investment if you were to still go down that path? And then, just secondly, picking up the discussion around, I suppose, underwriting standards restricting your ability to compete in mortgages over the past couple of periods. Just noting that example you gave around the Sydney family, wherein you might have a max lend of $900k and peers are still at $1.2 million? I mean, is that a pretty extreme example there or is that pretty representative of, I suppose, the reduction in the system max lend that you think is going to come from these latest round of expense and income assessment? [indiscernible]

Jon Earle Sutton
Former MD, CEO & Executive Director

I won't make any comment about what other banks may or may not do under their underwriting standards other than to say that we make sure that we're following what is prescribed by the regulator. And there have been times where with our underwriting standards we're either being in the market or out of the market. We're actually seeing the market come back to us. That's pleasing. And what I will say and you've seen it in today's results is that we need to make sure that we can get through the inevitable cycles that the Australian economy goes through. And everybody, at the moment, have seen rising housing prices for a considerable period of time. I remember when I bought my very first house in Sydney, the price didn't move for 10 years. So prices can get flat and prices can go down. So we're happy with the underwriting standards that we have, and we believe that the underwriting standards and what we've seen in the market over the last 4 to 6 weeks will allow us to get back to growth. We're not in any way, shape or form going to actually drop our underwriting standards significantly to go and get growth. That will only end in tears when someone else is sitting this the table in future years. And on the advanced accreditation piece, Anthony put up a really good slide that showed the work that we have actually done over the last half -- over the last few halves to get us to that journey. What is still incredibly unclear is around the regulatory environment, and there is -- we're waiting to see what that regulatory environment will be. Hopefully, at the next half, we'll be in a much clearer position to say, "Yes, we're pressing the button to go to advanced accreditation." But everything we've been doing over the last halves has been making sure that we are in good shape to be able to do that. If there is a significant incentive to move to advanced accreditation, that remains still pretty unclear at the moment with the impasse with the regulators

Ashley Dalziell
Goldman Sachs Group Inc., Research Division

Okay, I appreciate that. But given all the work that you have done, if you do decide to go down that path, how much time do you think you'll need to get that application in from the point of decision, I suppose?

Jon Earle Sutton
Former MD, CEO & Executive Director

I'll just pass that to our Chief Risk Officer to make a comment on that. Peter? Sorry, the microphone is coming to you.

Peter Deans
Former Chief Risk Officer & Group Executive

Yes, thanks for that. Each of the parts on the right-hand part of the slide, there are some chunky elements to that, and I think it will be fair to say that it's probably -- if we were to start today the second parts and go quite hard, it's probably a 2-year-plus time horizon to get us to the point where we'd consider putting an application in. And we do need to make some decisions on some of the aspects, how much you actually did want to do, because there are business benefits from a number of them, such as the data warehouse enhancements. I think the key thing, as Jon sort of touched a couple of times, is really the economics of is there sufficient incentive for us to go, because I think as most people are aware, there's a fair bit of convergence between the requirements for standardized bank and an advanced bank. And whilst I think the regulators are keen to make sure there is an incentive, I don't think incentive's sufficient. It's certainly not what it was a number of years back, so that's a decision the bank will have to make, really, on a quantum of the investment.

Anthony Rose
Executive Officer

And I think probably the only other element to that is that staged process that's now potentially available through the regulator, as we understand it, requires that to get to your initial partial accreditation, you've got to have a defined and supportable plan to reach full accreditation within 2 years. I think given the work that we've done, if we were to go down this path, we'd like to think that we might be able to shorten that element and run some of that in a faster parallel process than maybe taking that mixed element of the remaining accreditation piece, given how -- given the progress we've made to this point.

Operator

The next question comes from Dave Spotswood from Shaw and Partners.

David Spotswood
Shaw and Partners Limited, Research Division

Can you help us with the math? 30% growth in settlements, what does that mean to the loans and advances? If that's sustained for whatever, 6 months, 12 months what would the loan growth be? That's the first question. Second question, I mean, you've got all different products out there. In the investor lending, where are you sitting in terms of your competitors? Is it a cheap product or are you expensive or are you in the middle of the pack? And the third question, the $80 million in other operating income, you think that's a [stable] number looking forward?

Anthony Rose
Executive Officer

Great. So the -- on the loan growth, the levels that we've got at the moment will see us achieve some growth momentum. Obviously, they take some time to come through into settlements. So the growth that we're putting on today is the business that we wrote, 6 weeks to 3 months ago. So the second half actual growth, clearly, will -- we would expect would still be some gap behind system. But if we were to continue to deliver that, with a little bit of an increase on that momentum, would see us at levels of growth at or just under system over time. On investor pricing, look, it's -- there's so many moving parts to that at the moment. There's interest only. There's a whole bunch of other elements. We are working on the interest-only piece, and it's good, probably, I've got this question to keep Jon's blood pressure under control. It does demonstrate the speaker here that we have a across our organization in making some of these changes, which we are actively making progress on removing. But this is something that, for us, will be a delivery in the middle of the year. And -- but at the moment, we -- our pricing level on investors, certainly, is not leading the market. And with that -- but as I said, the market's moving rapidly and we need to continue to monitor where we sit relative and make sure that the activity levels that we have give us sustained momentum. But we also need to make sure that we can't get them to a point that our fulfillment times aren't what they need to be to satisfy customer-owned and broker and owner-manager expectation. So we will be refining and monitoring pricing levels on a very active and agile basis.

David Spotswood
Shaw and Partners Limited, Research Division

And the $80 million, is that a base level you can sustain and grow from?

Anthony Rose
Executive Officer

I'd probably go back to the comments I made when talking to the slide, which the speaker notes will be published after this session. Yes, it's an area that we continue to work hard on just maintaining at flat, and we have work to do to get there. So we've accounted much more than that.

Operator

The last question comes from Scott Manning from JPMorgan.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Just 2 things that I wanted to follow-up on, firstly, just on the noninterest income piece. The $80 million for this period, includes $7 million of equipment sales realizations through BOQ Finance. That number was $6 million in the second half of '16, but was hardly noticeable in the first half. So I just wanted to get an understanding of what drives that and whether you think that, that particular number is actually sustainable.

Anthony Rose
Executive Officer

Look, the nature of that line. You get either inertia income, which comes through the net interest income line, which is the customer gets to the end of their contract, it might be 2 years or 18 months, and they just continue to pay on a monthly basis, and that just comes through the net interest income line. And sometimes, that's -- and so -- or they hand the equipment back. And in relation to things like computer equipment, we've had actually some good uplift in our repurposing of that, so using some vendors that use global distribution networks to provide those assets to alternative users are around -- in different geographies to realize value. So there is a bit of a cyclical trend that relates -- that will either come through the net interest income line or the noninterest income line, depending upon how that plays out. Some of those factors aren't just economic cyclicality. It could be there's a new change to computer technology or new Apple iPads come out and people want to trade-in to the new asset. So -- but from a total revenue perspective, there might be an element of timing difference, but through the cycle, that should relatively even out.

George Gabriel
Evans & Partners Pty. Ltd., Research Division

And secondly -- sorry, I just had a follow-up question. So on the Owner-Managed branch network, the reduction of branches there, on the other side of the balance sheet, which you almost focused on, what are you seeing in terms of deposit runoff from those branch closures? If I go back to the branch opening story back in the 2000s, the idea was that you had this "fair wave of growth" from initial deposit growth followed by asset growth. So I'm just trying to understand any implications for deposit growth or any timing mismatch between asset runoff and liability runoff as you close these branches.

Jon Earle Sutton
Former MD, CEO & Executive Director

Yes, and some of these branches are not actually closed. They're actually being taken back by -- net-net, the branches are down, but a lot of them have also been amalgamations. And when we've actually had successful amalgamations with owner -- Owner-Managers, they actually continue with the footings that they actually have, so the 2 branches going into 1. The footings pretty much stay the same. We're actually incentivizing our Owner-Managers around doing more around our current accounts and opening up those current accounts' inactivity. We're also doing a lot of work to help the Owner-Managers with the deposit pricing on our term deposits as well. You can't cut your way to -- shrink your way to greatness as well. And we're very conscious that -- in Australian Banking, and it goes for everyone. The branches play a predominant role in deposit gathering and you need to have a healthy branch network to continue that. And we are very focused on that side of the balance sheet in terms of building up our deposit base. If you go back to the 2000s, and I wasn't around then, but a lot of the deposits that we've built up have been in the TD market, and we do need to do more work around building sustainable current account transaction deposit accounts, and that's what we've been directing our Owner-Managers to do. And Virgin will follow-up with a deposit product as well, and BOQ Specialist also has a deposit product as well.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

We've got time for one more question just here to my right. Thank you.

Brett Le Mesurier

Brett Le Mesurier from Velocity Trade. Jon, it looks in the accounts that Virgin doesn't make any money. Is that the correct interpretation of the disclosures?

Anthony Rose
Executive Officer

No. There is a disclosure in relation to the other income line, whether it's contribution, and there is the expense piece related to that white-label product distribution piece. So it is profitable in the period, and I can take you through the detail of that, probably, offline. There's obviously the expense base for the mortgage rollout, which we'd categorize separate to that, which you clearly only get a part portion of the revenue benefit on net interest income in this period relative to the expense base you've brought on to support that level of volume, so there will be a timing mismatch. But again, included within the totality of our mortgage offering, we don't see that as the case.

Jon Earle Sutton
Former MD, CEO & Executive Director

We see Virgin is providing us with significant growth. It is one of the few credit card books that actually has grown its receivables balance over a considerable period of time. The rate of uptake of the Virgin mortgage product is well ahead of what we thought it would be. And in the future, you could possibly see a lot more red across the organization as Virgin grows. We work -- we look closely at what the experience of the Virgin Bank has been in the U.K. as a challenger brand, and it's been quite -- it's been a very, very, very successful. And we're -- this is early days here in Virgin's journey, but we're very pleased with where we are at the moment.

Brett Le Mesurier

[indiscernible] for the first half for Virgin?

Anthony Rose
Executive Officer

Given the moving parts between the mortgage business and the other, I'll come back to you after.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

Okay, that wraps it up for today. It brings the briefing to an end. So thank you, and we'll have some light refreshments on your way out. Thank you.

Jon Earle Sutton
Former MD, CEO & Executive Director
Thanks for everyone's time.