Question and Answer

Will Rayner
Former Head of Capital and Investor Relations

Thanks, Mike. As is the normal arrangements, we'll open up to questions here in Melbourne first. If you could just wait for the microphone and identify yourself for those that are online, and then we'll head over to any questions that may be online. So, Ian, we'll start with you.

Ian Rogers

Ian Rogers from Banking Day. Mike, could you lead us through the strategic rationale for the Southern Finance acquisition? How did it come about and how many more of these program finance companies are you going to bail out?

Michael John Hirst
Former MD, CEO & Director

Well, first, though, it's not a matter of bailing anyone out. The Southern book was a very good book. And I think maybe just -- and for others on the phone who don't know the private market, the niche [ph] market well, a lot of those companies, Southern included, came here to solicit the mortgage investment companies, and they provided financing, rural and regional communities for a long period of time. And essentially, it was the solicitor intermediating between his own clients, where he had borrowers and lenders, and so it was very important from the solicitor's point of view that the loans that were made were good loans because he didn't want to impact his own business. And by and large, where those companies stuck to those routes, they've done well. Where they've gone outside and entered into broker markets and started borrowing outside those constituencies, then they've run into a little difficulty. So in Southern's case, as in our own case because we had a mortgage debenture company called Victorian Securities that we closed last year because we felt the model was outdated. In Southern's case, I think they came to the same realization, perhaps hastened by the collapse of Banksia and what went on there. They spoke to us about what the opportunity might be. We put a credit team in to have a look through their books. The credit was pretty good. So we talked to them about what they might want to do and ended up buying those assets and the financial planning business because, as you know, we're investing in wealth, and so that was an opportunity for us as well. So that's a good business, and we think that we'll do well out of it. We think it's good for the communities, where we operate in Western Victoria because there's no doubt there could have been some contagion risk that came on through Banksia, and of course, it all comes down to liquidity and et cetera. But by and large, a good book. The opportunity for other private companies, no, I think we probably are a bit of a natural acquirer of that. They're in all the communities that we're in. That's predominantly Victorian-based. The ASIC have put out some new guidelines last week, which I haven't read in detail, but I saw the headline that they're going to require them to hold 8% capital. I think that'll be a stretch for a lot of those companies. I might be wrong, but I think that will be a stretch for them to raise that capital. So there may well be other opportunities. And where there's good books to acquire and where it's at the right price, then we'd be prepared to engage in that.

Will Rayner
Former Head of Capital and Investor Relations

Okay. We might go online now for some questions.

Operator

And your first question comes from the line of Anthony Hoo from Nomura.

Anthony Hoo
Nomura Securities Co. Ltd., Research Division

Could I ask 2 questions? Firstly, could you talk a bit more about the level of write offs in the half? Just from the accounts, looks like there was elevated number in this period. Was that from -- was that related to Great Southern or something else? And secondly, you've got a couple of slides about the Queensland exposure, where your 90 days past due balances are significantly higher than peers. Could we understand more about your exposure there, and are you comfortable with it?

Richard Fennell
Executive of Customer Banking

Okay. Richard here, Anthony. On the write-offs that we've experienced during the half, early in the half, we did have a number of borrowers from -- that are involved in Great Southern elect to take bankruptcy protection and led to really significant write-offs. One of the challenges with the Great Southern portfolio is we are limited, to some extent, in the contact we can have for those borrowers who are involved in the class action. So the amount of direct contact we can have with them is somewhat limited. So it is a challenge to be fully aware of all the financial circumstances of those borrowers. We do our best to try and stay close to them within the legal rules around the contact we can make. But from time to time, I think with that -- those group of borrowers, which is a significantly smaller number of borrowers than it was just a year or so ago, we will get some surprises. So it's now down to about 5,000 borrowers, down from about 6,500 borrowers 2 years ago. But every now and then, we'll have some of them come out of left field. Also, the total portfolio is down now below $400 million and -- but that's -- it's going to be a challenge we have. Hopefully -- well, this calendar year, I think we'll have been in a position where we'll have some more certainty from the courts as we work through that process. And hopefully, that'll give us the opportunity then to get some more certainty on the position of recovering the money we're owed from these borrowers. Other than that, there was really -- and as both Mike and I have spoken about, the Queensland cattle properties, the rest of the bad and doubtful debt charges, there was no real strong trend. We've spent a fair bit of time looking into it to see if there's any geographical industry trend other than the Great Southern portfolio. In the Queensland cattle property prices, there really was no kind of geographical industry trend behind that pickup. As I said, with the improvement in some of the leading indicators, we hope we'll return to the sort of levels that we were having for our bad and doubtful debt charges over the last few halves pretty quickly. As far as the Queensland arrears, look, I would have thought from a residential perspective betting of just over 1% probably isn't too far out of industry norms, and it's not vastly above our whole of business arrears leveled for our residential book. Yes, it is slightly higher, but I think that would be certainly consistent with what other banks are saying, and certainly, what we're hearing from organizations like Genworth, with their experience over the last 12 months or so. And not that I've looked at it in detail, I think the Queensland banks might have similar levels from their Queensland business. The slide on 53 was really to give an indication that we didn't see a material uplift following the Queensland floods going back some time. So with additional weather challenges that have been experienced up there over the last month, we're not expecting to see a significant pickup there either.

Operator

Your next question comes from the line of Jon Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Just 2 quick questions if I could. One, firstly, for Richard. You talked about an improving impact to pre-GFC levels. Is that an internal target, or is that just an observation? And I've got a follow-up question.

Richard Fennell
Executive of Customer Banking

Yes, just an observation, and I guess that's an observation from the perspective of we're continuing to look to improve that. So we don't think the job's done yet.

Jonathan Mott
UBS Investment Bank, Research Division

Okay. And just a follow-up question on RMBS and secured funding in general. If you went back a couple of years ago, the rating agencies were really a bit concerned about regional banks' exposures to secured funding. And they basically put caps on the level of secured funding that you could have. Is that still the case? And are you prepared now to materially increase the amount of RMBS and wholesale funding if market conditions do continue to improve?

Michael John Hirst
Former MD, CEO & Director

Look, Jon, I think the reality is that our wholesale funding, including securitizations been going south as a ratio for quite a period of time. So we would expect we have got some capacity there. We've always stated, and we've had these conversations with the rating agencies as well that we think ratio of 75% to 80% retail including securitization is a reasonable number for us, and I think there's general comfort from them around that. Having said all of that, clearly, the great thing about retail deposits is it comes with customers. And to the extent that the funding or the pricing gap between those 2 fundings isn't so significant that it would make it very difficult to continue to raise deposits, we'd always err on the side of getting a customer.

Operator

Your next question comes from the line of Andrew Triggs from Deutsche Bank.

Andrew Triggs
Deutsche Bank AG, Research Division

I had a question around the ROE, clearly, impacted by the bad debt charge during the half. But if I look at the 8.4% headline number, it's still well below the cost of your capital. I mean, what do you see as the main avenues are to improving this? Is it margin management [Audio Gap] or is it more along the asset growth with better cost leverage from growing the book? And just tied into that, what areas do you think as sort of ROE businesses at the moment, is it the housing book or the business book?

Richard Fennell
Executive of Customer Banking

Andrew, the -- if the ROE was -- getting that upwards a simple issue, it'd be a lot higher. But look, it really -- there's a number of contributors to that. We, like all banks, have had to reposition our equity base for Basel III, and that has had a drag on ROE. We certainly are keen to get that up above our cost of capital. And the way we want to do that is to continue to grow our business by the business we're writing, meeting our internal hurdle of 15% ROE or ROTE. And over time, that will drag up our ROE. The last 6 months' performance with improvement in NIM and cost efficiencies is really an example of how we want to do that, and we plan to do that. And if we can continue to do that, that will help the ROE. But obviously, an initiative like the Basel II advanced initiative from a medium-term perspective has the potential to provide additional opportunity assuming we can get there. And I think we saw an example of that in the CVA result, the sort of benefits that may be available if we're able to achieve advanced accreditation.

Michael John Hirst
Former MD, CEO & Director

I think if I can just add to that, too. We are focused on lifting our ROA, and a lot of the investment that we're doing in the wealth area is in capital-light areas. So even if marginal lending, for instance, was to pick up again, that is very capital-light business for us, as is the fee income associated through funds management, et cetera. So those sorts of areas are getting the investment they need. They do need the stars to align in terms of market conditions. But when that does happen, we'll be ready for it.

Richard Fennell
Executive of Customer Banking

From a business perspective, we don't sort of sit there saying, "Well, we want to grow our residential mortgage book versus our business book." At the end of the day, we want to make sure we can price the business we write in our asset businesses appropriately, so it's competitive, but also allows us to achieve an appropriate return on equity. And we're not sitting there saying, "Well, we just want to focus on one or the other." Although obviously, if we can get that advanced accreditation, that is likely to make some of those business more effective from an ROE perspective than they are currently under the standardized approach from what we can see from a straight comparative perspective. But at the end of the day, we'll wait and see if and when we get there.

Andrew Triggs
Deutsche Bank AG, Research Division

But the -- clearly, the proprietary mortgage channel's still the key growth driver in the retail book?

Michael John Hirst
Former MD, CEO & Director

Well, I think the way to think about it is that we've invested a hell of a lot in the retail network over the last 10 years, and that includes putting business banking capability in there. So we've got 3% of the market. There's 97% opportunity out there for us that we're looking to get involved with through putting the capability out there. And unless you do that, you can't do it. So the various returns on the different class of assets changes over time depending on what's happening in the market. Right now, there seems to be better opportunity for margin expansion on the business banking side than on the residential retail side, and so that provides some opportunity. But just as likely in a year's time, that will swing around depending on what the people who hold the other 85% of the market do.

Operator

Your next question comes from the line of David Shi from Morgan Stanley.

David F. Shi
Morgan Stanley, Research Division

I've just got 2 questions, if I may. First one is on margin. I think that the TD rates versus the cash rate has improved a further 5 basis points the calendar year-to-date. So is it right to assume that the margin in February is actually higher than your first half '13 exit margin?

Michael John Hirst
Former MD, CEO & Director

Well, February hasn't ended yet.

Richard Fennell
Executive of Customer Banking

It's not quite that straightforward, because although the TD rate may have come down, the challenge also, as we continue to move towards lower absolute cash rates, is the return we generate from our capital and our very low-cost deposits that are not interest-rate sensitive reduces as well. So as you'll be aware there was some cash rate reductions towards the end of last calendar year. So that's going to be a bit of a drag that will work in an opposite way to any improvement in the TD margin but...

Michael John Hirst
Former MD, CEO & Director

And I think you can add to that, that the change compositional liquidity portfolio, as everyone gets ready for Basel, et cetera, so there's lots of pressures working on the other side.

Andrew Triggs
Deutsche Bank AG, Research Division

And whilst we're on that, can I just ask, I mean what's your view in terms of if cash rates do continue to fall? In that scenario, do you expect deposit competition to pick up or/and intensify further?

Richard Fennell
Executive of Customer Banking

Yes, it's a tough one to predict, the competitive market for TDs. Whilst we've got certainly improved demand in wholesale markets for debt and improve pricing, I think assuming the market acts reasonably rationally, there -- hopefully, there will continue to be this slight easing in competition. But it won't take much globally, a hiccup somewhere for that demand to head the other way and prices to head the other way. And suddenly, we could be back into the ultra-competitive TD market, which we've seen from time to time over the last probably 3 or 4 years.

Michael John Hirst
Former MD, CEO & Director

Is the basis of your question that, as rates fall, people look for other assets and therefore, deposits will flow out of the banks, is that...

David F. Shi
Morgan Stanley, Research Division

Correct, correct.

Michael John Hirst
Former MD, CEO & Director

Look, I think the way it works there'll still be the same amount of money in the banking system because if Richard decides that he's not getting enough for his deposits and goes and buys shares, well, then -- and I sell them to him, will I put the money back in the bank? So there'll be a higher velocity of circulation of monies through different balance sheets, so it'll be interesting to see how all of that ends up. But at the end of the day, I think there's still the same amount of money available for the balance sheet. It just might change between whose.

David F. Shi
Morgan Stanley, Research Division

Right. And just one other question on expenses, if I may. I'm looking at the FTE movements in the half, seems that the efficiencies that you've achieved this half is being offset by the 53 people that you put on for Basel II advanced accreditation. Looking forward, should we expect the FTEs to trend down in the next 12 to 18 months?

Richard Fennell
Executive of Customer Banking

That group on the Basel II advanced is still ramping up, so we're not at the peak yet. So in light of that, and also hopefully, continued investment in the wealth business that is bringing, I would hope, strong revenue growth on the other side, I'm not sure we'd be looking necessarily to reduce headcount. What we will be looking to do is keep it relatively flat. Now if that's slightly up or slightly down, I can't tell you today, but our objective certainly is to keep it reasonably flat.

Operator

And your next question comes from the line of Ed Henning from CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just a couple of questions. Just on Great Southern. Your balance is around $390 million, of which $278 million is kind of past due. Is that an ongoing concern for you guys? And secondly, how much do you guys provide during a period for Great Southern? And finally, just on the provisioning balances, the CP's flat, but the GRCL continues to grow. What's driving this mixed growth?

Michael John Hirst
Former MD, CEO & Director

Well, I'll take the first one. So on the Great Southern portfolio, the $278 million is roughly split between 2 30 strategic arrears. So there are people who we are testing all the time that they can actually afford to pay us back, but they're choosing not to because they are awaiting the outcome of the class action, which is currently being heard. And as Richard indicated earlier, we don't really have any avenues to directly contact those people or pursue them for payment. We're not allowed to pursue anyone for payment until the class action's finalized. Is it an ongoing concern? Yes, of course. I mean it's something that we're very concerned about, and we're ensuring we're doing everything we can to get that money repaid. I think we're adequately provisioned for everything we know. Yes, we had a couple come out of left field, but they're as a result of bankruptcy action undertaken by other institutions that flush those out. And there are a couple of large ones. So imagine there were businesses on the back of that, that perhaps got into difficulty. And the proprietaries, who had borrowed off us, were struggling. So the case is probably 70% through. We'd expect to know an outcome before the end of the year, and I won't hazard a guess of what that outcome might be.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Can you just clarify how much it's provided during the period?

Richard Fennell
Executive of Customer Banking

Well, the provision for Great Southern has stayed reasonably stable over the last few halves in that $20 million to $25 million range.

Michael John Hirst
Former MD, CEO & Director

But there were some write-offs on top.

Richard Fennell
Executive of Customer Banking

Yes, that's right, and that allows for the write-offs that came on top of that. And that's a mixture of specific provisions on borrowers that we know that we had concerns about and also a collective provision for that particular portfolio. And sorry, as your third question, do you mind just repeating that?

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just on the overall provisions, you've got your CPs flat, although it has been falling the last couple of periods. And the GRCL is growing.

Richard Fennell
Executive of Customer Banking

Yes.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

What's driving the different mix in growth rate?

Richard Fennell
Executive of Customer Banking

The collective provision, as you say, stayed reasonably flat the last half. And that just reflects our modeling of the loss rates and the exposures in the book. The growth in the GRCL is because of the regulatory requirement to have a minimum, in our case, of 53 basis points set aside between the total of the collective and the general reserve. So the general reserve literally becomes the final number we need to put in to get to that amount, is a minimum of 50 basis points required. But because of the way we treat

Great Southern, there's an additional amount that we set aside, which gets us up to about 53 or 54 basis points each half.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay, that's great. And just going back to Great Southern, you said the provisioning balance is stable at $20 million to $25 million. Does that include top-up? Like so, if you write some off, could you top some up there?

Richard Fennell
Executive of Customer Banking

Yes, that's right.

Operator

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

Matthew Davison
BofA Merrill Lynch, Research Division

A couple of questions. First on costs, just looking at Slide 22. And I guess your comment, costs to remain under pressure. Looking at cost growth x Delphi, it actually hasn't been too bad, in my view. So just interested in whether that comment reflects a deterioration in the trajectory of what we've seen the last 3 halves. And second question was just on mortgage ROEs. Mike, interested if you view the mortgage ROEs today, given rate pricing in recent times as ahead of your internal growth target of 15%? And also, just as you approach advanced accreditation, whether there's any view to start pricing more around what your ROEs will be post then?

Michael John Hirst
Former MD, CEO & Director

All right, Matt. Just a couple of easy questions there. So in terms of the expenses, the comment really is not so much about what we're experiencing today, because today, it seems to be going along the similar trajectory that we've seen in the past. However, as Richard pointed out, we're moving to a new building in Adelaide at the end of the year. That's going to involve some increase in rent because the building we're currently in, we own. So that's an impact from November-ish going forward. The IT piece, again, with advanced accreditation, a lot of work to do there. And not all of that will be able to be capitalized. And at any rate, what does get capitalized will come into expense over time. So that's identifying that challenge, and of course, as always pay increases that are coming along. So no, we're not calling out that there's been a significant deterioration in our cost base. We're just highlighting what the additional cost that we know about today are looking forward. In terms of the ROE on mortgages, they're above our 15% target at the moment. Although as you know, in an interest rate environment that is changing all the time, that'll go up and down depending on those changes and depending on what's happening on the deposit side. But at the moment, it's giving us a reasonable return. Would we start pricing ahead of advanced accreditation, and I guess the implication there is it more aggressively? I don't think so. It's not something that I've actually turned my mind to. But it would be, I think, a question of where do we sit in the market? When we look at our pricing decision, there's some underlying principles that we can see that one is, are we competitive? Because we must be competitive if we're going to write new business. Does the price reflect our value proposition? Because we believe that we have got a value proposition that should demand a certain price in the market. And thirdly, is there equity in the price that we put out there for all the stakeholders in our business? And if we can tick off the box on those 3, then we'll set the price on that basis.

Operator

Your next question comes from the line of Brett Le Mesurier from BBY Limited.

Brett Le Mesurier

Asia Pacific Prudential Securities Pty Ltd., Research Division

I noticed in the past year that half the loan growth that come from Community Bank. Is that strategy or is that an outcome to the rest of the branches not growing that fast?

Michael John Hirst
Former MD, CEO & Director

No, it's actually an outcome of putting a whole lot of new ones on. So the Community Bank network is typically liability led. So it'll take -- it'll grow much faster in deposits in the early years than it will in assets. And then I personally think that's just a function of it costing nothing to transfer your deposit across and it actually costs you some money to refinance. And so people need to await whatever event it is that is going to push them in the refinance before they bring their business across. So that part of the network has been very strong liabilities. It takes about 8 years for them to get an even balance sheet. With half the branches under 6 years old, it's just a straight-out math function really.

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

So can we expect a good proportion of your loan growth to continue to come from Community Bank going forward?

Michael John Hirst
Former MD, CEO & Director

I would hope so.

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

Possibly in the order of 50%?

Michael John Hirst
Former MD, CEO & Director

Yes, I would think so.

Richard Fennell
Executive of Customer Banking

I guess the only element that might throw that is if competition was to ease in the third-party mortgage business and that return to generating more like 50% of the loan growth, that's not the case at the moment because that is a pretty price-competitive segment of the market at the moment. It's an important segment for us and from an industry perspective, but where it's, at the moment, pretty challenging from a price perspective.

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

So as Community Bank loans and deposits grow, then obviously, that has a negative impact on margin. So to what extent is your growth in business loan an outcome of that to offset the margin decline associated with the greater proportion of business coming from Community Bank?

Michael John Hirst
Former MD, CEO & Director

Well, we don't actually see it as margin decline, because from our point of view, the margin that people should be thinking about is the margin that we command in the market and not how it gets split up. I mean we could quite easily just change it to a commission-based payment, in which case the margin would stay intact. So I guess I'm sort of rejecting the proposal.

Brett Le Mesurier

Asia Pacific Prudential Securities Pty Ltd., Research Division

So it doesn't matter whether you pay commission on margin. Reality is that you pay a way [indiscernible] to Community Bank than your own branches, of course [ph].

Michael John Hirst
Former MD, CEO & Director

Yes, but we don't pay the costs of our own branches. So it's actually a variable cost base model.

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

Right. So I guess another way of saying it is that to what extent do you expect your fund-to-income ratio to fall as the consequences of growth in Community Bank?

Michael John Hirst
Former MD, CEO & Director

We expect our cost-to-income ratio to fall by revenue growth. So to the extent that Community Bank contributes to that through growing the book, that's helpful, but we're focused on both sides of that equation. However, we've pointed out for a long time that the revenue opportunity in driving that cost-income ratio down for us is just as great as the expense opportunity.

Operator

Your next question comes from the line of James Ellis from Credit Suisse.

James Ellis
Crédit Suisse AG, Research Division

Mike, just 2 questions. Firstly, on the timeframe for advanced accreditation. Every 6 months, it seems to be a couple of years away that we are looking for this. Now acknowledging that APRA will take its own time to consider our application, but when is your target as to when you expect to have everything launched, and therefore, the ball is firmly in APRA's court? And then secondly, on terms deposit pricing, look, acknowledging you have to be careful what you say here. But just to summarize the many comments that we've heard and questions on this, you're saying that you're not seeing the competition easing up on the term deposit pricing today, but you see a case for that happening tomorrow. Is that a fair statement? So timeframe for advanced accreditation and term deposit pricing.

Michael John Hirst
Former MD, CEO & Director

Well, the timeframe for advanced accreditation, as you rightly point out, James, is outside our control. And it's outside our control on a number of fronts, not the least of which is the in-use test. So there's a reasonable amount of negotiation that needs to go on with the regulator around what they consider to be in use and what we consider to be in use and how that might play out. You can see that we've got 50-odd people working on the project at the moment. We expect that to more than double over the period. So we still have, certainly, got the major part of the task in front of us. And look, there's various views on how long it might take, but it's somewhere between 2 and 4 years from here depending on outcomes in negotiations, and the in-use test is a big part of that. On the pricing, I think we've been calling for abatement in the term deposit pricing for quite some time. And it hasn't always eventuated. As usual, it's very difficult to have a firm view of how it might work out from a position of 3% of the market. Having said that, the positive signs in wholesale markets at the term available and the price it's available at would, I think, logically lead any observer of banking to suggest that there might be some opportunity for further abatement in pricing in the near to medium term.

Operator

Your next question comes from the line of Craig Williams with Citigroup.

Craig Anthony Williams
Citigroup Inc, Research Division

With respect to my question though, you're correct that Tier 1's now over 8%. There seems potential for lower credit costs given impairs are down so much now. What are the considerations around the potential to achieve capital sustainability, and consequently, dividend growth? And does the sort of absolute dividend yield that you're offering matter?

Michael John Hirst
Former MD, CEO & Director

Maybe if I can answer the last part of that question first. Look, I think the absolute dividend yield does have some importance for us. We've got a fairly strong retail customer base that's been with us for a long period of time, and dividend often forms a significant part of their income. So from that point of view, that's one of the considerations that we have to be concerned about when we set the dividend. As to the rest of it, I don't know, Richard, if you...

Richard Fennell
Executive of Customer Banking

Look, I think, I mean we've come off what we think's a reasonably strong half. We've got some momentum, obviously, on the back of that. But as we've seen over the last couple of years, the competitive challenges can swing very quickly based to some extent by things well outside of this country. But if we can continue that momentum -- and as I said before, we don't think we need to issue more dilutionary capital. I guess one of the -- we would look at things like some of the other banks are doing around their DRP, and at some point in the future, whether we need to discount and those sorts of things. But as part of that thinking, we would consider -- or certainly, the -- I mean, it's not for me to say, but I think the board would consider what is an appropriate payout ratio. But first, we need to continue the momentum that we have from this 6 months. So I think it's probably a little early to call it, Craig.

Operator

Your next question comes from the line of Mike Wiblin from Macquarie.

Michael Wiblin
Macquarie Research

I just wanted to ask about the margin improvement. You did call out it was hedging and repricing. Can you just give us a split of how much of it was on the repricing side versus hedging? And then maybe your hedging profile going forward, are you comfortable that you're covered for the eventuation -- or the eventuality that rates move a lot lower from here?

Richard Fennell
Executive of Customer Banking

Yes. Look, we've got a -- the hedging was a relatively small proportion, the abatement in hedging costs of that total amount. Although the cost of hedging today, certainly, is slightly less than it was 6 months ago or 9 months ago when the markets were forecasting interest rate drops of around 100 basis points within sort of out around a 6-month timeframe looking forward. Now that the yield curve slope is a lot gentler than that, although still negative, so there's still a cost involved. Those costs of hedging amortized over the life of the hedge, and generally, we're hedging out in that sort of 6-month timeframe. So it's going to take a while for the benefits of that slight improvement hedging cost to come through. But we continue to remain hedged to a similar extent as we have over the last couple of years within specific limits that we have in place because we do have to be wary of a situation if interest rates were to fall quickly. Now having said that, obviously, the ability to fall quickly and by a large amount is less when you've got a cash rate of 3% than when you've got a cash rate at 7%. So they're all the things we take into account, but there has been a slight improvement in the cost of that hedging as that yield curve has become less steep in the last few months.

Michael Wiblin

Macquarie Research

Okay. And just one follow-up question on expenses. There's been a lot of discussion about projects that are going on and things like that. I mean, percentage-point wise in terms of the drag, you must have a plan. I mean, can you give us some sort of order of magnitude? Is it a 1 percentage point uplift in costs or higher or lower?

Michael John Hirst
Former MD, CEO & Director

Well, I think we'd like to try and keep it, I think Richard mentioned a number before of within 3%. So that's the type of number that we'd be targeting, but we still have a lot of planning work to go on the advanced accreditation piece. And part of that will naturally look at what we have in place today and how much we need to further develop that or how much we can stay with what we've got. So it's a little bit of an unknown on that side. I think the back of the envelope number we've used in the past has been about AUD $50 million or up, including staffing and everything to get that done over the whole of the project. How much flows through in the next few halves versus some time down the path is a little unknown.

Operator

Your next question comes from the line of George Gabriel from Evans and Partners.

George Gabriel

Could you tell us a bit more about the breadth and depth of support for your recent funding issues, both for your RMBS and your term unsecured debt? And in particular, can you talk about the scope of offshore interest for Australia bank debt, and what issues those investors are now focusing on when looking at Australian bank risk?

Richard Fennell
Executive of Customer Banking

Yes, George. I think I mentioned on the call the term deal we did back in November I think it was, from memory, was about 3x oversubscribed. There was very strong interest from offshore, particularly out of Asia. And so I think we could have probably covered the deal completely out of Asian demand, but obviously, we split it across all those that bid for it. And what we were able to do is scale back most of the bank balance sheets out of the deal. So it was going to real money investors almost completely. So that was -- and I can't remember exactly off the top of my head, but I think it was well over 50 individual investors that we're able to issue that deal to. The more recent RMBS deal, again there was strong offshore participation in that, both from Asia and Europe. And I think from memory, probably in the order of 25% to 30% of the deal went offshore, slightly higher percentage for the senior unsecured deal we did. And I guess that's no real surprise when you look at the sort of yields that are available offshore and the confidence there are in Australian banks and Australian bank assets through the RMBS market and the history of the performance there that we would see that demand coming from offshore. So whilst the world stays in a relatively stable place geopolitically, I wouldn't see that changing. And we'll continue to look to issue both our bonds, whether that be RMBS or senior unsecured to both local investors and offshore, depending on where the demand is.

Operator

And your next question comes from the line of Michael Bennet from The Australian.

Michael Bennet

Look, just 2 quick ones. I mean, you both answered the first one about term deposits. It seems this month, the major banks are pretty reluctant to call an ongoing easing in the competition. But same folks say, you've been a bit more open, and hopefully, the improvement in wholesale markets will flow into easing pressure in the competition's deposits, so thanks for clearing that up. But just secondly, I'm interested in your views if you had any, on the government's innovation build that sort of was launched over the weekend. And even though it might not impact you directly, but some of the bigger banks may see some issues with the cuts to R&D tax concessions, especially given the potential change that might happen in the super space, which you would obviously be affected by.

Richard Fennell
Executive of Customer Banking

Yes. Look, I haven't had a chance to have a real thorough look at that at all. When I think if you think about the position that Australia's in, in terms of the strong dollar in terms of trade, et cetera, there is going to be a need for us to lift productivity as we move forward. And I'm not just talking about labor productivity, I'm talking about all the different factors of productivity. One obviously, which is innovation. So if there are going to be cuts to R&D, so be it, but I know -- I think we need to be thinking about the impact that has in the context of multifactor productivity.

Operator

Your last question comes from the line of Scott Manning from JPMorgan.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Two questions. Firstly, any comments around the alliance that you've established with Australia Post? That one's gone a bit silent over the last little while, what's happening there? And secondly, do think you'll ever get to a scale and diversity where you can actually entertain the idea of issuing covered bonds as opposed to just senior unsecured?

Richard Fennell
Executive of Customer Banking

On the Australia Post one, we continue to work through what the opportunities are there. And in fact, whilst the banking piece is working through what the appropriate model might be for that, we've actually done a bit with Australia Post around payments and around digital mailbox, et cetera, so that continues to move ahead. In -- so what was the second?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Covered bonds.

Richard Fennell
Executive of Customer Banking

Covered bonds. Look, we were talking about this just the other night actually. And for us, it's really a question of the different payoffs between the opportunities we have. Because we don't have a lot of senior unsecured, because we don't have a lot of RMBS and clearly, we have no covered bonds, it really just becomes a matter of the financials. I don't think we'd do a covered bond issue just to say that we've done one. That'd certainly have to come down to what's the capital payoff given the price, the relative price across all of those opportunities. So our market intelligence tells us that there may well be some demand for some AA covered bonds, which we'd be able to satisfy, but it'd have to be at a price that makes it attractive relative to other options.

Will Rayner
Former Head of Capital and Investor Relations

Thanks, ladies and gentlemen. Well, we're going to draw to a close there. Thanks very much for your attention, and we look forward to seeing many of you during the week. Thank you.

Michael John Hirst
Former MD, CEO & Director
Thank you.