Question and Answer

Ross Brown

Just as a reminder, usual protocols. If you can wait for the microphone, state your name and the organization you represent. Jarrod, first question?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. A couple of questions. First of all on capital, the pro forma, 10% that you get to. I'd be interested in your view on what was the thinking behind 10% being the appropriate number to get to? You talk about future regulatory changes. What can the 10% actually accommodate? Is that sort of risk weight floors increasing, is that D-SIB increasing? And you talk about -- you mentioned that you think they're coming sooner rather than later, what's your view about what is coming first? So that's the first question on capital. Second question on the $1.7 billion -- GBP 1.7 billion cap. And you said that was a PRA stress scenario, and your stress scenario was less than that. Could you give an indication to what level your stress scenario is versus the PRA?

Craig M. Drummond
Former Group Executive, Finance & Strategy

Okay. Let me start. That's a lot of nice questions, Jarrod, thank you. Firstly, in relation to capital, look, we've seen -- we've -- like you probably read the Basel Committee paper that was released in December '14, where -- and indeed, with the FSI, that's talked about 25% to 30% mortgage risk weights. And I'm sure you can model it. We provide you through the Pillar 3 some pretty powerful information for you to model it. We've modeled some of those changes. We've also looked at what's also coming down the pipe or likely to come down the pipe in areas like op risk in the fundamental review of the trading book and in a range of other areas. We think looking out for the next couple of years, maybe 3 -- 2 to 3 years, that there are quite -- still quite significant capital headwinds. And we don't want to be in a position where, frankly, we're constantly being -- need to do DRP underwritings. We'd rather bring it forward, have the certainty, know that we can accommodate the regulatory headwinds. Look, whether it's going to apply front book, back book; whether it's going to be in July, August, we don't know. We don't know anything more than you. But we did read with interest APRA's comments, the public comments that have been made over the last week, and that feels to us like it's a bit more imminent than perhaps what may have been thought a few months ago.

Jarrod Martin
Crédit Suisse AG, Research Division

So the 10% is mortgage risk weights, op risk, et cetera, but not increasing the D-SIB?

Craig M. Drummond
Former Group Executive, Finance & Strategy

We are -- we haven't specifically planned for that, but we -- and frankly, we don't -- we're not aware -- probably like the rest of the market, we're not aware of those particular changes and what changes may come. We have been probably more focused on mortgage risk weights as an issue.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

But just to add, I think Jarrod, what Craig is saying is look, we don't have the specific answer, but what we know is that it's inevitable capital is going up. And wherever you go in the world and you talk to people, that's a train. We just thought we should do it properly and build a buffer so that whatever the answer is, whether it's D-SIB or risk weights, front, back, whatever it is, we are pretty confident that at least we've got a buffer that can accommodate that. And also we want to grow the business. So it gives us some capability there. Now your second question on the...

Craig M. Drummond
Former Group Executive, Finance & Strategy

Yes, in terms of your second question, it's not a number that we have disclosed and it's not a number that we will be disclosing, but I can just say that it's significantly in excess of our stress scenario.

Ross Brown

Okay, Jon?

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Just a quick question on the U.K. IPO process. With the capital that will be raised in the U.K., I wanted to get a feel, is that capital being -- going to be used to increase the common equity Tier 1 of Listco? I think you've called out 13%, is that already determined by the regulator? Is that your guide? Or will that capital then be brought back to Australia to help with the capital initiatives that's required here? And also a second question actually about the Business Bank, I thought I'd actually ask something about operations as well. You've talked a lot about improving fulfillment centers and turning that around, adding business bankers. It's a turnaround process. How long is it actually going to take to get the business in a position you'd like it to be, so it can, as you said, start humming? So how long is this process going to take?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So on the second one first. So I think what we're trying to show, Jon, is that we're serious about this. We are making some investments. We put some numbers next to, we talked about $40 million, and we've lifted it by 150 bankers. I think it's going to take time for us to address these issues properly, right? Because if you think of -- one of the getting back to basics point that I talk about is at, you see clients where they're -- they've got a new banker who's looking after them, right? That's just the basic thing. That's turnover. So that's -- we need to get right back to the beginning of hiring the bankers and training them properly, getting the leadership and discipline model around it so that we -- that turnover rate drops. Because there's no point bringing 150 if the turnaround rate is the same, we just got a pipeline of problems. So I think we're going right back and going back to the purpose, training people properly, giving them a reason to stay, enjoy what they do, getting their portfolio sizes right.

The 150 bankers starts to reduce the client sits for a banker. So we start to get the basics grounded, and the leaders are getting really focused and aligned on the same story and capability, right. So I think I'm confident that's underway. But the fulfillment process is really significant. I think I outlined that, that was a real issue for us. And I think, today, we would say it remains on watch. We've got -- we are improving it. But these are very complex, long processes that we have to address properly. So what I don't want is a quick fix. I'm going to go right back and unpack this thing and do it properly. So I think I can't give an absolute answer to your question partly because our competitors keep moving the ground too. And that's why we love the battle, right, because you're up against good players, and they keep lifting the bar. If we want to be the best, we have to keep moving as well. So they keep moving and getting better. We've got to fix some things, but I think it's going to be an 18-month journey to really get these basics right, to be confident after that.

Jonathan Mott
UBS Investment Bank, Research Division

[indiscernible]

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes. But you can see what was -- that doesn't mean we're not going to have incremental improvements. We're going to have -- we've seen incremental improvements in the half, you'll see them again. So we're not deferring gratification. We're saying you're going to experience -- clients will experience better service as we go forward every single month. Shareholders will as well as we start to really push that through. But I think it's going to take -- you can't address the significance and the fundamental issues we're talking about here. We're talking about 225 BBC sites and 4,000 staff overnight, and we want to do it properly. So yes, another 18 months.

Craig M. Drummond
Former Group Executive, Finance & Strategy

So on the U.K. there are a lot of moving parts. And so the capital outcome will be contingent on the price to book that we obviously list that. It will be contingent on how much we -- whether we did 20% IPO or 30% IPO, it'll be -- we have -- what is certain is we have agreed with the PRA a 13% CET1. But -- so in aggregate, we're expecting it to be broadly capital mutual. And I wouldn't want to get too more -- much more specific than that.

Jonathan Mott
UBS Investment Bank, Research Division

So above that the capital would inflow back to Australia?

Craig M. Drummond
Former Group Executive, Finance & Strategy

When you say above that -- oh, sure, that's...

Jonathan Mott
UBS Investment Bank, Research Division

[indiscernible] turning that capital back to Australia.

Craig M. Drummond
Former Group Executive, Finance & Strategy

Yes, sure, sure.

Ross Brown

Victor?

Victor German
Commonwealth Bank of Australia, Research Division

A couple of questions. I just wanted to perhaps follow up on the listing first. So in -- if -- is the 20% -- is the range going to be determined by the price that you effectively get for the business in order to make it capital neutral? And second question. On that GBP 1.7 billion, with election coming out, is that number kind of a final number or is there potential for that number to increase? And lastly, sort of on the operational side, perhaps you can provide interesting comments on technology. I've noticed there's additional costs coming through the investment line -- through the expenses line. Just how that project is going and is it on track to meeting your expectations that you've set out last time?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

All right, so Craig, why don't you start with one?

Craig M. Drummond
Former Group Executive, Finance & Strategy

Okay. So Victor, what will ultimately determine the 20% to 30% will be a range of factors. The range of factors will be price, clearly, demand, counsel from our advisers, a range of those type of issues. And clearly, given our robust balance sheet now, I think we have probably a little bit more flexibility around that. In terms of the GBP 1.7 billion, that is fixed, capped to the end of calendar '15.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So and you mentioned the election, so yes, that's happening today. It's quite convenient. The range [indiscernible] to be happening at the same time. But we've been through rich Scottish referendums, got elections, but I think this illustrates that we believe it's -- now is the time to move forward because there's always uncertainties, right. And I think if we waited for the uncertainties to clear, we'd all be very old. So we believe that we have a clear plan. We've got the rest of this year, and we're actually focused on doing it. Now come to the technology question. Craig, you can cover the OpEx or the capped software piece. So, look, on technology, I believe we're doing absolutely all the right things. So the first piece I talked about is this Personal Bank origination platform. I said that we were going to launch this -- that this is not about technology -- this is not a technology project. This is about improving and really changing significantly the experience of our customers, particularly mortgage customers across all channels. It's a huge step, and I talked about the benefits in terms of approval time, the speed to years. And for our bankers, going from a couple of hundred clicks to 50, it's going to be transformational. So that's well on track, and we've made some -- an update on commitments about when we'll roll that out. And I think the technology architecture that our team are building around that is very sensible. Now we've got a complex environment. And over the next few years, we're going to work through that. It will be a priority to address that to make it cleaner. But look, I think it's hard enough to understand your own technology position, let alone commenting on competitors, all right. So it's very hard to compare apples with apples. But I believe we are tackling this in a disciplined, sustainable way to build not just a better experience for customers through things like [indiscernible], but the whole technology stack. I think we're starting to work through some very important decisions, and I feel confident that we're making the right calls, and we've got the right people working on it.

Craig M. Drummond
Former Group Executive, Finance & Strategy

So Victor, the capped software balance as you know is $2.3 billion. We're in up $192 million for the half. I think the interesting number is also x the U.K. because as we start to talk x the U.K., the capped software balance is $1.85 billion. So I think that number will put us in reasonably good shape vis-à-vis peers.

Victor German
Commonwealth Bank of Australia, Research Division

And it's going sort of in line your plans in terms of OpEx?

Craig M. Drummond
Former Group Executive, Finance & Strategy

Yes, pretty much. Yes, pretty much.

Ross Brown

Andrew Lyons.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

It's Andrew Lyons from Goldman Sachs. Just a question on your ROE. You've noted there's a 1.5% drag from the high capital and the various initiatives you've noted today. Can you perhaps just talk about how you think about managing the balance between [indiscernible] but the cost of the high capital between your shareholders and your customers?

Craig M. Drummond
Former Group Executive, Finance & Strategy

That's a good question, Andrew. I think the 140-basis-point decline in our ROE we've called out, that is just off the back of one side of the transaction -- of a transaction. In other words, the capital raising only. So I think you need to think about also looking at what separation -- I'm sure you're going to model what the separation looks like from an ROE, but it's clearly accretive. So I think it's -- that's the first point I'd make. The second point, look, we discuss these type of initiatives, whether it's things like volume, margin, capital allocation. And our performance unit framework is now giving us significant opportunity to look at where do we make our money, where do we make our returns and how do we allocate our capital? That's one of the most powerful changes, I think, we've seen in the bank, in the way we're managing the bank. And so I'm not suggesting for a moment because we've only had the PU framework in now for the best part of 6 months. It is really changing behavior, culture inside the bank and how we're allocating capital. So that's still, I'd say -- I'd be the first to say it's still at an immature phase, but we are really driving this aspect hard, and that would drive our capital allocation hard. We -- as I said, we know where we're making our best returns, and we know where we should be allocating our capital. And that is not just about capital, it's just about FTE. It's about OpEx. So we are reallocating OpEx out of some parts of the organization and into higher growth parts of the organization. And that will ultimately go to your ROE question. But can I ask you to also just be a little bit patient because we are obviously, with a lot of the portfolio shifts that we're doing, this -- it does take some time. But we're very focused on reallocating the capital and resources into the areas where we have competitive advantage.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

But it's -- I would just add, Andrew, it's about -- you've got to build a correct sustainability, and you've got competition. So I think Craig has talked about what we're getting the inputs right, the way we manage the bank, the way we allocate things, the transparency, the expectation of delivering performance. I think we're getting that right. But ultimately, you'd come right back to your question around the trade-off, right. I mean, what you need to do eventually, ultimately builds sustainability in both. Shareholders need to be satisfied that they're getting a company that's delivering good, sustainable returns, and customers need to believe that the prices and the service experience are also sustainable. So we're going to get both those in-sync consistently.

Ross Brown

Scott Manning.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. A question with several parts to it. So firstly the exit of the U.K. you mentioned is capital neutral which we all understand with the [indiscernible] reduction but you did know it will trigger accounting loss. So just firstly whether you think you'll take that above or below the line?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So just tell us the three, Scott.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Yes, secondly with your -- with that change in the earnings or, should I say, that with that FX hit, whether you'll actually pay dividend through that, which means that, ultimately, you'll be paying out, effectively eroding your core Tier 1 position while paying out a dividend when you don't have the earnings to support it. And thirdly, the position of the core Tier 1, you've mentioned at 10%. If you do pay through that dividend and you're up 30 points, you've got another 40 points coming down the pipe from conglomerates, which means your core Tier 1 performance really 9.3%, which is the same as Westpac. So do you really feel like you've got to the end of the regulatory process?

Craig M. Drummond
Former Group Executive, Finance & Strategy

Okay. That's 3 very interesting questions. So our intention is to pay a $0.99 dividend in the second half, Scott. So the accounting loss that we have on separating the U.K, we currently haven't determined exactly how we'll account for that. We obviously know the moving parts, but it will be clearly a discontinued operation. And so it will be my sense at this point in time that we'll be unlikely to be booking an accounting loss of that magnitude against cash earnings to be -- because it is a discontinued operation.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

So in that case, that statutory loss does flow through to capital?

Craig M. Drummond
Former Group Executive, Finance & Strategy

Well, the -- as I said in my presentation, the foreign currency translation reserve component won't translate through to capital because it's already in the capital account. But the accounting loss, as I said, by issuing -- the nature of the accounting loss will depend on the amount that we sell in an IPO or de-merger. So I think there's a lot of water to pass under the bridge on that particular component, how we account for it. But the bottom line is there will be a substantial accounting loss. Some of that is, as I said, already reflected in reserves through the foreign currency translation reserve. But will we -- to your second question, will we pay a dividend even though we've got that FX loss? Yes, we will pay a dividend. Your third question. And I should say that 10% -- the 10% number that we have included in the pro forma, as I've mentioned, we don't -- that is just taking the current capital raising and the transactions that we had alluded to. It doesn't include clearly any organic capital generation. So we've just called out some of the larger issues rather than -- so I wouldn't necessarily just go straight to saying, well, that will be a deduction straight off CET1, and that's where it's going to -- where CET1 will end up because there are a range of other moving parts. Sorry, your...

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Conglomerates.

Craig M. Drummond
Former Group Executive, Finance & Strategy

Well, I think, as we've said, there are a range of -- and we called out a handful, there are a range of potential regulatory headwinds. And I don't think the conglomerates is completely settled yet.

Ross Brown

Brian.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Andrew, at the end of the day, you're just a bloody lending firm [indiscernible] through the newspaper.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

A bloody what?

Brian D. Johnson
CLSA Limited, Research Division

Lending. [indiscernible] Welcome to the world of reality. I have a few questions, if I may. Having watched NAB for many years and being disappointed up until very recently, NAB has always been the price cutter. But if you have a look at the most recent move in rate cuts, you've decided to hold back basically 5 basis points. Can you just talk to us about basically that trade-off between shareholders and customers? And also whether we should just expect that you'll discount more on the front book, that you'll just offer a bigger package discount. So what you're really doing is preserving the profitability on the back book, but you're completely in the front market which is not entirely stupid. And then the second one that I'd be interested on is just when we have a look at the Life Insurance business -- you knew I was going to ask this. But notwithstanding what you've done today, you've saw off effectively 25% of a doughnut fee of 20x cost capital 5%, which is great, which is amazing, actually. But I just -- yet again, there's a negative experience variation. Can we just get a feel about when you think the experience variations come to an end and we can really get comfortable with the $3 billion of goodwill that you're carrying there now that's probably talking about a 6% return on tangible equity?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes. So I'll do the first, Craig can pick up the second. So look out, our performance, I think, in the -- with the housing market share over the last 5 years has been excellent, we believe it's an absolutely critical product. It's one of the 5 segments that we are focusing on because we believe whatever happens with capital treatment, it's going to be positive. It's going to be well above our cost of capital. And it is an anchor product to build out a long-term relationship with the client, particularly if you get the service basics right, right. So once you have a client, a mortgage client, the NPV of keeping them, yes, is really significant, even if you have to do some discounting, right. To lose them and have to win them all back again is counterproductive. So that's point one. Point two is, yes, you can see we passed on 20% of the 25%, but our price remains very competitive. So we are absolutely committed to being competitive on price in our housing portfolio. We will continue to do that. But I think what we're showing as we've gone forward is the service experience. If you get that right -- price is clearly important, particularly for some more than others. But if we get the service experience right, mobile bankers, direct contact center staff, our stores, the quality of our people, the service experience with things like Personal Bank origination platform, we believe price becomes a factor, but it does not need to be the one that we lead with, right. So I think -- my summary is it's a positive returning ROE. Keep the customers you've got. If you look at the NIM, the NIM we dropped I think 2 or 3 basis points in housing lending NIM in the last half, one overall in the Australian banking book. That's the net. So I think we're not getting significant margin compression, but on the housing portfolio, it's a bit less. But it's worth keeping, and I think service experience not just price, is absolutely important. I think we've proven that.

Craig M. Drummond
Former Group Executive, Finance & Strategy

Brian, obviously the experience is against the longer-term actuarial assumptions. What we've seen is probably somewhat similar to what the industry is seeing, where we -- lapses appear to be plateauing. And I'm be very -- and my Wealth colleagues would be very reluctant to necessarily call a downturn -- or sorry, an improvement, significant improvement industry lapses. But they certainly appear to be plateauing. What we're seeing is we've seen more in the way of partial lapses rather than full lapses in the course of the last 6 months. So I could also say that our -- the lapses and claims we have seen is very much in line with what we had planned in the short term from an accounting P&L. But they are still slightly worse than the long-term actuarial assumptions. I'm not sure, Andrew Hagger from Wealth, if you'd like to make any additional comments. Just get a mic for Andrew.

Andrew P. Hagger
Former Chief Customer Officer of Consumer Banking & Wealth

Thanks for your question, Brian. So you can take 2 points together in a way because the global reinsurer that we've worked with to put this 2 together is going to write through our underwriting performance, our lapse performance. And so forth, we have a quality management team that's been addressing these issues. And I think in terms of our lapse performance overall that's being solid from the industry perspective. But we have more upside in that business. I said that a couple of years ago. We have been rebounding, and that's reflected in the deal itself. There's more work to do. We've got the drawbridge report, we've got industry change on the commission side ahead. We're putting more resources into retention initiatives. We probably got the highest quality of insight through our actuarial function and the various modeling work that we've done over the last couple of years. And we're also looking to improve volumes, particularly as we build out our bank wealth story to the next level. So there's an example of a range of initiatives and, as I say, you can see that underpinned by the quality of metrics of the deal itself that we had announced today.

Ross Brown

Okay. We want to just go to the phones and see if anyone has a question.

Operator

[Operator Instructions] Your first question comes from the line of Craig Williams from Citigroup.

Craig Anthony Williams
Citigroup Inc, Research Division

Congratulations on knocking a few of those legacy issues off in good time, gentlemen. But can we discuss the dividend outlook, please? You flagged an intention to pay $0.99 again in the second half. This will be on an expanded capital base and consequently will ensure a high payout ratio for the period. So given the muted capital generation of the sector present, will there be a desire to re-base the dividend lower in time or do you -- bought yourself capacity to retain a high dividend through the absorption into the expanded capital base that you've now created? And the second question, if I could please, just around that ROE implications of the Life Insurance transaction. The capital reduces by $500 million or so on a book value of about $2 billion. The profit, I think, falls by $20 million -- $25 million due to the reinsurance charge on the profit base of about $100 million a year. Does this probably leave the ROE -- the business square as a result of that? And does this now sort of flag an intention to retain the business moving forward and is there a contractual obligation with the reinsurer to retain the business on net group at the half?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Craig, welcome to the call. It's Andrew. I'll get Craig to start, and I'll do the last bit.

Craig M. Drummond
Former Group Executive, Finance & Strategy

In relation to the dividend, Craig, obviously we've modeled extensively where we think dividend may or may not go. But look, that's a decision for the board ultimately to make on a recommendation from management. So we've given a forecast that effectively for the second half, we won't be making any particular comments longer than that. But what I would say in your consideration is we're clearly -- we're going to be reallocating resources back into Australia and to a lesser extent, also into New Zealand. But you would think, therefore, from an organization that's had a lot of resources into places like the U.K. in the U.S. and others, if they get reallocated back into Australia, we will have -- we'll be ultimately paying more tax in Australia. If we do a good job, we'll be paying more tax in Australia going forward. So our franking capacity should be quite reasonable. We are currently comfortably placed on franking. We may, as a result of -- to your point, as a result of the announcement about second half dividend, we will see a slightly higher payout ratio, obviously, in the near term. We -- the first half dividend has driven a payout ratio, I think, of 71.5%, clearly on an expanded capital. It will go up a little in near term. But as far as making any other forecasts, we won't be commenting on that. In terms of just your ROE comment, what I would say is you can obviously do your own modeling. On our modeling, it's accretive from an ROE point of view.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

And Craig, it's Andrew. I would just add to that in terms of your last question. So firstly, our priorities in terms of M&A are clearly on completing GWB and completing the U.K. That's our absolute priority. Secondly, we have put -- on one of the slides I had, we put the ROE of the Wealth business. Now that's just the -- that's obviously trade reinsurance transaction, but that is the standalone ROE. You can see it's below the cost of capital. Clearly, with banking clients, Wealth products, we're getting a broader relationship ROE, which we can see and we acknowledge, but it's still well below the cost of capital. But you can see the business continuing to improve. Their productivity, their earnings, their lapse rates, they're managing it well so we can see an organic growth there. But with the cost of -- an ROE of 7%, clearly, we've got to still keep working on it.

Ross Brown

Okay, Richard Wiles.

Richard E. Wiles
Morgan Stanley, Research Division

It's Richard Wiles from Morgan Stanley. Craig, at the last result I think you included the slide that showed the ROE for the core ongoing businesses was 79.2%. I'm not sure of seeing a similar slide this time. Can you share that number with us? And also can you tell us if there's been much change in the capital allocation between different parts of the group?

Craig M. Drummond
Former Group Executive, Finance & Strategy

Richard, as you can see from what we've got in this deck, we were reluctant to put -- jam too many more slides into the deck and have opened up too many more fronts of conversation. So look, I haven't got that number off the top of my head. All I'd say is there's not -- there will not have been any material change. But you can see that we are adding, obviously, equity into the business. And that you can do your own forecasts on earnings. But when you -- we've given you a dilution number so that -- what I would say is there will be some dilution, short-term dilution, clearly, on those numbers because more equity -- and we won't get -- in the very short term, we're not going to get the uplift in earnings to the sort of returns that we will get in a medium-term sense. So, but look, it won't have changed materially.

Richard E. Wiles
Morgan Stanley, Research Division

It's a pre-capital raising dilution. The core businesses are doing an ROE of roughly around 17%.

Craig M. Drummond
Former Group Executive, Finance & Strategy

As I said, I don't have the numbers sitting on the top of my head. But it won't have changed materially.

Ross Brown

Andrew.

Andrew Triggs
Deutsche Bank AG, Research Division

It's Andrew Triggs from Deutsche Bank. Just a question around the U.K. demerger gain. Effectively one of the things to do is bring forward the capital cost of the potential future comeback charges. So just interested in your thinking around that and also whether you think maybe that's outweighed by the benefits of low volatility in earnings going forward.

Craig M. Drummond
Former Group Executive, Finance & Strategy

All right. Do you understand or do you want me to -- okay, look, we -- as Andrew said, we weight up -- we look at this every which way. We said, do we defer, do we exit or do we take, and we've got that liability or that contingent liability today anyway. So it's not like this is a new contingent liability. It is -- in many respects, while the PRA have given us a number, it's not quantifiable because it's potentially -- it's a period of time looking forward on some unknown issues. Having said that, what we're trying to do is face into those issues. And I think in the solution that we've got, it is very contingent. Yes, it's a deduction in the short-term from CET1, but it's capped. And we think that's knowing -- having certainty around what the dollar amount is for us, for our people, for our business and for our shareholders, we think is something that should be valued.

Andrew Triggs
Deutsche Bank AG, Research Division

[indiscernible] What's the total provisioning and expensing of comeback charges taken today in the U.K. in the last few years, to put it into context?

Craig M. Drummond
Former Group Executive, Finance & Strategy

I think the number is -- is it 1 point -- we should get back to you. Look, I've seen the number. Someone else has asked for the number. But what we might do is rather than give you the numbers off the top my head, we'll provide that number to you.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Andrew, I will just add that the longer we're in the U.K., the longer it takes to focus on the business where we believe we add the value and get the returns, and to Richard's question, where we know the returns are attractive. What this option gives us despite looking at the other 2 is control over the de-merger piece, relative speed and we got clarity. We know we cannot exceed GBP 1.7 billion, so it's boxed up. So that's positives for us. And as I said when I spoke earlier that when you do the financial analysis of the 3 options, they're broadly neutral if you look at over 3 to 5 years. So then, it's clear. I think the strategic preference prevails, and that's why we're doing it.

Ross Brown

Mike Wiblin.

Michael Wiblin
Macquarie Research

Michael Wiblin from Macquarie. I won't give you [indiscernible] questions again. Just on Page 47, Gavin, the Net Promoter Score on the mortgage side seems to have accelerated quite rapidly. Can you talk about what you're doing there? And obviously that's a good ROE product from that perspective.

Gavin Robin Slater
Former Group Executive of Personal Banking and Director of Bank of New Zealand

Thanks for the question and giving Craig and Andrew a bit of a break. It's pretty much what Andrew said, it's getting back to the basics. I mean what we know from our customers, and to my surprise is they want to be able to make it easy for us, make it simple [indiscernible]. And that's really the core of what we're trying to do here, just getting back to the basics. It's interesting with the case study at the moment where our Net promoter Score in South Australia is in positive territory. And we've got a very good leader, Gregg Harris on the ground there. And it came down to the simple things. They've got a whole a lot of leads from our analytics guys, in marketing who did a whole lot of customer outbound calling that gets around fixing flag points. We had the prices that was terrible for customers. Existing customers that wanted to do a variation to the front line and we're treating them like a new customer. So it's just getting back to basics and really talking to our customers, good quality conversations, making it easy. And importantly, what we've learned as well is getting information and insights at a local level, that people connect on and use for coaching purposes. So we're running a pilot at the moment in a lot of our CPD stores in Sydney at the moment in 345 George Street if you pop in there. And simple things around customers saying the queuing time is a little bit long sometimes. It's a bit busy and what are they doing. I like the store manager there, Terry, she gives them boxed cheese. And they serve cheese, and look after their customers and have a quality conversation. I kind of look at that and say, why would you do that? But at end of the day, customers enjoy that experience, and they feel valued and respected. And they are more likely then to advocate for you as opposed to being a detractor.

Ross Brown

Brian, last question, I think.

Brian D. Johnson
CLSA Limited, Research Division

Two subquestions that have nothing to do with each other. Is there a material difference between the U.K. Listco RWA versus the APRA risk-weighted assets? There used to be historically. And then the second one is as -- I'd be interested in the differential between what is your stressed -- what would the PPI -- how much you provisioned at the last result? My understanding was you went back and sampled it based on knowing that fine was coming, so you went back and actually looked at it. I'd be interested if there was a material difference between your stressed one and the actual provisioning we've seen. And then as you -- as that GBP 1.7 billion gets utilized, doesn't impact the capital at all, but does that effectively go through NAB's P&L and does it go through NAB's cash earnings going forward?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Okay, so...

Brian D. Johnson
CLSA Limited, Research Division

Risk-weighted assets, stressed and future cash earnings on the [indiscernible].

Craig M. Drummond
Former Group Executive, Finance & Strategy

So Brian, the average risk weightings in the U.K. are much higher, and it's a standardized bank, so mortgage risk weights, I think, as we disclosed in Pillar 3, where it's sort of 79% or so. And in the U.K., we'd be close to double that. In terms of the getting down to the detail on our stressed scenario versus our current provisions, clearly, the stress is looking out over a range of scenarios. It's a range of situations with things like the Plevin[ph] case, a range of other issues. So it really is trying to bring forward, looking many years out, what could possibly be. And as I said, it is very uncertain in terms of how that number is calculated other than if you are leaving town, so to speak, there is going to be a conservatism done around that type of number. Now having said that, there is, we're not saying that there won't be and there may not be future provisioning. We're not saying that at all. It is an inherently uncertain area. And we have alluded to a continuation of our past business review that we're doing on PPI. And we did include that in the contingency -- our contingent liability note in the accounts at the end of last year. So there is still a range of uncertainties. What we are saying, though, is that the number in aggregate is capped at GBP 1.7 billion. And any provisioning that occurs prior to that de-merger occurring by the end of '15 will be netted against that GBP 1.7 billion.

Brian D. Johnson
CLSA Limited, Research Division

And the future draw down of it, does it go through earnings or is it [indiscernible]?

Craig M. Drummond
Former Group Executive, Finance & Strategy

So I think as a discontinued op -- and again, we haven't made that call yet. But again, my thinking would be, well, we've been transparent and tried to put the numbers into cash earnings. So I would say, if we have not demerged the business, it's more like a cash earnings number. If we demerged the business, it's more noncash, it's discontinued.

Ross Brown

Okay. I think that's the end of the of the Q&A. Andrew, you want to make some concluding comments?

Andrew Gregory Thorburn
Former Group CEO, MD & Director
Yes, thank you, Ross. Just for those on the phones, it's Andrew Thorburn speaking. I just want to thank everybody for being here today, for your questions. And I acknowledge there's a few complexities in this

half's results. Just to say that as you work through it, if you have further questions that you haven't been able to ask to this point, please contact Ross, and we'd like to answer them, including Craig and I, making ourselves available. So thank you very much. Enjoy the rest of your day.