Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Anthony Hoo from Deutsche Bank.

Anthony Hoo
Nomura Securities Co. Ltd., Research Division

Just a couple of questions. Firstly, on your non-interest -- on the trading book income line it was a pretty significant decline half-on-half. Can you just give some input into your commentary was that part of [indiscernible] elevated bills spread? So assuming the comp bills spread stays where it is do you expect the trading book income line to recover to where it was the last half? And then the second question just around Homesafe, question on your overlay. You said you will assume 3% growth over the next 18 months, do you see this at risk and can you talk about the impact and how it works so if had to increase that assumption given current market conditions?

Travis Crouch
Chief Financial Officer

Thanks, Anthony, for your questions. Sorry, if we start with trading book contribution for the second half, you're right there was a loss in the second half off the back of those elevated bill rate that we did see particularly over around March. Look, I think you comment is fair what would be a normal outcome is probably more in line with that very sharp contribution of $2 million or $3 million positive is what we'd be expecting now that the bill rates while they're elevated have settled down a bit. So I think that's a fair assumption with a more normal contribution. As far as the question around the Homesafe overlay and the growth outlook, so as you said we did maintain the overlay, we did make a small increase to it really off the back of the increased portfolio size. When we continue to look at that portfolio performance one way we do test it is on the completed contracts and as you'll see in information there, the profit on the sale of those completed contracts continue to be above the carrying value. So that really gives us confidence and supports the assumptions that we're making. Long-term growth rates are still in excess of what we're assuming there in that short-term. So we did make a small increase in the overlay to reflect the portfolio size, we still continue to make small positive profits on those completions of the contracts. So that really does give us confidence in the valuations in the way we're actually representing that.

Anthony Hoo
Nomura Securities Co. Ltd., Research Division

Okay. And -- but how often are these -- I mean if you -- these assumptions do you make the -- assess every year, every 6 months or --

Travis Crouch
Chief Financial Officer

Right Anthony, every 6 months we review that formally. And as I said we get details on the monthly completions throughout the year but more formally review that every 6 months.

Operator

Your next question comes from the line of Ed Henning from CLSA.

Ed Henning

Positioning your book one way or the other and so or if it's -- you still spark up again --

Travis Crouch
Chief Financial Officer

Sorry Ed, I think you came in a bit late on that, we didn't hear the first part of that question.

Ed Henning

Just going back on the last question just around the loss in the trading book in the second half, was that you guys positioning your book or is it a natural lane. So if you get a blow out in spreads again you potentially make another loss?

Travis Crouch
Chief Financial Officer

It was more the latter, Ed, it was actually just the natural positioning there. So we did see that through that blow out over March.

Ed Henning

Okay. So if there's a potential blow out again that could potentially happen again?

Travis Crouch
Chief Financial Officer

Potentially.

Ed Henning

Okay. Next one, just on the staff costs, you touched on you've reduced some of your project capitalization spend which pushed up the staff costs I think in this period a little -- in the half a little bit because normally if you go back over the last few years you've always had a first half skew because that's when the pay rises come in. Has this just stepped up to another level or is this, if you think about the half-on-half transition or the dynamic going forward, how should we think about that going forward?

Travis Crouch
Chief Financial Officer

I think internally we call it the Fennell factor, to reference the former CFO but normally in the second half we actually do have a couple of less working days, for this financial year we actually have the same number of working days in both halves so we didn't get to see that, that lower cost in the second half. You're right, the salary increases is due -- or will continually come through in that November, December period. So I think, that's probably a few million as far as the impact on the second half without that 2 less working days. So moving forward, I think next one I see that there is a couple of less working days in the second half, or maybe 1. So we would expect a small reduction because of that timing.

Ed Henning

Okay. And just with the amortization you talked stepping up by $10 million is that all for the advanced accreditation model so the -- or is there more in that as well?

Travis Crouch
Chief Financial Officer

No, it actually reflects a number of technology investments across the business more so weighted towards those business projects rather than step-up in advanced.

Ed Henning

And if you do get advanced, is there a step-up over and above that?

Travis Crouch
Chief Financial Officer

Yes, there will be when we get it -- yes.

Ed Henning

Just one last one from me. In the first half, you guys put in a slide on the expected capital benefit from Basel III when it comes through, that slide is obviously in this pack. Do you still anticipate the 50 basis points for standard and 100 basis points for advanced or are things got a little more complicated?

Travis Crouch
Chief Financial Officer

I think, we've done the work as we said around the new risk rates, we need to wait to see where they land, to actually be able to talk about a benefit in basis points. Or there we are still positive on the benefit that that advance would bring so -- but we need to actually come to a landing on both our risk weights but also where APRA calibrates the advance risk weights as well. So it's definitely positive but we need to wait for that to be formalized.

Ed Henning

And then just before I go, is it -- is that, obviously you're still positive you say but is it potentially less positive than your first carve out?

Travis Crouch
Chief Financial Officer

Yes I would I would think so, Ed.

Operator

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

Jonathan Mott
UBS Investment Bank, Research Division

Question on Slide 41, just to [indiscernible] fact. You've really seen a pickup in mortgages at the very end of the period. Some of it is [indiscernible] I see a pickup in mortgage lending right around June. But how of this is a result of the majors tightening their underwriting standards and really getting focused on responsible lending. Obviously, as they tighten their underwriting standards, the flow has seemed to go out from that area to others. And secondly, following on from that, can you confirm that you are now verifying the living expenses by actually reviewing the transaction banking accounts and credit card statements rather than just relying on living expense estimates to comply with responsible lending?

Travis Crouch
Chief Financial Officer

I'm going to answer the first one John thanks for that. So you are absolutely, that improvement -- we often do get a stronger lending growth towards that June period, but we are seeing or we did see that the benefit of some of the other banks I think tightening their servicability, I think making the sort of the processing time not quite as efficient as it had been. So we actually did see the benefit and we were the recipient of increased flows as the rest of the industry tightened their requirements. We had moved ours we believe ahead of that. So we're actually already in that position and we did get the benefit of some of those increased flows as others adjusted to be in line with where we are and where we need to be. We've actually got Taso Corolis in the room with us John, so I think he might pick up the second question there.

Taso Corolis
Chief Risk Officer

Just in terms of the living expenses, where we do have the transactional accounts with us, we will review living expenses declared against our own transactional accounts.

Jonathan Mott
UBS Investment Bank, Research Division

Are you requesting that from the mortgage brokers if they can provide it?

Taso Corolis

Chief Risk Officer

No, it'd depend.

Jonathan Mott
UBS Investment Bank, Research Division

So I think I will elaborate. So are you actually requesting from the mortgage brokers or the customer that they provide the transaction banking account and their credit card so you can actually verify their living expenses for responsible lending?

Taso Corolis
Chief Risk Officer

Yes.

Operator

Your next question comes from the line of Victor German from Macquarie.

Victor German
Macquarie Research

I was hoping to actually clarify a couple of earlier questions and then have one extra one. So with respect to Homesafe portfolio, you're obviously creating additional provisions for it. Can you maybe talk to us about the environment where you're going to start releasing those provisions?

Travis Crouch
Chief Financial Officer

Thanks, Victor. I think what I said earlier on was that the assumption we are making continues to hold that 3% growth for the next 18 months and then returning to the 6% long-term growth rate. So that's been consistent over the last few halves. As far as your question, when would we release that overlay, well it would have to be that we believe we were back at a point where that short-term growth rate was also going to return to 6%. At the moment, we continue to see that the assumption around 3% for the 18 months being appropriate, as I said, is something we test against the profit on sale of those completed contracts. So it really is an assumption around looking forward and that if we changed our view on the long-term growth rates then that's at the time when we would actually make a change and look to release some of that overly. As I think we've spoken about the last few halves, any release to that overlay goes through stat earnings, it doesn't affect the cash earnings result.

Victor German
Macquarie Research

Second question is just relation with BBSW and OAS spread how that actually impacts you. I mean it sounds like some of that impact has been particularly taken in on interest income line. I'm just wondering what's the likely impact going to be in the interest income from the elevated spreads relative to previous periods. You're obviously getting the benefit of repricing coming through in the next half. I am just wondering whether it's going to be offset by elevated funding costs at all?

Travis Crouch
Chief Financial Officer

I think we have included the extra information on our NIM slide, which I think is Slide 13, this half, where we did call out the impact we saw during the second half was around 4 basis points from that elevated BBSW on our wholesale and securitization funding. So that was the impact we saw there during the half.

Victor German
Macquarie Research

And any spreads that current levels and there is no more additional impact from that?

Travis Crouch
Chief Financial Officer

Most of that would have been picked up during the year, [Technical Difficulty] stay at similar levels. Then the only thing I would say Victor is some of that impact obviously came, it started more towards Q4 rather than the start of the half. So there could be a little bit more coming through if they stay at the same level, and obviously depending on what then happen moving forward.

Victor German
Macquarie Research

Last question, just on provisioning so you as you've moved to AASB-9 there is quite a significant uplift in your collective provision. Going forward, if credit conditions would just stay unchanged as they have been, say in 2018, and given that you're collective provision effectively is much higher base relative to your book. What's going to happen to your BDD charges going forward if conditions were to stay the same or are you able to give us maybe an idea what would impairment charge be this year if you were to assess it on AASB-9?

Travis Crouch
Chief Financial Officer

Maybe I answer in another way. Victor I think, if I look at the 2 halves from a BDD outcome, obviously we spoke about the first half being higher of the back of some commercial exposures, second half was lower, without those and with also an improved rates then on outlook, I would have thought the annual result, the result in BDD charges for the full year is probably representative of a usual BDD charge.

Victor German
Macquarie Research

So kind of moving to AASB-9, I'm just wondering in the past you obviously the impact on actually collective provision I notice you talked about specifics provision not the way your assessment doesn't change not that makes sense but from the way you assess your collective provisions and you're suddenly your base is sort of 3x higher than it used to be, I would have thought that would mean that, all other things being equal, the additional amount that you would put aside for collective provisions going forward relative to the past would be higher?

Travis Crouch
Chief Financial Officer

Going forward, it would be higher. I mean we've done the adjustment basis and we are up to at the moment with the models I wouldn't have said the collective provisions moving forward would be higher. That's the way the intent of the standards recognize that on 1 July. Look I think us and all banks will work through this as we continue to get another month worth of data but I would have thought as I said that the BDD charge or the BDD outcome for the full year is probably representative of how we look at it moving forward as well.

Operator

Your next question comes from the line of James Ellis from Bank of America Merrill Lynch.

James Ellis

Just 2 questions both related to revenue. Firstly on the noninterest income, there's been pressure on that for a number of halves now and obviously the second half are you saying was impacted by negative trading outcome which is not normal. Just wondering if you had a view as to where there was a sort of a firm base line there given that it’s half by half by half, which you just don't seem to have found it. And then secondly in terms of the net interest margin your good -- the composition on Page 13, Slide 13. The retail deposit repricing, a couple of strong halves of positive margin contribution there. Would it be fair to say repricing the term deposit book late in the second half '18 period will remain the -- that’s not going to be repeated term?

Travis Crouch
Chief Financial Officer

Thanks, James. As far as your question on other income. Look, I agree we -- the chart there on Slide 14 does show that half-on-half decline. I think you can make a more normal assumption on trading book contribution. The fee income, it is an industry thing as well. It's not -- certainly not just something that we are experiencing, I am not brave enough to pick the bottom of that, but I think fee income will continue to be under pressure, whether it's deposit pricing or deposit fees or even lending, and just the competition there around the discounting that's happening with asset fees or lending fees. I think the fee income is definitely one that will be a challenge, but you are right. I think with some strong flows with that super managed funds a more normal trading book contribution you can probably have a look at that moving forward for what's a bit more normal. As far as your comment around NIM, so you're right the [Trade A] repricing we did was actually quite late in June, so it wouldn't have had an impact in the second half. That as I said when I went through the slides that's the first time we've moved to a pricing in a long time, so that does, if I look forward at margin, I wouldn't expect the same sort of benefit in any way around the retail deposit repricing that we've seen over the last year.

Operator

Your next question comes from the line of Brendan Sproules from Citi.

Brendan Sproules
Citigroup Inc, Research Division

My question comes around your deposit growth on Page 10 you made mention that deposits grew below system partly because it was a function of the lending growth you've had. Now given that you had quite a strong into the half, could you comment on whether deposit growth will need to pick up from the here in order to fund the balance sheet?

Travis Crouch
Chief Financial Officer

Thanks, Brendan. Yes look I mean that result for the deposit growth is as I said the outcome of the timing and when the asset growth was coming on. We did run our liquidity portfolio down a little bit. We did have some excess there during the year so that helped during the half of that actually helped fund some of that lending growth. As I said we increased [Trade A] late in June, and that had an immediate effect of the [Trade A] flows. So if you look at the 0.9% increase that we saw during the half, absolutely that will need to be a little bit stronger to support lending growth moving forward. But we are very comfortable with that, that's achievable. and as I said it really is a we do what we need to do to actually fund the asset growth.

Brendan Sproules
Citigroup Inc, Research Division

I just have a second question on your costs. Is there any particular initiatives that you've got in place to kind of manage your costs going forward? I know there is quite a lot of headwinds especially in relation to the environment particularly with the Royal Commission. Is there anything you could call out there?

Travis Crouch
Chief Financial Officer

Not any particular initiatives. It absolutely is a ongoing focus of the way we actually look at the business performance, so there's nothing that I'd want to sort of call out as a specific focus or a piece of work that we are doing, but I will say it is something ongoing. Marnie touched on just the work we've done to actually move the business, [indiscernible] change area to a agile way of working. There was some additional costs with that during the year. Yes so there's a few things like that, that we actually needed to invest in to actually change the structure there. But I wouldn't have said -- I don't think it's really an approach to overall costs rather than particular initiatives that we wanted to identify.

Operator

Your next question comes from the line of Andrei Stadnik from Morgan Stanley.

Andrei Stadnik
Morgan Stanley, Research Division

Just wanted to ask 2 questions. Firstly just want to confirm, in terms of the wholesale deposit pricing, you mentioned there was a 4 basis points headwind in the second half. Just want to understand how much of that was the pure BBSW headwind compared to other wholesale pricing trends, because the impression you can -- I think the market might have had is that BBSW the headwind for Bendigo as well to be low maybe at about 2 basis points and it is coming at 4. So how much is this BBSW what do you base this other wholesale issues?

Travis Crouch
Chief Financial Officer

Thanks, Andrei. I mean most of that would be of the BBSW of the increase in particularly around securitization but also wholesale funding. I think that the way we have sort of separated the 4 points after the second half really reflects the change from the first half, so that's the impact we saw half-on-half. As we said moving forward, if rates stay as they are, I think, your assumption closer to 2 points is probably a reasonable assumption.

Andrei Stadnik
Morgan Stanley, Research Division

And my other question was really you are talking about a [Technical Difficulty] of a revenue growth and mortgage -- so in terms of one of the key drivers for that mortgage growth, what mortgage growth do you think is achievable in FY '19 and how will your investment in Tic:Toc is actually is the best for example would you roll out that taking a real time approval facility across the rest of Bendigo.

Marnie A. Baker
CEO, MD & Director

Yes Andrei, yes we -- in relation to lending growth we believe that we -- and we should be given however your proposition at low system if not better. So depending on where the system settles, we will be committing to [indiscernible] or a less assignment system. Tic:Toc itself yes there is a significant opportunity for us. We're doing work at the moment to integrate that into our different channels, starting with our retail channel, so that we can actually leverage off, I suppose that instant home loan application through to settlement to improve the experience for our own customers and hopefully get more throughput through our own system as well.

Operator

Your next question comes from the line of Ashley Dalziell from Goldman Sachs.

Ashley Dalziell
Goldman Sachs Group Inc., Research Division

I just have, firstly had a question on the commercial line portfolio. How far through this rebalancing process are you -- and is there sort of more to come through FY '19? And then secondly I just had a question on the software amortization. Just on Slide 33, you mentioned that if advanced securitization does come through, you'll begin amortizing the expenses associated with that of your actual capitalized software balance can you just give us a feel for how much of it relates to that advanced accreditation project versus other projects?

Travis Crouch
Chief Financial Officer

Thanks, Ashley. So I didn't quite catch all of that second question but I'll start with the first one around that commercial just where we are positioning that. We are through it, it's [AIU], it's the way we actually operate now. And we have probably the last 12 to 18 months so they will continue to be work on that but it actually is [AIU] from that commercial book point of view. As far as your question around the amortization and so I missed the first part of that, but I'll answer the second just around the level of capitalized software. From memory, and I can -- am happy to confirm this but I think it's probably around about $60 million, $65 million from the advanced securitization cost that are actually part of that capitalized software balance. That will be what's on there at the moment. And sorry, could you just run through the first part of that question again?

Ashley Dalziell
Goldman Sachs Group Inc., Research Division

No, no. That was the crux of the question.

Operator

Your next question comes from the line of Brett Le Mesurier from Shaw and Partners.

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

Your impaired assets increased by 16% from December '17 to June and your specific provision only increased by 5%. Could you give us the reasons for that so that your coverage of specific provisions for impaireds fell from 39% to 36%?

Travis Crouch
Chief Financial Officer

Yes, thanks, Brett. So I mean the -- most of that increase relates to the business banking portfolio. There was -- most of it related to around 5 large exposures. But these were across Queensland, Vic, WA they are across, so there is no geographic concentration or common underlying issues. They are also across different business sectors, so we are comfortable there is no common theme there as far there was an increase in impaired loan balance, rather than a straight specific good reason and that is lower -- but that reflects the value of the collateral supporting those outstanding loans. So obviously when a loan becomes impaired, have a look at the provision and we rise it based on the accession of the collateral value at that time, so we're comfortable that we recognize the impaired that way and we also make a call on the level of supervisions required. So absolutely, the coverage is at 92% which I think was off around about 100 if you look back over some previous ops it has been around in those 90s as well. So it does affect, it does reflect, sorry, the way we look at the line at that time and we certainly look at the value of the collateral so we're very comfortable with the level of the provisions associated with those lines.

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

Were you taking a more optimistic view at the end of June compared to the view you're taking at the end of December?

Travis Crouch
Chief Financial Officer

No, we're taking the same view both halves.

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

Did you reduce any provisions, any specific provision in respect to particular line from December to June?

Travis Crouch
Chief Financial Officer

We would -- may change it every month, Brett, I'm not aware of any material ones that I can think of here now. But we would actually be reviewing those provisions every month so we would have made changes, but as I said that raising increasing impaired we're comfortable that we've assessed those well from a provision point of view.

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

What type of industries, were those 5 large exposures?

Travis Crouch
Chief Financial Officer

Spread across retail, commercial office, ready property, professional services, so it's absolutely spread well across.

Operator

The next question comes from T.S. Lim from Bell Potter Securities.

T.S. Lim
Southern Cross Equities Limited, Research Division

I'm just looking at Slide 47, the agri business loan arrears is sort of flat, I mean, are you confident that this is going to be the case given that droughts and everything else is happening to the farmers?

Travis Crouch
Chief Financial Officer

Thanks, Tim, yes, absolutely the agri areas continues to perform well as it says on that slide there, so I was just catching up the slides, but I think the work we've done recently, particularly, with the areas that are impacted the most part by the drought, I think, would represent less than 3% of our cost, total agricultural base, as far as those ones experiencing the poor seasonal conditions. So we've got a long proven track record of working with our customers and managing through this but our customers have also got a proven strategy for managing their businesses through adverse weather events. So those areas will move around but at less -- around about 3% as far as our customers that are affected with the worst areas. We are comfortable with the exposures that we've got there.

Operator

[Operator Instructions] Your next question comes from the line of Andrew Triggs from J.P. Morgan.

Andrew Triggs
Deutsche Bank AG, Research Division

Just a couple of questions please. Firstly, on the cash that adjustment due was almost $20 million of operating expenses -- adjustments related to legal litigation and compensation costs. Can you just discuss what they relate to and the reasons for the treatment as statutory adjustment? And the second question, Marnie, just in terms of taking the reins, are you happy with the size of the branch network, any rationalization that you introduced obviously core to the strategy but obviously quite a large branch network spread across the country?

Travis Crouch
Chief Financial Officer

Thanks for the question, I'll just pick up the first one just around the non-cash items and expenses there. So they are tied in the accounts but the main one relates to litigation costs associated with Sandhurst Trustees, legal cases. These have been finalized -- as these business to which it relates has been sold and the cost we considered not to be core -- as part of the ongoing business of the bank. So they have actually been recognized as non-cash there. We have recognized the Royal Commission, the external legal costs associated with the Royal Commission. They're actually being picked up as non-cash. This is not in the ordinary course of our business and we are recognizing it that way. And then the last one, compensation costs with some work we're doing on the [indiscernible] service. The work we continue to do with ASIC on that so there's a small amount represented there, around some refunds to customers that we've picked up there and that relate to an acquisition of a financial planning business rather than anything to do with our ongoing business.

Marnie A. Baker
CEO, MD & Director

And Andrew, I'll pick up your second question there, just to in relation to the size of the branch network. Yes, we're more than comfortable with the size of the network. As you would understand it is a little different to what you would see in perhaps some of our peers. We've got just over 500 branches and in excess of 300 of those are actually owned by a Community Bank network. So there's a different cost structure that surrounds those branches. But whilst the demand is there for a physical presence in those communities, we will continue to have representation there. And we're still seeing that, we're still getting demand from communities to open up new branches. Because I do see the close connection between the community itself and being able to -- being empowered and to draw off the sustainability of their own communities. So at this point in time as our customers and as a community they expect to have branches residing in physical locations, we'll continue to do so.

Andrew Triggs
Deutsche Bank AG, Research Division

Marnie does that also apply to the corporate branches, did you see scope for any shrinking of that network?

Marnie A. Baker
CEO, MD & Director

Not at this stage, I mean, we do review that but a number of that corporate branches provide a bit of a hub, I suppose to community branches that are in locations that are nearby. So we house a number of, sort of, corporate functions, business banker those sort of thing in the corporate branches which do actually support more than the branch that they're actually residing in. So at this point in time no, there's no change to that, Andrew.

Operator

Thank you very much there are no further questions at this time. I will now like to hand the conference back to the speakers for any closing remarks. Thank you.

Marnie A. Baker
CEO, MD & Director
Thank you. And thank you everyone on the line today for your interest and your ongoing support, and we'll no doubt be seeing many of you as we get around the countryside over the next few days, so thank you.