Question and Answer

Unknown Executive

Thanks. If you can wait for the microphone, state your name and the organization you represent. Andrew Lyons?

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman Sachs. I'm just wondering if you could talk a bit more -- in a bit more detail just about the runoff opportunity that you've identified. You've spoken today about $6 billion of loans that you've run off through the year and another $16 billion that you've walked away from. I'm just keen if you could provide any guidance to how much more opportunity you have identified going forward, and what this might mean for, I guess, overall group risk-weighted asset growth.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So Andrew, I'll kick off. So we've been very disciplined here. I mean we have some very good clients in the segment, long-standing clients. And at the moment, the returns that we can get and banks can get from particularly debt facilities are really limited and below the cost of capital, and that's the discipline that we're applying. Now we do have very good clients where we're seeing opportunity for additional products and services, transaction banking and FIC business. So that's attractive to us. We do look at the bigger picture and we are taking a long-term outlook. But this year, you've seen us stepping away from the business I referred to, the $16 billion and the $5.8 billion has been disciplined runoff where we think we're just not getting the returns. And I think, particularly with these clients where they can go to debt capital markets and these foreign banks, who have lower cost of capital for us, we think there's a way to go here. But I do wish to be clear that we will be disciplined, but we are taking a medium- to long-term view. We've got some good clients. We will continue to support them, particularly where we see broader opportunities to deepen relationships with them.

Unknown Executive

Jon?

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Just got a question on the cost. Obviously, the second half cost performance is really good. But remembering in the period, you had $630 million, which was from last year, which was the provision for the extraction and simplification of the superannuation business that came through. And also in the half, you had $365 million of additional capitalize software, which is 10% of the entire cost base in the half, got capitalized and put on the balance sheet. So 2 questions on that. Is the second half '16 the new baseline that we should be thinking is the new cost base from which we should project forward? Now you've utilized these provisions and you capitalized this, you said the PBOP is coming to an end. So this should be the new baseline? Or secondly, to keep cost set this level, do you need further below the line of restructuring provisions?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Okay. So Gary, why don't you kick off and then I'll add couple of things.

Gary A. Lennon
Chief Financial Officer

You know it's a good question, Jon. And it's probably multiple pieces here. Because clearly, we had a good cost outcome for this period. It's distorted when you try to compare it with FTEs. I know a few of you were trying to do that because there's a lot of FTEs in FTE movements relating to the sale of the Insurance business, and that really does distort things and quite a significant amount of costs and effort has moved into the transaction. In terms of the underlying cost performance for the half, there has been a lot of productivity delivered, particularly around some of third-party cost that Andrew focused on. We've been doing a lot of end-to-end process reengineering, focusing on driving unit cost down. So all that activities are very much sustainable. There are -- as there always are in every half, there were few where we do get some one-off benefits but they tend to be on a periodic basis. For example, we had some changes to an incentive scheme that tends to give you a lumpy benefit in the period where you're just doing some true-ups of the bonus accruals. So in terms of the outlook for cost, I would use the starting point and this is how we think about it on a jaws concept -- context, we really think about on a full year basis because that's how we think a full year basis of expenses and how does that movement line up with the full year basis on revenue, and we try to adjust some of our settings around expenses, depending on what we're seeing on revenue. Now we go into next year, we have benefits from some of these -- the $200 million productivity savings that are referenced, and we feel very confident we'll be able to achieve those savings, but there will be headwinds, Jon, a bit touching on the areas you're talking about. There will be an increase amortization spend now as PBOP is fully deployed that will really start to amortize. We will be looking at a higher-level investment in the business to generate some of the outcomes that Andrew talked about in terms of implementing our strategy. And as you do roll out more and more, you do end up having some additional costs associated with that additional technology kit that you roll out. So net-net, I think there is going to be headwinds and we're trying to offset as many of those headwinds as we can with our productivity outcomes.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes, I can't really add much to that. I think very comprehensive. I would just say two things, Jon. The first is that we want to build sustainable productivity. We don't want to do one-off. We've got the business we want now, and we want to nurture it and grow it and develop it. But we understand it's a lower-growth environment, particularly with revenue, so we need to rebase somewhat for that. But we understand where the productivity opportunities are, and I've named 3. We're building capability there to do it properly and sustainably. And secondly, as Gary said over the course of the year, our target is to grow -- have positive jaws so we get revenue growth higher than expense growth. And of course, that depends revenue growth number, how much we can invest back in the business.

Unknown Executive

Victor?

Victor German
Macquarie Research

Just a quick question on mortgages margins. So I think, Gary, you've highlighted that after adjusting for some of the changes in transfer pricing, it was about 8 basis points decline. We've seen quite strong competition and that's based during the half. Just your observations as we go into next year. It looks like market has become a little bit more rational. Do you expect these trends to moderate? Or do you think that the competitive tension that you've seen in the last half will continue to flow through your margin performance?

Gary A. Lennon
Chief Financial Officer

Victor, very good question, of course, we won't be giving any guidance on margin here. But I'll talk about some of the drivers. Look, clearly, this half was impacted largely by funding costs, which we've called out. It was also highly competitive, so we saw a lot, and I think, as you also a lot of front-book competition as well as competition around the back book and retention. So it was pretty fierce and intense, the competition this year. As we move into next year, we do have the benefit of our 15 basis point reprice in August, so there's a tailwind for us. Offsetting that are some of the factors already talked about, where funding cost hopefully are starting to show signs of moderating and with potentially more banks filling more comfortable about NSFR that might take some of the pressure off deposit cost. But it's too early to call. We still watch that very closely. And then, in terms of competition. Again, we are probably seeing the early signs of moderation, and that is something we just continue to

[Audio Gap]

rebounding commodity prices and oil price up and ANZ dairy prices or milk prices up. Yet you've raised an additional overlay versus East Coast we're hearing more and more anecdotes of settlement failures, et cetera. Wouldn't it be more prudent to actually raise overlay for developers and East Coast potential issues rather than for something that is a story that's just been now 2, 3 years old and looks to have already troughed and on the rebound?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Thanks, Jarrod. Well, Gary, you go on the first one and I'll take the second...

Gary A. Lennon
Chief Financial Officer

First one, how far we're through the business lending repricing. Look, we're going probably 80% through that now, so there's still probably a bit to go. But fairly significantly through that reprice. Again, the tools we talked about last time, we have different disciplines in the business now. We have -- we're using the price discovery tool. That's proven to be very effective. Potentially, we do see some indications that that's starting to tip off, but it's really going to depend on those other factors of how hard competition goes and where funding cost goes. But it's -- we're around about seeing what margins we're seeing today and what the margin is relatively similar.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

And I don't think that was a question on New Zealand dairy, so I won't go there because it was really around apartment market, I think, if I understood it, Jarrod. So in the apartment market, look, there's one that we are watching carefully talking to our risk teams, talking to our development clients. Really making sure we do understand what's going on. I think where we've seen the rise in prices has been in Sydney over the last few years. Less so, Melbourne. Brisbane, obviously, there's been some tough parts. So we're looking at this quite carefully. But let me go through this. On the $6.6 billion of developer exposure we've got, $4.4 billion if you exclude land, less than 20% of that is in the Inner-City postcodes, and that is performing. So that's point one. Point two is less than 2% of our total housing portfolio is in the Inner-City postcode so that won't be all apartments but that's a very small proportion. And when we do a dynamic LVR on apartments in capital cities, the dynamic LVR is 50%. So we feel we're very well covered. And in the last year or 2, we have made some changes to where we're lending the restrictions on LVR to foreign buyers without domestic sourced income. We've limited the amount going to development towers where there are foreign buyers or we have more than 30% exposure. So we have really tightened up over the course of the last couple of years. So we feel at the moment, we're watching it. It is an area of targeted attention, but we don't feel that we need to do more than we've done at the moment.

Gary A. Lennon
Chief Financial Officer

Andrew, just one other thing to add. On the logic, I think, going for the overlay given mining, dairy is starting to improve. What this overlay is particularly focused on, as I mentioned, is the second-order impacts. So what we're now starting to see is the impacts on mining towns and as that flowing through the mortgages. So that's what was informing our choice, and we'd also still believe it's a fair way to go on dairy and -- whether that be Australia or New Zealand. So it was relatively conservative, and we'll look that on the apartment side, and we're not seeing any stress levels yet. So we thought that was the appropriate place to go.

Hany Messieh

Former Investor Relations

I think we have a call on the phone.

Operator

The first phone question comes from Dave Spotswood from Shaw and Partners.

David Spotswood
Shaw and Partners Limited, Research Division

You sort of mentioned the margins. I mean, there's obviously, a bit of noise around the margins and between the other operating income and the net interest income. So I would appreciate any comments you can give on the outlook for the margin. I now it's difficult, but you're saying the core margin was 190 basis points and you've had some repricing and there's some movement on the liability side. But is plus or minus a few basis points, I don't know, a fair assumption going into 2017 as we stand here today, and what we know?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So let me -- that's a good attempt. So I think, David, we've seen a reduction in the core margins 3 basis points in the half. I expect there's going to be continued margin pressure. If you look at the long-run pressure that we've had over the last 5 years and last 20 years, it's going to continue. Home loan pricing is more transparent, under more pressure and scrutiny than ever before. So I expect that it's going -- all parts of our business are under real pressure. What we have to do is apply capital to the ones that we really believe are going to give us good return, deepen the relationships with clients in those segments, do more with them to increase revenue in other ways, not just through noninterest income and go back to the productivity piece. We know that -- therefore, the growth outlook is going to be challenging for revenue. We need to be more disciplined in a sustainable way around cost. That's the best I can give you. David?

Unknown Executive

Craig Williams?

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams, Citi. You've held the dividend today and the capitalization is clearly healthy. EPS, goes a little lower, revenue momentum is kind of slowdown in the second half and credit cost and possibly tax should perhaps shift higher from here. So is there a credible path to getting the dividend payout to your target range again? Or should we alternately sort of anticipate that absent regulatory changes are a magnitude that you simply continue to run at historically high payout level? Is there a profitable growth in the system to chase if you're prepared to consume more capital? And can you viably sort of take a path of really attacking cost? If you look at past decade and looking at the expense base under previous management, you had higher -- sorry, lower expense growth than your peers. Is that a constraining factor as you look today in terms of the need to sort of maintain investment in your franchise?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

All right, so Craig, I'll go first and then Gary, you can do the sweep. So on the first one on the dividend. We really wanted to be clear here because you referred to the payout range, which we have talked about before. But what we wanted to say was that our board made the decision based on what the dividend should be, based on the current circumstances. Now that really means, they look at capital and the position here is very strong, earnings and the outlook. And the long-term payout range of 70%, 75% is in there as a factor, but that was set at a time where ROEs and RWA growth was different, right? So we believe at the moment, when you look at the facts around our franking credit position, the CET1, in particular, and the fact that we have been targeting higher ROE and lower RW growth areas, then, that's quite justifiable. But what I think we always do is go back to the principles. If the board feel the capital position, the earnings or the outlook is going to be different, maybe the decision will be different. So that's the point on dividends. On the point around RWA. Because we've had very low growth this last year, probably that's because of the loan, the core C&I loan runoff. It's got a wee way to go. But it's mainly about targeting these higher ROE segments, and we still believe there is good growth there. And that's why we say whilst revenue is flat to the half, that's right, you need to look down at the priority segments, in particular the priority business segments where we've seen 2.1% revenue growth. And we will be very disciplined about where we apply capital, not just chasing growth for growth sake. But we do believe there is an opportunity to grow the bank in these client segments. And if the RWA growth number comes up a bit because we can get good returns, then that's something that we'll obviously look at. Gary, do you want to add anything to Craig's question?

Gary A. Lennon
Chief Financial Officer

I think he had a final bit on cost.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

On cost, yes...

Gary A. Lennon
Chief Financial Officer

Yes. In terms of cost, we've been -- which I think is quite right, we have a had a history of being very disciplined around costs. Is there any further opportunity, is essentially the question. The answer is absolutely yes. So we've done enough work now to see opportunities off the back of the early work we've done on customer journeys, the early work we've got on process automation, seeing opportunities around driving our unit cost for all our key products. PBOP just deployed. So all of these we are working up as quite significant opportunities over time. The caveat, which is an important caveat that Andrew has mentioned is we will go after those productivity gains in the right way where we're changing the nature of the work, where we're driving the right degree of automation, so it's sustainable. And it will. And part of one of the headwinds I mentioned around cost next year, it will require a degree of investment to get that automation. But it's not the level of investment at a PBOP-type level, it's more tactical investment so we can get at some of those areas of automation. So we do see, and we have a very long list of opportunities that we are now working through.

Unknown Executive

Okay, Andrew at the back.

Andrew Triggs
Deutsche Bank AG, Research Division

Andrew Triggs from Deutsche Bank. Just a couple of questions, please. Firstly, a follow-up on the institutional runoff. Just in the timing of when that occurred. Was that consistent through the half or back end in the half? And as such, is there any sort of headwind into the first half of '17 and the revenue sense that wasn't there this half? And the second question that plays into that is also around whether that runoff did have a material impact on margins, both the group and business lending margin? And then, sorry, finally, on the SME, bad and doubtful debt charge, it did increase from 13 basis points to 23 basis points during the half. That came despite what appeared to be no real deterioration in the leading indicators, so just some sense of what drove that increase, please.

Gary A. Lennon
Chief Financial Officer

On the first in terms of the corporate and institutional rundown. Remember, these are nearly exclusively single ROE relationships. So we've targeted those relationships pretty even throughout the course of the year, so I don't think there's any mixed issue. In terms of revenue this year, and I haven't got the annualized impact. But what we walked away from this year is about $20 million in terms of if we did those deals, that's an additional $20 million. And so we're going back to the earlier point we've had. We do see that this just wasn't one patch. This is us just starting. So there are other opportunities to dig into in terms of applying our strategy where we are open for business every day of the week in corporate and institutional, but we do have discipline around return levels. So that's sort of the first question on...

Andrew Gregory Thorburn
Former Group CEO, MD & Director

I think on the second one on SME. SME, B&DD and asset quality? Yes. So yes, you're right, Andrew, the B&DD charge went from $40 million to $70 million still off of quite a low base and that has been a number of medium-size single names. But actually, when we step back from it, it's in the sense we're not surprise. When you look at the overall economy, the growth unemployment, low interest rates, particularly New South Wales and Victoria we've got good coverage, the quality of the book overall is quite stable. And in fact, the -- if you took 90 days and impaireds, that's actually fallen from 97 to 88 or something like that. So the core book actually is pretty strong. And this move to B&DD is just a small number medium-size single names.

Andrew Triggs
Deutsche Bank AG, Research Division

So it's a normalized charge in that -- in the SME. The 23 basis point charge, is that pretty -- there's a 20 to 30 basis points sort of through the cycle number you think?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Well, I think, Gary, you can pick this up, but let me just go back one half a step. Because I think this question of what's the normalized B&DD charge for the bank because we're at 16, which admittedly is low. But in the back chart, there was one that I was hoping that would make it in the front, it didn't quite make it but -- and really, what we've done is over the last, we've looked at our portfolio over the last 30 years, adjusted for business mix because we've got a lot more mortgages today than what we did. And if you took out the recession of 91 to 93, and then the recession like area of post-GFC, the number is actually 20 basis points. We're at 16. So we still think it's going to be some correction. But the overall economy, if it continues to go as we expect, I think we can still expect quite benign conditions, and we certainly seeing in the quality of our core book, it's quite strong.

Unknown Executive

Scott?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. Looking at the housing lending spreads on Page 17 where we had a bit of a spike in March '16 due to repricing that went through the industry in November. And then, obviously, all of that and then some more has been spent this half. The margin is fine, but compensating this, you'd also had 70 basis points of capital shoot up through higher mortgage risk rates. The whole kind of premise of mortgage pricing stability is really to kind of offset that high-capital requirement, and we're just not really seeing any evidence of that here. Do you think the industry has been disciplined enough on mortgage pricing? Do you think that you are comfortable to try and grow market share and grow above system at the consequence of driving these ROEs lower, given the deterioration that we've seen in the mortgage ROEs over the last 12 months?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Right. Scott, let me start. I think as Gary said, we've seen some moderation in recent times on the front-book discounting. But I think if you step back from it, the mortgage product is still a very positive ROE product, that's one -- it's the home owners segment and part of the investor segment we've targeted, especially when you think of the other business that we have with the client, credit cards, transaction accounts, deposit accounts, superannuation. It gives us an opportunity to build a relationship and do more with them over time. So I think if you look at the ROE for the product, yes, sure, it's been compressed, under pressure a bit but still positive. And when you add in long-term relationships and other products and services, I think we still are positive about that product line. I think when you look at the system growth, look, we have been below system. Now that was a very particular reasons around investor, the investor segment, and we decided at the same time to make quite a few policy and process changes. We're back around system now, and we're happy at that level. So it is a balance because we certainly don't want to chase market share growth at this point in the cycle aggressively and for return reasons. So it is a balance and we continue to work on acquiring customers, doing more with them. I think that's probably where the kicker is in terms of return and being disciplined around all aspects of capital deployment, including front-book discounting.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And sorry, just a second question net stable funding ratio, the changes to the inputs to the calculation obviously has assisted recently. Are there been any discussions around what a buffer relative to the minimum will be and whether you need to continue to drift higher? Or do you think that the consequential heat out of the deposit market will be sustained?

Gary A. Lennon
Chief Financial Officer

It's a very good question. So we are currently sitting above that 100%. We are still in a consultation period, so there's quite a number of items that's still under debate with APRA, in particular, some of the look-through deposits within super. And so they're the sort of first thing. We have to get the rules finalized. And then, they do turn to this issue about, well, what is an appropriate buffer to operate above that level. A really important thing to think about in terms of NSFR and not compare it to some other ratios that we've got, it tends to be a very stable ratio. So that means because of the stability of that ratio, you can operate at a smaller, sensibly operate as a smaller buffer. But in terms of discussion with APRA, that sort of ongoing currently about what is an appropriate buffer. Not only with APRA, actually with our own board.

Unknown Executive

Brian?

Brian D. Johnson
CLSA Limited, Research Division

Congratulations on a positive earnings surprise. Never thought I have to say that in that briefing. I had 4 questions, and I'll be pretty quick. The first one is on Slide 11, you say that you've got target productivity savings of greater than $200 million. But on the same slide, you actually showed that you realized $98 million in the half. So the uplift is something greater than $200 million over the $98 million. It doesn't seem to be that big. Gary, can you explain what I'm missing there? The second one...

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Go through -- We're used to quote a number so let's get them out.

Brian D. Johnson
CLSA Limited, Research Division

The second one is in the PBOP slide, you've now rolled it all out and one of things you used to talk about was light-touch processing. We know the amortization charge goes up. But presumably, there's some labor shedding on this as well. Could we get a feeling on the relationship between those 2? The next one, when you actually have look in the pack, the op risk in this period seems to be steady again at 37.5, which I think is what happened at the quarter. Can we get a feeling on any discussions that you've had from APRA on actually releasing the op risk that really relates to Clydesdale Bank. And the final one, Andrew, one for you, when you have a look at the dividend commentary you've made today, it's not about basically boosting the capital position. My understanding is what you're trying to say is that within the parameters of what you see right now, it's right. Can we just get some confirmation that if this would mean that either the capital requirement goes up because of the FSI APRA bulk or -- and perhaps even the capital density goes up that, by definition, would imply more than likely you'd get a dividend cut.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

All right. Okay. So Gary, why don't -- I'll do the PBOP one. You can do the other two, then I'll close on the dividend one. So on PBOP, Brian, this was rolled out obviously to replace long-standing legacy system. We believe it's an important investment for the future. The main reasons we've done it is to improve the client experience to get more online, faster time to yes -- far less manual processes. And so it's only just being rolled out. I mean, we completed rolling out across the 8,000 staff, particularly in New South Wales and Victoria just in the last month. So we've just got to test it, make sure that it's being used properly and that we can get the benefits. The benefits we're expecting will be a combination of without specifying the amounts will be client experience, productivity of our front line sales and service people. And yes, I think there will be some in your terms, labor saving. Now that is -- then goes into how do we want to realize it if we do. Because we may well want to be deploying our people to be doing other things at the front line, deepening relationships with existing clients and engaging in other conversations, or we may decide to take some of that to our productivity agenda. Then, it comes into the whole picture of the productivity agenda. So I think we did a little time on it, but it will be a combination of customers' experience, better revenue, and yes, potentially lower cost. That's the PBOP one. If you could do the other 2, Gary, please.

Gary A. Lennon
Chief Financial Officer

Brian, thanks for your questions. In terms of the productivity...

Brian D. Johnson
CLSA Limited, Research Division

[indiscernible] sensible, Gary, [indiscernible].

Gary A. Lennon
Chief Financial Officer

Thanks for your sensible question, Brian. It's the -- so there were some -- in the third-party spend category, included in the $98 million, we had some good renegotiations. So it's a little bit lumpy that $98 million, so we did sort of discount that, so you can't just use a pure run-rate basis. But also, I'm very keen not to disappoint and we're feeling very confident that we will get that $200 million. So it's a number we know is very achievable, and we do hope to outperform that, if possible.

Brian D. Johnson
CLSA Limited, Research Division

So $4 million uplift [ph]?

Gary A. Lennon
Chief Financial Officer

Sorry?

Brian D. Johnson
CLSA Limited, Research Division

So $4 million uplift [ph]?

Gary A. Lennon
Chief Financial Officer

So we'll see what we get. The -- but we won't be capping out the upside. So if we can get more, we'll get more. But the caveat, which is a critical one, is we are determined to do this in a right way and in a sustainable way. We're not determined to just exit staff without changing the work and the processes. So that, by nature, will take a little longer. On the op risk. The discussions with APRA to date is being we've got these benefits that we got in the quarter as you quite rightly noted. And then, we are -- we've been told to sit tight. On one level, we're not entirely happy with that. But the sit tight message is there's a full industry review occurring around op risk capital charges, and we're now part of that review. So Brian, it essentially put us on pause on any further op risk savings.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Brian, in relation to the question around dividend, and particularly capital, now the 2 -- the 2 big drivers, of course, are the capital level and RWA growth. So we've talked a wee about RWA growth. We said, look, it's probably going to rise a bit from where it is but we think it's manageable, but we've got that under review as well. But in the question of capital, I think, we have -- what we're really saying is our board will assess this at the time and make a balanced decision looking at the capital earnings and outlook position. And if the right changes in the capital position that are required coming out of the likes of Basel IV, I think it depends on how much and how fast. And I think if the timing that we understand is correct, that will be in the next few months. We may find out some of that. I think we will look at that. The board will look at that and make a determination at the next half as to what that means, if anything, in terms of that dividend. So it depends on magnitude and timing and how we have to achieve it.

Unknown Executive

We have another question on the phone.

Operator

The next phone question comes from Andrew Hill from Merrill Lynch.

Andrew Hill
BofA Merrill Lynch, Research Division

I have 2 questions if that's okay. The first one, was just around term deposits pricing. The industry raised long-end TD rates post the last rate cut. I'm just wondering if you could comment on what proportion of term deposit flow is coming through products with greater than 1-year maturity. And the other question I have was just in relation to the revised APRA, APG 223 released this week. It does contain a couple of changes relating to investment properties around haircuts on the rental income and also borrower access to future tax benefits. I just wondered if you could give a comment on how your position in relation to those.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Thanks, Andrew. So I'll get David Gall just to talk about the second one in relation to APRA and Gary on the TD pricing or TD more than 1 year.

Gary A. Lennon
Chief Financial Officer

I'm not entirely sure. I'll dig into the question here.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Sorry, Andrew, we can't tell you just immediately what that is, the TD one. But can we go to the APRA 1, David Gall, please?

David Gall

Sure, Andrew. So APG 223, the revisions there, the shading they talked about in the revised consultation paper is for at least to 20% shading. We already do that today, so we already conform with that in terms of uncertain income. That's things like rental income, bonuses, et cetera, et cetera. In terms of future income tax benefit, that is a new one that's come up and will be considering that and responding to APRA around the consultation paper that they've got out there at the moment.

Gary A. Lennon
Chief Financial Officer

Andrew, can I just go back and just go through the term deposit question just to make sure I understand it?

Andrew Hill
BofA Merrill Lynch, Research Division

Okay. So with longer than 1 year maturity, I'm just wondering what proportion of flows is coming at those higher rate. So in the products of longer than 1-year maturity, what proportion of TD flows is coming through those products since the rates have changed?

Gary A. Lennon
Chief Financial Officer

Yes, so I don't have the specific answer. The more general answer is that as we're positioning ourselves for NSFR, we are tending to term out the book more -- look for more term deposits at longer tenor. And that can possibly be driving the price up, probably is across the -- the whole industry is driving the prices up with a longer tenor. But I don't have the specific answer.

Unknown Executive

Brett?

Brett Le Mesurier

It's Brett Le Mesurier from Velocity Trade. I've got a couple of questions. Firstly, do you see your loan growth being constrained by deposit growth in the coming year? And secondly, that $163 million transfer from net interest income to noninterest income from risk management, did that come with no associated benefit?

Gary A. Lennon
Chief Financial Officer

I didn't quite catch the second one. Brett?

Brett Le Mesurier

You referred to $163 million transfer from net interest income to noninterest income as a result of the risk management activities.

Gary A. Lennon
Chief Financial Officer

Right. No, that's just purely NII, OOI volatility if that is. So overall, net-net, no benefit, and that's why looking at the total, is the thing that makes sense. The total revenue and the total revenue is up 3.5%.

Brett Le Mesurier

But presumably, that came as a result of the transaction didn't it?

Gary A. Lennon
Chief Financial Officer

No. Often, it comes as a result of rate cuts and that's probably the main driver, FX rates changes. We have impacts on the physical and impacts on the hedges and impact on the hedges goes through OOI and impact on the physical goes through NII. That's what drives it.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Brett, let's come back to your first question. Could you just repeat that, please?

Brett Le Mesurier

Is loan growth going to be constrained by deposit growth in the coming year?

Gary A. Lennon
Chief Financial Officer

And maybe I'll answer. It is another benefit of being disciplined around where we're deploying our capital and so if you take the corporate and institutional example where we are being disciplined and we're not doing business below cost of capital. That not only gives you a capital benefit and an ROE benefit, it also actually gives you an NSFR benefit. So at this point in time, unless by one of the other reasons why we are currently compliant. At this point in time, we do not see any constraints around NSFR. As long as we continue to operate in the way that we're doing, we're been very disciplined about how we're deploying capital.

Brett Le Mesurier

And lastly, can you comment on the difference between the front and the back book on your mortgage portfolio?

Gary A. Lennon
Chief Financial Officer

In what sense in terms of...

Brett Le Mesurier

The difference in the margin between your front and back book when you manage portfolio.

Gary A. Lennon
Chief Financial Officer

No, we don't intend to disclose our margin between front and back book.

Unknown Executive
I think we've exhausted all the questions. So we'll wrap it up there. Thank you for your attendance.