Question and Answer

Ross Brown
Head of Investor Relations

We will be taking questions in the room and on the phone. Just the usual protocol, if you can wait for the microphone, state your name, the organization you represent. Let's start with Jon, down in the front here.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. A question on Slide 17. You've provided some information on the housing lending collective provision and you've seen quite a big step-up in the CP for the forward-looking adjustments. You can see it basically going up to $515 million from, it looks like, $138 million. It's kind of lasted for a while. So just wanted to get a feel for what are the changes in the assumptions that you've made over the last 18 months, and especially in the last 6 months. And also, the sensitivity, and more importantly, the sensitivity. So for example, if you assume house prices do continue to fall in Sydney and Melbourne, where the majority of your lendings books are, and unemployment moves, how sensitive is the collective provision on IFRS 9 to these assumptions that you can make?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Gary, why don't you start and I'll follow in?

Gary A. Lennon
Chief Financial Officer

Yes. Thanks, Jon. Just a couple of points on that. And as you'd correctly noted that we have been building our collective provision coverage for mortgages, there's 2 components to that. There's essentially -- one is reasonably routine and regular enhancements to our models. So we have been improving our models in more recent times, and that has increased our risk weights and also increased our collective provision coverage. And that's just the model is getting more refined and better, reflecting the history and experience. So that's sort of one portion. And the second portion does relate to targeted FLAs, and we've been running that across the -- for one of a better description, the more risky parts of our book. So we've got interest-only moving to principal and interest, where there's certain characteristics that might be indicated there's a potential of impairment. So we've got some quite targeted models around that where we can identify areas of potential stress. So we're trying to get ahead of that by doing the forward-looking adjustments. In terms of house price, specifically, I don't think there was a specific component of what we're looking at in those models because we got -- our dynamic LVR, currently, is like mid-40s. So -- but it would be relevant depending on if there are high LVR components. That's when the house pricing is relevant for that cohort. But maybe David, to put out another color, if there's anything to add, David, on that?

A. David Gall
Chief Customer Officer of Corporate & Institutional Banking

Gary, I think you've covered it off. Obviously, we also do the stress testing and there's some detail in the report there around the stress testing results on that as well, Jon.

Jonathan Mott
UBS Investment Bank, Research Division

You haven't actually made any underlying assumptions there. So this is the moment. All the assumptions sort of pushed the CP up as a result of targeted reviews, not a more broad view on the outlook for the housing sector, because it does kind of imply that the...

Gary A. Lennon

Chief Financial Officer

Well, that too, it's modeled. So model changes with enhancing the models and targeted reviews based on higher risk segment at the mortgage portfolio. It's not a macro, but we have taken in addition, which is not specifically mortgage, but an additional overlay for more macro factors of $50 million this half as well.

Jonathan Mott
UBS Investment Bank, Research Division

And if you back out the mortgage proportion, it means the rest of the CP is continuing to go backwards. Is that to shrink the balance? Is that because you think the riskiness in the residual book is still improving?

Gary A. Lennon
Chief Financial Officer

In terms of the overall...

Jonathan Mott
UBS Investment Bank, Research Division

Yes. If you back out the $500 million-odd in the mortgage book from the rest of the CP, the balance is falling despite the book value.

Gary A. Lennon
Chief Financial Officer

Well, the underlying book, you're right, is performing well. So that continues to perform well and we see, certainly, in some circumstances, credit improvements, particularly in parts of our SME book.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Can I just -- maybe I'll just back and go a bit broader just on this housing piece because we're very mindful of the housing market. You're seeing falls in Sydney and Melbourne, in particular, and credit growth, 4% or 5%. We still think, firstly, that there are opportunities out there. There's good customers who have got good cash flow and a good financial position, and I think the role of a bank is to step into that, where we believe that, that is understood and that's our role. Over the last couple of years, we've made a lot of policy changes, I think, over 150. So I think we're now, in terms of assessment, tighter and stricter than we've ever been. And remembering that every client we were assessing a home loan, they've got to meet an interest rate coverage of 7.25%, and that really gives protection, plus they've got to be at a service P&I. And so I think we're just -- we're very mindful of all that, about taking on risk that's appropriate. But there are opportunities out there and we've got to get that right, and we think we are. And finally, if you look at the asset quality numbers for the housing portfolio overall, they've risen a little bit in the second half, but they're about 81. So they're all -- we can see that in that slide that Jon's mentioning, but we still think they're off a very low base and they're manageable at this point.

Ross Brown
Head of Investor Relations

Andrew?

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman. Just a question on your capital generation, which has held up reasonably well. Supported, I guess, by risk-weighted asset growth at about half the level of loan growth for the full year. And that's despite the fact that you have seen a recovery in your nonhousing lending against housing. Can you maybe just talk about what's been driving that and just the extent to which you think that, that can continue, particularly, if we continue to see a recovery in SME lending?

Andrew Gregory Thorburn

Former Group CEO, MD & Director

Yes. So look, we basically are looking forward to '19 and see that there's a continuance of the same. So we're not viewing there's going to be significant risk-weighted asset growth in FY '19. That's not what we're saying. Whether it's going to be 2% or not, that's not the question. But with -- our expectation is that it was 2% for this year, it's probably going to be low again. So it's probably not going to be a significant number for FY '19, but we continue to see significant opportunities to optimize and improve our risk-weighted assets. We still have a number, particularly, in Corporate & Institutional, but also in Business & Private, where we do have relationships currently that are under the cost of capital. We -- as you've seen this half, and particularly in Q4, we had a number of exits of those customers, and that helps generate some capital. We've also got a nice flow now in a similar space of distribution where we feel we don't want to hold that debt facility. So that all helps to keep somewhat of a lead on risk-weighted asset growth. And I think the underlying growth in the economy, particularly the discussion on mortgages, we certainly don't see that accelerating or increasing in FY '19. So if anything, we see that coming off a bit, we also will help keep risk-weighted asset growth subdued.

Ross Brown
Head of Investor Relations

I'll pass the mic to Andrew.

Andrew Triggs
JP Morgan Chase & Co, Research Division

It's Andrew Triggs from JPMorgan. Just -- I had 2 questions, please. Firstly, on the NIM. Just some ideas of considerations for the first half, particularly around the deposits and funding liquidity pieces of the margin. And then the second question on the one-off charges taken this period, pretty much all related to the advice business, the wealth business. Just your thoughts on, if we look at other banks that have been taking more one-off charges related to product reviews, including through the NIM. A quick squeeze at the continued liability. So there's nothing really there that you're too worried about? Or is that a fair reading on the product review side of things?

Gary A. Lennon
Chief Financial Officer

Okay, thanks for that. So part one, on the NIM outlook. So the dynamics in housing and some of the stresses in housing, I think, we are continuing. So we're seeing consistent switching from customers into -- from interest-only into P&I, into fixed rate, all of which are lower-margin. There is intense -- there continues to be an intense front book competition, so I don't see that, that dynamic really changing in the first half of '19. In terms of the short-term wholesale funding cost, they seem to have settled at around about low-40s, currently. So they went up above that. They've come back a bit and are settling, and let's say, who knows where that might go. But it seems like it could stay at that sort of level. So there are -- those dynamics will continue. On deposit, which we've -- as many of you know, we've worked very hard on deposit pricing this period. We've had pretty decent success on that. Look, we think there's more to go there. But is there as much as last year, that might be a question. So I think there is still more opportunities in deposit pricing. So net-net, it is probably a headwind.

Andrew Triggs
JP Morgan Chase & Co, Research Division

And term funding cost, is the front book similar to the back book?

Gary A. Lennon
Chief Financial Officer

Yes. So they're not -- it's not a major factor. Slightly up, but not driving a massive uptick in costs. On the conduct, in terms of our banking products, yes, the conduct provision we took this half was largely wealth-related, that's true. And we took that provision for -- using the terminology that I've been using around large and notable, they were the more significant conduct issues, potentially the more material conduct issues and that's why we've called them out in our contingency note. Any bank has ongoing conduct issues at a point in time, and we do have, from time to time, conduct issues on the banking product side. To date, anyway, they have tended to be less material and of less size. So there are some, from time to time, and you see they do create some compensation being required, but they're not of the size and scale and significance of what we've been seeing in wealth to date. If we thought there was something that was material, we would have either provided for it or clearly called it out in the contingency note. But the overall caveat is, it's pretty interesting times at the moment, so who knows what could happen on that side?

A. David Gall
Chief Customer Officer of Corporate & Institutional Banking

Can I just add, Andrew, to the point around the NIM piece? I think one of the things that we've really worked hard on doing, and I think we've built more of a muscle around it, is things like capital allocation and things like margin discipline and really managing that really tightly. And I think that's really something. When you look at the margin management, I think we've got a wee bit more flexibility than maybe others have got, I think, through that. So we're going to continue that. I'm not saying where that's going to go in absolute term, but I just think that, that's just a good discipline that we've built. The second point is a broader point, and that is that, look, we know that the customer's pricing is important, deposits or home loans or business loans. We know that's important. It's important for some more than others. And I can't tell you the number of clients I think, particularly where there's a relationship or a bankers involved, where what they want is people who understand their business and have time to spend with them to help them plan the future, and price becomes far less significant for them if we can get that value proposition right. And that's what we're investing in to try to get. So I think, at the long run, we don't want to make this about just the price. If we can get this right and invest in the right ways and bring this through, that will really help build a sustainable business for us.

Ross Brown
Head of Investor Relations

We've got Brian, down in the front.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Andrew, great to hear a CEO talk about capital discipline. I'll have a question on that, but I have 2, if I may. The first one is that when we have a look at slide -- apologies, Slide 15. That 1,021 project staff, when do they -- when do we -- when does this stop going up and when do we start to see them disappearing? And then I'll come back with my second one.

Gary A. Lennon
Chief Financial Officer

Yes. I will answer that one first.

Brian D. Johnson
CLSA Limited, Research Division

Do you want to go to the second one, it's not a very nice question.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Then we'd definitely take that one.

Gary A. Lennon
Chief Financial Officer

Let's just stick to the first one, then.

Andrew Gregory Thorburn

Former Group CEO, MD & Director

Now let's do the not nice one.

Brian D. Johnson
CLSA Limited, Research Division

Andrew, being slightly older than Noah...

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Is it you or me?

Brian D. Johnson
CLSA Limited, Research Division

Me. And having seen quite a few NAB CEOs over the years, but when you have a look at Slide 7, we're talking about capital discipline, and when we have a look at NAB over the very long term, it's always about to deliver and really never quite happens, okay? And then I have a look at Slide 7, and I can see in the Business & Private Bank, that you're doing a return on risk-weighted assets of about 2.55%. So if we were to put a 10.5% kind of Core Equity Tier 1 against that, that's a very high ROE business. Even if you use 11% cost of capital, that's really good. Consumer Banking, probably not too bad. Remember, all these business are benefiting from the very low loan loss charge at the moment. But when we come to the Corporate & Institutional one, which will be benefiting from the low loan loss charge, it's the thing that basically really materially lowers, basically, NAB's overall ROE, and I would suggest that it doesn't -- on those metrics, it's probably not even making the 11% cost of capital. Why are you more proactively shrinking that business and taking the capital and either handing it back to shareholders by way of a buyback? Why are we persisting with the business that you've got no competitive advantage, you've got no pricing power, and leaves you incredibly vulnerable to basically an uptick in loan losses? You've got no competitive advantage in that business whatsoever.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

All right. Okay. Thanks, Brian. So let's do the 2. Gary, you kick off on the first one. That'd be great.

Gary A. Lennon
Chief Financial Officer

So the first one on the temporary. So they will probably, in FY '19, kick up again a little bit. But the significant increase was really '18. So this has been the big lift. Patrick and the team has mobilized the team a bit more. Then, with a view that when we're at the end of the transformation, and we go back to more normalized levels, which we sort of said is $1.1 billion, then those FTEs will come off. So that is the plan that they will go up through the transformation and then come off at the end of the transformation, say, at the end of 2020.

Brian D. Johnson
CLSA Limited, Research Division

Is that big driver of the $1 billion [indiscernible]

Gary A. Lennon
Chief Financial Officer

No, no. The big driver is that first column on FTE and productivity.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes, yes. Okay, so I'll go to the second one, so I'll start off and get some help from Gary and maybe Mike Baird there. I see him in the back. So on the first point, Brian, and back to your broader points. I want to come back. So I think we are building capital discipline. I want to come to your very particular point. But the underlying ROE, ex those large lumpy cost this year of 13.3, we've narrowed the gap to peers, which is where we wanted to be over the last 5 years, progressively pulled that in. We have divested major chunks of the portfolio that just weren't going to be producing the returns we needed. And inside the bank, we've skewed our capital allocation investment dollars and growth to where we do have a competitive advantage and we're as good, which is Business & Private Bank. So I mean, this takes time, but there's some good points to help it. Now you come to CIB, and look, in that business, I take your point and we look at it as a business that where we do have some advantage. I mean, if you look at debt capital markets activity, you look at infrastructure, you look at investors, FIC clients, I mean, they are good clients for our company. They're long-term clients, and we are very disciplined about capital allocation about bankers and where they put it. We measure it. We talk about it regularly. And what we do look at is the cost of capital and how much is above and how much is below, and we want to see that trend moving more and more above. It's obviously not all above, but we're starting to move more and more of the business that's there above the cost of capital, which is good in areas where we do have some capabilities. So progress is being made with more to happen. So I just want to throw it at Gary or Mike, if you want to add to that.

Gary A. Lennon
Chief Financial Officer

Brian, it's a good question to call out, but Andrew has basically laid out that strategy. There's portions of that book that is below cost of capital. Overall, the business is comfortably above cost of capital, and there's parts of that business that is comfortably above cost of capital. So it's about -- and the agreement with Mike, and now David Gall, going forward, is to help yourself in terms of capital generation. You recycle the capital at the low returning to help fund the growth on the high returning. So there's a shift between more plain vanilla corporate, where your point is spot on, into those areas that Andrew talked about, funds, infrastructure, renewables, DCM, where we do have capability and advantage and the returns are more attractive. So that, in essence, is the strategy.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Do you want to add, Mike?

Michael B. Baird
Chief Customer Officer of Consumer Banking

Yes. Just adding that it's quite clear over the last few years that discipline is there. There's an understanding within the business in terms of the finite nature of capital and the world-class Business Bank. The priority is there, but we have a role in supporting that. I mean, a significant part of the revenue from the market business is obviously going towards supporting the risk management in the Business Bank. So they're definitely connected. To have the world's Best Business Bank, you have to have a strong Corporate & Institutional. And in terms of the context to that shift, you've seen it in the margin. I mean, the margin is moving because we are shifting out of lower returning ROE towards higher returning segments that -- the big segment, which accounts for 40% of our business now, is the area that we have shifted from lower returning sectors into higher returning sectors. So we're getting higher returns with the capital we've got. We're continuing to support the world's Business Bank. And as Andrew said, in terms of our competitive advantage, look at the debt capital markets business across all measures is considered the dominant one in this market and considered globally across many measures. And the infrastructure space continues to grow. Look at the global trends, and we have a very unique position and proposition we have there. And look at the superannuation market. The growth that you're seeing there, which is obviously part of the tilt towards funds, we have a dominant position in there, funds-wise. So you look at the Relationship Strength Index together with our debt capital market capability, that is drive in the business and the returns up, notwithstanding the competition.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

So Brian, because you're older than Noah, it took 3 of us to answer your question.

Ross Brown
Head of Investor Relations

Okay. I think there's a question on the phones. Can we take the question on the phones, please?

Operator

Your question comes from Brendan Sproules from Citigroup.

Brendan Sproules
Citigroup Inc, Research Division

Look, I just had a question on the Consumer Bank. One thing that's noticeable as you talked about the margin pressure that you're experiencing in that business, particularly on the mortgage lending side, is just the cost-to-income ratio. It's well above 50%, and probably up to 10 percentage points higher than some of your major bank peers. Is there a structural reason why the cost base is so high and more akin to a regional bank?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

You wanted to get that?

Gary A. Lennon
Chief Financial Officer

So a few points there. One, it's always a little bit fraught deriving too much insights from comparing bank-to-bank divisional cost of income ratios, because, by definition, they are based on attribution and apportionment. And the big item that needs to be apportioned, which different banks do it different ways, is the branch network. So depending on how much you'll apportion into the retail for the branch network, you could get a very different cost-to-income ratio. So that's sort of a word of caution. But I think the core premise of your question is still correct. Now obviously, we have a lower-scale business than some of our Sydney-based peers, and with scale comes advantages in terms of cost-to-income ratio, but we also see, and this is part of the acceleration program, there is plenty of opportunities within that Consumer Banking & Wealth business, particularly consumer side, to get more efficient. And we are mobilizing a whole bunch of plans around automation, around interim process, where we think there is opportunities to really bring the cost down for that consumer banking business.

Ross Brown
Head of Investor Relations

Okay. We'll come back to the room. Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Credit Suisse. A couple of questions just on the MLC divestment, acknowledging that all options are still on the table. Could I get you to comment on where do you think that the sale of CFSGAM that was announced yesterday, whether that improves the likelihood of a trade sale? And then secondly, and I don't expect you to answer this question, if you go down to each options of trade sale, IPO and demerger, which case of the dividend is more or less sustainable under those 3 options? Just broadly on the -- and that, when I say dividend -- sustainability, I mean, just sort of NAB head stuck in that type of thing.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

All right. In terms of the first question, obviously, it's its own individual scenario. But it does send a signal that there are trade buyers out there for quality assets. So I did bring through to that. Well, that's interesting. And we've certainly found, historically, that when you have one Japanese bank file an interest in a particular asset class, there can be maybe others that are also interested. So it does give us modest degree of optimism that there could be a trade sale out there. But we're not pinning ourselves on any string at the moment. So we are running live with trade start sale. We're preparing ourselves for a demerger and we're preparing ourselves for an IPO. And depending on how things play out in the next 6 months, that's when we'll start to really zero in on what is the preferred option. If it's -- even when the trade's up, that's why it's hard to give you which is the best for capital. It depends on if you have a trade sale with lots of [hairs] and attachments and you're retaining 30%. That has a very different outcome from different types of trade sales.

But generally, you'd think that is the best outcome for capital. Next, clearly, IPO and then demerger.

Jarrod Martin
Crédit Suisse AG, Research Division

When you just said that you're running live with a trade sales, is that saying that you have a buyer?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

We couldn't possibly comment at this stage.

Gary A. Lennon
Chief Financial Officer

The project's live.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes.

Ross Brown
Head of Investor Relations

Victor?

Victor German
Macquarie Research

Victor German from Macquarie. Revenue performance has been certainly better than your peers in what appears to be a fairly challenging environment and you were able to manage margins reasonably well. But Gary, as you mentioned, competitive environment remains very challenging, front to back booking discounting, it's quite aggressive. And given the industry has repriced, with the exception of one player, those trends are likely to persist. I'd just be interested in your observation as to how you're thinking about your revenue performance relative to peers going into first half '19 and how important is it for you to at least kind of meet peers. Or are you prepared to take sort of longer-term views and I know it was mentioned not that important?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes. Why don't I start, Victor? So look, if you think of the major lines of business, and particularly, in SME Business & Private, we've seen some good trends there. And if you look at housing lend, I mean, both of those are going to be positive credit growth. I think that's -- we're pretty confident around that. It might fall a bit, particularly housing, but there's going to be positive growth there. Margin management has been a good discipline. I think we want to go back to, particularly in Business & Private Bank and some of the specific growth opportunities we think are providing great service. Our banks are stable, stay with the client, really understand that we're doing a lot of work behind the scenes to allow them to do that. That builds, I think, more advocacy, more business from our clients and good returns, and ultimately, good prices. So I think that's the model we're working with. We're certainly focused on existing clients. We're interested in winning new business by the existing clients and really keeping the clients where the value as high, particularly in the Business & Private part of the bank. So the service proposition in the medium term becomes important. Where we do have to take a long-run view is to say that, when earning the trust of clients and their loyalty is actually a really good long-term business. That actually creates a flywheel of growth. So chasing new business all the time and discounting to get it, I know that's been a practice in the home loan market for 20 years, but that doesn't entirely make sense, including from the client's viewpoint, who takes a product like a home loan, which should be a 10-year product, and they leave after 3 to 4, because they're getting a much better offer outside again. So I think we have to think through that. That's a very complex thing to unravel, but we're confident in volume growth, margin management and the value proposition we're offering, particularly in Business & Private. Now I understand the variable piece. We're obviously under the same sort of funding cost pressure that other banks are, but what we wanted to do was say to our home loan clients, we are listening. We do value your loyalty and that you've stayed with us and that we have that right on hold for now. That's what we've said. And we just want to acknowledge to them the business they've given us, but obviously, we've got to look at the broader picture too. So look, we're confident going into the next year. There's a lot of moving parts, but I think we've got the right disciplines, the right focus and we're trying to think of it differently to say the way to build a long-term business is to get clients who add value to the company, who stay with us, because they want to, and they value what we do for them. And managing the margin is part of that mix that we have to work through.

Victor German
Macquarie Research

Just to confirm, as long as you see positive revenue growth, are you sort of saying that what happens to peers is not that relevant? You've got flat costs, positive revenue growth, that's kind of, from your perspective, meeting expectations?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Well, positive revenue growth in a flat margin and a flat cost is a good story, but I'm not commenting on any particular pricing in saying that.

Gary A. Lennon
Chief Financial Officer

So Victor, just around that. So certainly, there's -- the Business & Private Bank is very much set up for growth next year. They've had a good margin performance of their core SME product. They're going to be continuing to try to drive above market share in that space. They've got Corporate & Institutional in the areas that we're focused on, so in funds, in infrastructure and renewables. And New Zealand had a fantastic half this year, and we see that, that's going to continue. So that's really mortgages and then the impact on the Consumer Banking & Wealth where the challenges are.

Ross Brown
Head of Investor Relations

James?

James Ellis
BofA Merrill Lynch, Research Division

It's James Ellis from Bank of America Merrill Lynch. So just a question on capital. So look, well done on your initiatives to close the gap with unquestionably strong sooner rather than later. But if I can come back to the MLC divestment, which, obviously, you're looking to complete before that benchmark time frame completes. As a general statement, given that you've got transaction and separation costs that need to be incurred one way or another, as a general statement, would it be fair to say that there's a bias towards a capital negative outcome, even if it's only a small magnitude? And then more specifically, if you go down the path of the demerger, are you going to be required to give MLC any conduct indemnities?

Gary A. Lennon
Chief Financial Officer

Yes. So obviously, it's pretty early on all those fronts. The assumption that an exit -- yes, there will be separation costs, that's correct. But the assumption that it will have a negative capital impact is not true. So it may, but it certainly may not. There is plenty of scenarios that we run, of different varieties, where it can be accretive. And there's some that you rounded out. And it's very dependent on the nature of exit. So when you've got -- when you have an IPO there, when you have a trade sale, obviously, that's a very different scenario, just versus a pure demerger. And the second part was...

James Ellis
BofA Merrill Lynch, Research Division

Just the conduct indemnities. If you do a demerger...

Gary A. Lennon
Chief Financial Officer

Again, it's really -- it's just premature for that. Part of our thinking for this half, obviously, we had to provide for what we saw in front of us, but it's -- the easiest scenario, if there are issues associated with the Wealth business just to get them sorted before separation. That's sort of plan A. And then in terms of whether there's any indemnity required or other factors, then we'll just cross that bridge when we get to it.

Ross Brown
Head of Investor Relations

Richard?

Richard E. Wiles
Morgan Stanley, Research Division

Rich Wiles, Morgan Stanley. I want to ask another question about mortgage pricing, given that housing loans are 60% of your Australian loan portfolio, clearly very important. Over the last decade or so, the major banks have repriced housing loans by 200 to 250 basis points versus the cash rate, depending on what product it is. Over the last 2 years, investor interest on the loans have gone up 100 basis points, and that's after the major banks encouraged customers to take up these products by lifting the amount of interest-only lending that we're doing. Clearly, it's a big issue given the ACCC is doing an inquiry, and that's due on the 19th of November. So Andrew, you recently stepped out of line with the other major banks for the first time in a decade. NAB was -- NAB or one of the others were not fast followers, so it's clearly a big change from recent practice. You just said, in response to Victor's question, that you're on hold for now. But I think the bigger issue is whether the practice of the last decade is sustainable. When you announced that you wouldn't increase your standard variable rate, you said it's probably not a long-term economic model to have aggressive front book discounting when your existing clients are not getting the same sort of deal. So could you please outline how you're thinking about the pricing strategy in the mortgage market and whether the practice of the last decade of repricing the back book and discounting on the front book is sustainable?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Well, thanks, Richard. So I'll start with -- look, our job here is to manage a lot of moving parts, margin, volumes, cost to get sustainable growth for our shareholders, and housing is a big part of that on -- in all respects, including the pricing. But I think if you step back from what's happening in banking over the last few years, and certainly this last year, if we're not going to start to challenge some of our long-term established practices, given what's happened and the way customers feel about us, whether we like it or not, we're never going to learn. So I do think it's a time for reflection and consideration that if you want to build a long-term business, you have to start with clients who actually want to do business with you because they trust you. And they'll stay with you and do more business with you because they do. And if you look at the facts, and our bank is not the only one where reputation and trust deficits have occurred, we know that. And that's because of a lot of things that have happened. I mean, I think trust has fallen for a lot of corporates and for government, not just major banks, but it's certainly fallen for us. And so some practices, and you've named one, there's probably maybe 10 we could go through, where you have to look and say, "Does it make sense?" If you want to build that long-term trust with customers, maybe there's some things we have to think about differently. They're complex, they're established practices and there's no easy or short-term answer. I think in -- saying that we're not going to close branches in drought-affected areas, we've never done that before. But as we've gone and done these community consultations, people are saying, "You're not listening to us, you don't care, and why should we trust you?" And I think we have to change that. If you go up and say, "My now job is to build a long-term franchise of 10 years, not just 6 months" -- some of this, we have to note down question, maybe new answer required, thoughtfully and carefully, because we don't want to -- we've got to move through it, not fall off it, right. But I think there's variable rate price and we take a long-term product, people leave after 3 to 4 years, mainly because they believe it's -- we've made it at that price, and they can get a bit of price by leaving their existing bank, and going back into the market and getting a bit of discount. That sort of doesn't make sense to me economically. Having said that, it's a long established practice, and we're not going to change it with one move or one statement. But all we're saying on this one is, when we did this we said to our existing clients, I was talking to them, "Thank you for your business." There's 1 million mortgage customers, and we have our rate on hold for now. We want to say, "Thank you for doing business with us." That's what we said. Now we're starting to monitor discounts and retention rates, but the main reason was to try to talk to our existing clients. And the bigger picture is, I think we do need to challenge some of the practices we've had, start to progressively change them to build a long-term franchise. I think there's a big macro point I'm making there. This bit, we have it on hold for now. That's our statement. We are subject to the same sort of funding cost pressures as others, but we have managed our margin pretty well. If you look at that over the last year, I think we've given ourselves a wee bit more flexibility than perhaps others have got. So I think it's going to be an interesting play out of all these factors in the next couple of years. But making the bank -- facing into this, making -- lowering costs sustainably, investing to transform the bank, doubling down on a franchise that we really think is good, like the Business & Private Bank, I mean, to me, that all makes sense to give us these degrees of freedom to face into some of these things.

Gary A. Lennon
Chief Financial Officer

And also, recognizing loyalty is a big topic and an opportunity and is much broader than one pricing decision. And sort of thinking through what is the answer to that, because that's a lot of the feedback that we get from customers. I think every bank will get that from customers. They're -- you're not recognizing us for loyalty. And so I think that's a challenge for the industry. And it's not only an aspect of Australia. It's an aspect of the globe. I only want to really note that the ability to really recognize loyal customers in a way that they also drive some great economics down the track. But I think it's there, we just have to work through it.

Ross Brown
Head of Investor Relations

Anthony?

Anthony Hoo
Deutsche Bank AG, Research Division

Anthony Hoo at Deutsche Bank. Just a couple questions. Firstly, on costs. You've reiterated your cost guidance that was originally provided last year. The environment arguably has changed in terms of the level of scrutiny as well as expectations. So I'm just wondering, to what extent have you incorporated pressures from higher ongoing regulatory/complaints cost as part of your BAU? And then second question, just on mortgages. You've got a slide in there showing approval rates similar to last year, and your average loan is also higher and your housing loan growth this half was much stronger than one of your peers that recently reported. So just wondering how you remain comfortable that you're not -- that your risk settings are not too lenient. How do you make sure that the volumes that you're getting are not going up the risk curve?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Okay. Why don't you do the first one and then I'll do the second?

Gary A. Lennon
Chief Financial Officer

Yes. So on the cost guidance of broadly flat for FY '19 and '20, and your statement is highly likely statement of fact that the regulatory and compliance costs for next year, probably the year after, are continuing to increase. And so we're expecting that and we've been factoring that in as part of the recommitment. So that is sort of a known factor and an expected factor. There is various -- we also have headwinds, which is a known factor in terms of our amortization. We do expect that's going to go up again in FY '19, probably also a smaller extent in '20. So these are all known headwinds for us. But there are some things that are working our way as well. So firstly, you have seen in this year's cost base, we had Royal Commission expense of around about $64 million. That probably won't reoccur. There's been some more, but not to that extent. There's been some smaller conduct issues, depending on how they play out, maybe they won't reoccur. My commentary on upskilling and being able to get a lot of that capability via insourcing rather than actually hiring new people, that would be a tailwind from where we originally thought we're at. And we're seeing more productivity opportunities now than what we saw when we started the program. So on a net-net basis, there's some headwinds, as you've called out. We also see some tailwinds. We think it's -- they'll reasonably even out and the guidance is still appropriate.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

And Anthony, on the second one. I think we're getting some growth through the home loan specialists that I referred to that are focused on the Business Bank. We think, actually, Business Bank clients, we don't have all-in mortgages, and we'd like that. And so we're putting home loan specialists in the Business Bank centers next to business bankers, so we don't distract them from that. And I think that's the 155, and we're getting good growth there, obviously, UBank and the broker market. So I think we're getting growth there. And then in terms of the risk, I think just earlier, I mentioned some points: 150 policy changes in the last 2 years; requiring clients to be able to pay back 7.25% as their interest rate, even though they'll be paying between 4 and 5; P&I; and then a real strong ongoing focus on expenses in 12 different categories and really making sure that we understand that and there's good buffer. So I think we're watching it, but we still think there's opportunities out there applying that sort of discipline.

Gary A. Lennon
Chief Financial Officer

And Anthony, one other point on the 150 changes. That was started in FY '16, went through into '17. So they are a little time ago now. They did disrupt us at the time. When we made those changes, we were seeing some slowdown that did drive some disruption in the front line. It seems like many of our peers are doing those changes through FY '18. I think we were a bit earlier than that. We're largely through all those changes. We have the risk settings basically right where we want them to be now, so we can just sort of get on with those tightened risk settings and grow the business. So we're in a slightly different place to some of our peers.

Ross Brown
Head of Investor Relations

I think we have a question on the phone.

Operator

Come from Azib Khan from Morgan.

Azib Khan
Morgans Financial Limited, Research Division

Look, a couple questions on CIB and then a question on home loans. On CIB, it looks like -- obviously, you've continued to reduce your risk-weighted assets there, and Gary mentioned earlier that there's still a large enough chunk of the book that is low ROE. Can you please give us an indication of the $112 billion of risk-weighted assets there? How much have you identified as being low ROE that you would like to exit? The second question on CIB is that, there's a very strong customer deposit growth there, half-on-half, of about 9%. Were there any large transaction banking wins behind that strong growth? And the third question is on home loans. So it's been reported in the media that you've significantly rationalized your home loan to introduce the program? What impact do you expect that to have on your flow through the proper channel? And can we expect your reliance on brokers to increase?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Thanks, Azib. So I think, Gary, you do the CIB piece. You might want to call on Mike if needed, and I'll cover the introducer piece second.

Gary A. Lennon
Chief Financial Officer

I might just need some help on the second part. In terms of the first part, we haven't ever gone out and disclosed the proportion of risk-weighted assets sort of below cost of capital. The main comment is, there is still a sizable amount and there's still a sizable opportunity. And I think that will continue to be an opportunity for the next couple of years. This year, I think it was around about $2 billion or $3 billion in risk-weighted assets we have been able to decrease through that process. And that's a reasonable run rate for the future, because there's still plenty of opportunity there. On the second question, I didn't quite catch it. Did you get the second question, Ross?

Ross Brown
Head of Investor Relations

Deposits.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

The deposit growth.

Gary A. Lennon
Chief Financial Officer

Deposit growth in CIB?

Ross Brown
Head of Investor Relations

Were there any large transaction banking wins behind the strong growth?

Gary A. Lennon
Chief Financial Officer

Oh yes, okay. Well, it's -- well, that is true that we've had a particularly good period in deposits and winning high-quality deposits of a transactional nature. So you see that our nonbearing interest deposits have been increasing, and that gives us a nice windfall to in terms of our NIM management. And that's through servicing some of those big Corporate & Institutional customers have -- that have big transactional requirements.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Azib, Andrew here. I'll answer the...

Gary A. Lennon
Chief Financial Officer

Mike might want to...

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Okay.

Michael B. Baird
Chief Customer Officer of Consumer Banking

It's worth just adding that, that has been a specific focus. So from the transactional banking point of view, we have been underweight relative to peers. So in terms of the opportunity to increase it, it has been very purposeful and strategic, both in terms of additional resources and focus, but also part of the investment slate that we're undertaking is investing into product and capability of the transactional banking that's starting to come through. So we expect that as a trend that we'll continue as part of the focus.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

On your second question on introducers, you're right. We've made considerable changes to that program over the last year or 2. So in terms of its impact on flow, you've probably seen that the biggest impact because we reduced it from a reasonable amount to virtually nothing. We reduced the number of introducers from about 8,000 to a bit over 1,000, that got much bit of governance and contracts around it. Now we've got people working with those introducers. But the flow is, I think, it's 5% of flow -- it's quite small, and I don't think it's going to be material for us. Many of them are existing referrers and existing clients that we have, but we are monitoring that program very carefully from a risk perspective, even though there's some helpful flow in it. But in terms of the reduction, I think you've seen it. We've been through that valley and we're back to a more stable position.

Ross Brown
Head of Investor Relations

Okay. Lucky last question, Brian.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

He has already had a question.

Ross Brown
Head of Investor Relations

Yes, I know.

Brian D. Johnson
CLSA Limited, Research Division

Sub-question 1. Slide 98, could you tell us how much the earnings are in MLC? Could you also tell us the tangible equity and how much goodwill would basically exit with it?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

I'm just going to wait for the first half briefing.

Brian D. Johnson
CLSA Limited, Research Division

Sub-question 2. Basis risk actually peaked in the June quarter, and is substantially better now, Andrew. Does this actually -- if it continues to improve, what do you think would be the regulatory response from your peers that used it as an excuse to increase? And as a subset of that, going back to Richard's question, I think, Andrew, you did have a fantastic job in some of the social media stuff you did when you announced it. But does that actually hamstring your ability subsequently to move the way social media kind of reported it?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes. Okay, so...

Brian D. Johnson
CLSA Limited, Research Division

So it's getting better. But do you really -- after the investment that you've made, have you got the capacity to actually reprice up?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

The investment in the story?

Brian D. Johnson
CLSA Limited, Research Division

Well, when I watched the Facebook -- the YouTube -- I'm a young guy, mate.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Noah. Noah on YouTube.

Brian D. Johnson
CLSA Limited, Research Division

Yes. When I watched it and I showed it to some other people, I was very much of the impression that you won't be able to move now because you did such a good job of saying we're not moving. So I know to the stock exchange, it was -- yes, this is temporary -- we might. But I think the social media messaging perhaps is a little bit different. So I'm just interested in the dynamic of -- Gary, you're not getting off, the tangible equity of goodwill, and then Andrew, basically, does that social media kind of interpretation, does that reduce your flexibility to subsequently move?

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes, okay. So let me do that second one first. We can end of the tangible equity question. So in stepping into that -- and it's not the only thing we've stepped into, Brian. I think, we've stepped into the default interest rates offset accounts, which, you know, we couldn't do it for a long period of time and the industry couldn't do it. And we reversed the branch closures. We said we're going to close it, and then we went out there and listened to people and said, "Actually, this is probably not the right answer. We can do it differently." Even if we are going to close it, maybe we can keep it open if we'll get more business. So I think this the point around thinking about differently. So this one, we stepped into openly, and I think the feedback from our staff and customers has been good. And whilst we'll continue to monitor retention and discounting, I have been resolute in saying 2 things: one is, to our clients everywhere, we do want to listen and we do want to act differently. And so I think we're showing that. I certainly don't think this is -- put us in a position where we can't do it, because I have said -- I don't know how many times I've said for now, always after the end of it. Because -- and that's what I've said in the messages to our customers and to our staff. It is for now, and we've specifically said, "Thank you customers for your business and for your loyalty, and we want you to hear that, and we're keeping it hold for now." So I think, any time you start to change massive paradigms that existed for long periods time, it has some danger. But if you want to be a leader, you've got the lead, not react. And so I think we want to step into things that are sensible. And sensible economically in the long run, if we can get this right. So now I don't think that's the case, Brian. So that's how I'd answer that one. And Gary, on the other one?

Gary A. Lennon
Chief Financial Officer

So the earnings -- the cash earnings from the Wealth business, that is our best estimate for the [prima], and this is part of the problem, it's still moving around, is 193. And then for the rest, you'll have to wait. We've got a specific briefing on this in the first half, where we'll give you all the ins and outs of the Wealth business, all the data, including all the potential capital implications, depending on what exit is on the table. So you'll just going to have to...

Brian D. Johnson
CLSA Limited, Research Division

Speaking of goodwill.

Gary A. Lennon
Chief Financial Officer

A big hunk of goodwill? Yes, sure.

Brian D. Johnson
CLSA Limited, Research Division

That's the goodwill.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Yes, that's about right.

Brian D. Johnson
CLSA Limited, Research Division

Yes, I knew I'd get the answer.

Andrew Gregory Thorburn
Former Group CEO, MD & Director

Is it? There's a big hunk.

Ross Brown
Head of Investor Relations

That's probably a great place to end it. We'll wrap it up there. Thank you.

Gary A. Lennon
Chief Financial Officer

You should see the one from the other channel.

Andrew Gregory Thorburn
Former Group CEO, MD & Director
Thanks, everyone.