Question and Answer

Unknown Executive

Thanks, Craig. Usual protocol, if you'll wait for the microphone, state your name, your organization you represent. Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Credit Suisse. A question on Business Banking, and Cameron or Joseph could also chime in. With our conversations about the competitive environment, and I think, Joseph, you've mentioned that front-book margins have been price of 20 to 30 basis points lower than back-book margins. So I just wanted to -- an update on where that was at? And Cameron, you mentioned that a competitor, in the last 4 to 6 weeks, has sort of pulled back, whether that had seen any sort of change in those margins more recently than what, I suppose, is evident within the first half result.

Cameron Anthony Clyne
Former Executive Director

Yes. I'll get Joseph to follow up. Look, I think, the critical thing for us is we have an excellent business bank. We have more bankers. We're still -- and we're still enjoying quite a dividend, I should say, off the back of that market share going through the GFC. We were clearly the most thought business. Customers do have memory around that, and you'll see that in the customer sat and the enduring reputation that we've got in that franchise. It was pretty subdued, I guess, through the period, sort of '10, '11, '12, in terms of activity. What we saw in '13, particularly in the early part of '14, was risk appetites expand. And that gives you an opportunity to do a bit of reshaping, because you need other people to have a different view on risk appetite to reshape. Now -- and that's not saying we're right. I mean, we might be wrong. But time will tell. Play out that, but we took that opportunity. And I mean, the numbers speak for themselves and pretty significant reshaping of the profile in there. And if there's one thing I've been -- I get lots of helpful advice from a lot of people in this room. One of the consistent things has been the risk profile of this organization, both legacy and more generally. This is a result that is -- or the lowest risk results that we've ever produced in terms of strengthening capital, balance sheet, liquidity, dealing with issues, taking step above the line. So this is the opportunity. Now what we've seen -- we took that opportunity. We derisked. What we have seen in the last 4 to 6 weeks is some of that risk appetite wound back, possibly because people are now looking at impacts on capital and maybe the nature of the risks they're taking on, and that's good and bad. It's good in the sense that it gives us an opportunity to go out there and use the dominant franchise we've got -- I don't say dominant in a competition sense, dominant, in terms of capability insight. That -- yes, use that dominant position we've got to go out there. By the same token, that doesn't necessarily abate the margin pressure because the volumes are still low, so people are still -- it's not a bad time to be a borrower. So Joe, do you want to...

Joseph C. Healy
Former Managing Director of Institutional Banking

So thanks, Cameron. Well, the market still is about 20 to 30 basis points when we look at marginal transaction flows versus stock, and that's been phenomenal over the course of the last year. As mentioned over the last 4 to 6 weeks, we've seen an easing of some of that competition, but it's really too soon to call that out, because we haven't really understood whether that's just a seasonal change or whether it's an adjustment in terms of [indiscernible]. One of our competitors, in particular, is looking to grow its position in the marketplace. It would be nice if we saw that easing to be a more sustainable, but I don't want to stop forecasting that to be the case. I'm still working in a world where 20 to 30 basis points seems to be where the markets at for similar risks on new transactions versus stock. A big priority for us has been really margin protection, given a lack of volume in the marketplace, and that will continue to be a focus for us.

Unknown Executive

Victor?

Victor German
Nomura Securities Co. Ltd., Research Division

Two questions, if I may. First, on the comment that you made, Craig, on tight control for expenses. In the past, NAB has been able to control expenses quite well and generally had been able to deliver positive jaws, probably even in a more tougher operating environment. In this half, adjusting for the things that you've highlighted, we're still getting about 2% cost growth. To what extent do you think that going through the GFC, NAB has perhaps under-invested and there is a bit of a catch-up on that front? And second question is on conduct-related issues. If I understand, it's something difficult to forecast. But I know that most conduct-related issues are booked in the group center. And to what extent do you think uncertainty around those conduct-related issues will prevent NAB from potentially selling the U.K. asset and that would -- if the right or if the right seller comes along?

Craig M. Drummond
Former Group Executive, Finance & Strategy

Yes. Victor, thanks for the questions. The -- in terms of where the NAB is under-invested, it's probably a little bit -- it's a little challenging for me to say because I wasn't here in '09. But I don't see any -- NAB is obviously doing a lot of investment at -- has been for a number of years through the whole transformation program that we're doing. I don't see any other -- I don't think we're looking out what we're doing in the Personal Bank, what we're doing in the mortgage, what we're doing in business, we're not -- shares -- there's no evidence that we've under-invested, that we're losing significant market position with customers. So I don't think -- I don't see any evidence of that, but there is a major transformation going on inside NAB and that's been -- will continue. But look, I might pass over to the Chairman of Clydesdale to answer the conduct question.

Unknown Executive

Yes. The -- on -- just on the -- yes, I think -- I don't think there's any suggestion of underinvestment. I think one of the more difficult decisions that we made, I'm very pleased we made, that was, of course, to actually embark on the transformation. These -- the reason people don't these transformations, in many respects, you'd argue, this is actually something just about every commercial bank in the world is facing, most of these core banking replacements should have been done 15 years ago. People -- the reason people don't do them is they're a lot -- they're long, they're complex and, of course, you -- one generation of management enjoys all the costs, and future generations [indiscernible] to enjoy the benefit, which is why you kick them down the stream. You don't do them. I'm delighted we did it. I mean, we could have -- I mean, our underlying systems are inherently stable. We could have kicked this down the road for another 5 years. And actually, here, I had very substantial -- yes, our revenue -- I'm sorry, the earnings benefit over that 5 years. That's clearly, at some point, you've got to bite the bullet and say, "You've got to make those long-term investments." So I think, actually, the contrary, I think we actually made one of the most extraordinary transformational benefits by making those investments. And eventually, the reality is you're going to have to do it at some point in time, yes. If you're not doing it now, all you're doing is pulling the costing down the future, and it's going to be more expensive. On conduct, the specific point of that, does this lessen the prospect to sell, it look -- everyone in the U.K., it's a known fact. It's an industry-wide issue, so everyone's dealing with it. Yes, everyone's got the same sort of issues, so it's not a surprise. It's been around for quite a few years now, and it's an industry issue. So obviously, the -- so I don't think it's necessary to deter it. The issue would be, if someone wanted to acquire, it will become a point of negotiation in the DD. But as I said, it's a known issue, and it's an industry issue. So I don't think it's necessarily a factor in whether or not people are interested in acquiring client stock.

Victor German
Nomura Securities Co. Ltd., Research Division

And do you think people will look to buy it, given there's uncertainty?

Unknown Executive

Well, I don't know. I mean, that depends on the moment. Everyone's just dealing into issues. But that would depend. I mean, it's a known issue with -- in market, people -- I don't think it's an issue at all. Because I've got the same issues, it just becomes a point of discussion in due diligence.

Unknown Executive

Andrew Lyons?

Andrew Lyons
Goldman Sachs Group Inc., Research Division

It's Andrew Lyons from Goldman Sachs. Just another question on business lending. As Joseph highlighted, there has -- you have been protecting margin. That's been the bigger priority over the last half. Just wondering if that strategy has changed more recently? We are hearing at the call phase [ph] that you are competing more aggressively.

Cameron Anthony Clyne
Former Executive Director

No. I think, we -- I think the -- we'll take opportunities where they are right for the business. But everything's on a case-by-case basis. I mean, we're quite relaxed about where we are in the business sense. Because if you go back -- and there's a vast difference here between business and retail. I mean, retail is in a totally different position. I said 17 consecutive quarters of above-system mortgage growth, customer satisfaction is a record high internally. When we were seeking to arrest the market share decline in '09, it was quite a difference. I mean, we were losing -- we were growing at half the system in a very hot market buoyed by the first-time buyer's grant. There've been a fundamental structural change in the market with the acquisitions that occurred, with the dominant retail banks, and I mean dominant in a different category I mentioned before, where the dominant retail banks became more dominant. And so you had to be aggressive in addressing that. The business is entirely different. We are still 200 [ph] basis or 220 basis points, give or take, bigger than the next business. We have more business bank, as we have a more specialists on the ground. So these are easy -- these are -- we come from a position of market leadership. So you have the ability when you're in that position to make choices. You can step in and out of the market. Joseph, Bruce, Craig and I can have a meeting in 5 minutes to change our risk appetite on business -- yes, because we come from a position with 23%, 24% market. So we do it on a case-by-case basis. That makes us far more relaxed about where we are, because it gives us choices. Because we are in a far, far different position than we were, say, when we started to address the retail business in '09.

Unknown Executive

James?

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. You've mentioned

obviously a good asset quality result on the factor of rundown of some of the business bank assets, where are you at in that process? Are you done on I mean $1 billion on commercial real estate in this half? Are you done on the rundown, or is there further benefits to come on the asset quality, but also further impacts to come on the revenue side of the equation?

Cameron Anthony Clyne
Former Executive Director

Well, that depends to a large degree on others' risk appetite, I mean, because clearly everyone is trying to derisk and improve capital. So I mean, if that remains, we'll take those opportunities, but we are very much open for business. Revenue, B&DDs and capital are not mutually exclusive. So you're going to make tradeoffs. I mean, I've also said, here with quite strong pre-provision profit growth, but high in B&DDs, but that was a trade off. It's the same sort of thing. So I think the real thing we need to see, putting aside all of that sort of competitive noise and who's doing what, you should need a fundamental lift in system credit growth at the end of the day because as the market leader, we will enjoy that. And probably having more bankers in the ground, we'd expect to enjoy above system element of that, that's what you need. And what we're seeing at the moment is business confidence, but it's got to translate into activity. So that's the big question. I mean, there's always going to be noise around the margins. And when you dig into the revenue numbers, the difference in revenue growth is actually pretty immaterial given the size of the businesses, the real swing factor is going to be business credit growth. So if our business credit growth comes back, that's going to be the bigger factor than anything, with regard to individual derisking or competition.

James Freeman
Deutsche Bank AG, Research Division

All right. And can I just ask, Joseph, if there was much of a difference between quarter-on-quarter in the business banking revenue trends coming through?

Joseph C. Healy
Former Managing Director of Institutional Banking

Sure. Well, not really. I mean, the trend has been pretty flat in that sense. There's not a material change. The priority has been margin protection and derisking. You very rarely get an opportunity like the one that's been in the market over the last 12 to 18 months where there is -- whilst there's limited demand for new borrowing, there are competitors who have a healthy risk appetite that allows you to reweight your overall portfolio. And we have actively taken that opportunity, given that post-GFC, that market was largely, it wasn't -- didn't exist until the last 18 months or so. So whilst we've been derisking and assets have not been growing, margin management has been a big priority for us, so that their revenue impact has not been material.

Unknown Executive

Craig? In the front, Craig.

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi. A credit upfront for wearing all of your conduct provisions above the line this half. Cameron, I know it's something that I've called out in the past. I commented in my note that perhaps you're getting the house in order, but as one wag noted back to me via email, the theory is that it's the weekender in Scotland which is up for sale that's looking better, that perhaps the family home now needs a bit of attention. The pre-provision profit trends in Australia look weak, down 4% half-on-half, or 4.5% on PCP. Can you talk about the cost profile of the business, which I think was 5% year-on-year, which perhaps we may had anticipated would have been a little bit lower post the restructuring announced in about March last year? And can you also comment on Australian business banking NIMs as you flagged a desire to grow close to system as the NIM profile currently is softer than we may have anticipated given the absence of volume growth?

Cameron Anthony Clyne
Former Executive Director

Yes, look, I'll let Craig take some of the specifics on that, but first of all, improving the U.K. has been a priority, so that's important that, that occurs. We have been consistent in flagging, taking things above the line, we've done that. We've committed to that, and that's not an insubstantial charge to have above the line, to over $200 million in the half taken above the line. Look, now the Australian franchise is in superb shape. I mean, you just got to look at the reputation we enjoy, the customer satisfaction. Every franchise is going up, including in business and SMEs. So that's not to suggest that it's going backward. The investments we're bringing online, releasing the direct banking release this half, that's a huge thing. I mean the ability to start originating a whole range of personal price cost of franchise. I mean the -- this franchise is in much, much better shape than it was a couple of years ago, so that gives us tremendous opportunities to participate. We're not at all concerned about the nature of the Australian franchise, and of course, a better U.K. franchise is what we want.

Craig M. Drummond
Former Group Executive, Finance & Strategy

And in terms of costs, Craig, the costs, as I probably called out, there's a range of additional cost, cost history and franchise. The EBA is a small part of it, $16 million. We have a range of other things from the investment spend, the higher investment spend, and the Australian banks are getting, obviously, a large chunk of that, that -- the investment in Asia. We continue to invest in the Asian platform, both from a technology and people point of view. And that's -- that may not be immediately obvious, but under our organizational model, new organizational model, Asia is now included in the Australian banking piece, and so that's a key component. And additionally, we've had a -- clearly, continued to grow at 1.3x system in mortgages. So we've had to put more people on FTEs on to cope with that mortgage volume growth.

Unknown Executive

Scott?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. Two questions. Firstly, I might start with potentially the slightly dorkier one. IFRS 9, you mentioned is a -- and counting myself was something that I have a genuine passion about, as I'm sure we all do in the room. The early adoption of it, obviously, you get the transition through the balance sheet for initial adoption, but going forward, you would expect that the annual charge going forward would also potentially be a little bit higher than what you're seeing now, so it's more in a kind of expected loss all through the cycle kind of basis. Firstly, is that a consideration when you're running off the high-risk exposures in Australia? And secondly, is that a consideration when you look to exit the U.K.?

Craig M. Drummond
Former Group Executive, Finance & Strategy

I'd say, Scott, that it's premature for us to be really commenting it. We haven't actually seen the standard, the actual standard yet. So I'd say genuinely, that's not a -- that hasn't been a consideration at this point in time, and we haven't -- clearly, haven't made a decision yet to early adopt because we haven't seen the standard. But once the standard's out, they're exactly the sort of questions that we will be thinking about, and we've had a conversation within the finance group about exactly those type of issues. But until we see the standard, until we make a decision and agree with our board that we're going to early adopt -- we haven't made any decisions or even come to any conclusions on most of the business. But I did want to highlight it because it is an important issue for us, and I know for a number of years that we've highlighted the GRCL as part of our CP coverage, and I just wanted to highlight the fact that it's possible it could change.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And the second part is domestically. I just wanted to get your thoughts on the change in management structure, the change in systems, the more recent -- the change in the reporting lines. How consistent and visible has your management reporting system has been to be able to understand the profitability of the market share that you gained over the last 5 years in Business Banking? But probably more importantly, the market share that you're potentially losing now and going forward?

Cameron Anthony Clyne
Former Executive Director

Well, I think we've got no issues with the quality of our management information and the ability to do it. And of course, what's far more informative than the headline numbers is the deal by deal announcements which I know Joseph does. And Joseph looks at every deal in and out who we -- and certainly at a macro level Joseph and I look at that on a regular basis. So we've got feeding up. And bear in mind, it's not dissimilar to the fact that why our business survey is such a well regarded bellwether of confidence because we draw that right up from every banker across the country and look at deal by deal. So you can peek at a very granular level whether a competitor is growing in a particular sector and is that driven just by an idiosyncrasity of a regional manager who's going out there? Is it a fundamental sort of directive across the top? So we've got a very, very good data particularly in the business market about where we're gaining and where we're losing. And that's not been impacted by the restructure in any way.

Unknown Executive

Mike, you seem quite urgent there.

Michael Wiblin
Macquarie Research

Mike Wiblin from Macquarie. Just a couple of questions from me. Just in terms of closing the ROE gap, Craig. Can you talk about what you're thinking out there in terms of organic versus inorganic? And then, was the exit margin higher or lower this half?

Cameron Anthony Clyne
Former Executive Director

Okay, Mike, ROE gap, it's -- if we look at -- we have a bunch of low returning assets on our balance sheet, and I'm not going to go and specifically talk about each individual one. But we -- you know them, you can see them, and that's what we're going to try and deal to. And don't just think it's any of these particular businesses, it's also within our lending portfolios. It's a whole range of lower ROE assets that we will seek to progressively deal to. And as the environment is getting better, as I said earlier, it's easier, it's not easy, but it's easier to deal to some of these. And sorry, your other question was?

Michael Wiblin
Macquarie Research

Exit margins.

Craig M. Drummond
Former Group Executive, Finance & Strategy

Exit margins, sorry. Thank you. We don't -- look, I think it's probably -- it's fair for me to say that what we're seeing is a continuing very, very competitive marketplace. And the dynamics that we saw in the first half are broadly continuing in terms of that competitive environment.

Unknown Executive

We might just check the phone for any questions.

Operator

You have a question from the line of Matthew Wilson from JCP Investment Partners.

Matthew Wilson
JCP Investment Partners Limited

I have 2 questions, one on disclosure and the other on conduct. Firstly, on disclosure, would you consider the uses of your financial information are an importantly the need when you make recent disclosure changes because it seems apparent that the Australian business is soft, core profits are down 5% year-on-year. Historically, with the full provisional clarity you've provided, we could have been down from in line items in either Retail business or Wholesale Banking as we can with your peers. Now you leave us guessing. Indeed there's significantly small disclosure on great risk in bank which is true within your group, than your most important Australian Business Bank. Furthermore, there doesn't seem to be any alignment of financial performance accountability, with the organizational chart in Australian banking, 1 business, 4 executives. Could you articulate the improvement you think you've made with these moving disclosures? And Andrew, as the incoming CEO, will you consider reverting back to the previous high-quality disclosures?

Unknown Executive

Well, I just projected that the disclosures are -- these disclosures are of very high quality, and it reflects much more the nature of how business is going forward. I mean that, the whole point is the adjustment in our operating models reflect the fact that we sell a whole range of products through different channels. And so you get a much greater insight through the nature of the product disclosures and those sort of things that -- than anything else. So I don't do it. And fundamentally, the accountabilities have been consistent for 5.5 years. We made that change back in '09. There's a single point of accountability for the Australian bank and that's me. That's always been the case. We made that change a long time ago, and that's how it should be because that's where the majority of their earnings come from.

Matthew Wilson
JCP Investment Partners Limited

That's your opinion. And then on the conduct, given your experience with these conducts in the U.K., how do you see this risk evolving in the Australian environment?

Cameron Anthony Clyne
Former Executive Director

Well, I don't know, but we -- we're not -- if you're going to take some benefit from our experience in the U.K. is that, obviously, we are matched fit in terms of just thinking through what are the issues, what might be historical issues that could be reviewed in a different light and particularly importantly, and this is again why the new structure is so beneficial with a centralized product function, how you design and disclose products in the future to make them as conduct-proof, if you like, as possible. So it's a -- we're very, very alert to those issues.

Unknown Executive

Jon?

Jonathan Mott
UBS Investment Bank, Research Division

It's Jon Mott from UBS. A question about the U.K. and the CRE book in particular. You talked about you're now starting to see a broadening out of price rises outside of London into Scotland, Northern England and other parts where you've got the majority of people. I wanted to get a feeling of your priorities from here. Is it to maximize the profit as you run down the book over time? Or do you take the opportunity to accelerate the rundown, release the capital, even at the detriment of the short-term P&L? So how do you roll off the accelerated versus net profit maximization?

Cameron Anthony Clyne
Former Executive Director

Well, it's clear, you runoff portfolio, we don't rule out accelerating the runoff, and we've always been open to that. So if we see opportunities to do that, then the trade-off will be what do we think the P&L impact will be from the accelerated runoff as they weigh up against the capital benefits. So we're quite open to that, we're not ruling it out. We're just keeping an eye out. But what's pleasing is, I mean the GBP 700 million runoff in the half which was across both performing and nonperforming gives you a sense of comfort that this is trending. But we don't rule out -- we don't rule out an accelerated runoff. We just have to make the tradeoff.

Jonathan Mott
UBS Investment Bank, Research Division

And just to follow up, I noticed there was $1.7 billion of growth in Asian lending in the half. Can you elaborate on what you're actually lending to in Asia?

Cameron Anthony Clyne
Former Executive Director

Joseph, do you want to talk about it?

Joseph C. Healy
Former Managing Director of Institutional Banking

I'll have to deal with that. It's largely trade, finance-related but also, consistent with our strategy that's supporting Australian and New Zealand businesses in Asia, and then, supporting Asian businesses that are active in Australia and New Zealand. It's predominantly investment grade in nature, more at the institutional end of the market. We're very risk cautious in terms of how we expand in Asia, but we're -- and very disciplined around sticking to the strategy.

Jonathan Mott
UBS Investment Bank, Research Division

Trade and finance or terms?

Joseph C. Healy
Former Managing Director of Institutional Banking

Some -- most of it is trade finance. There's some in terms.

Unknown Executive

Richard.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. Craig, a couple of questions for you. If we go back a few years, the payout ratio was 70%. When the U.K. profit collapsed, that was lifted to 75%. In this result, the dividend growth hasn't grown quite as quickly as the cash earnings, and the payout ratio has eased back a little bit. Is that an indication that with the U.K. now not as big a drag on the overall group profit that maybe the payout ratio has to come back towards 70% over time? And my second question relates to Slide 19. You showed the return on risk-weighted assets for Australian banking. That would suggest that you have yet to see any financial benefit in Australia from derisking the portfolio. Do you think that the return on risk-weighted assets will improve going forward as evidence of the derisking and margin management strategy paying off?

Craig M. Drummond
Former Group Executive, Finance & Strategy

Okay. Richard, good questions. So on the payout ratio, we obviously are not going to give any forecasts as to where our payout ratio is going to go. Suffice it to say that we're comfortable at 74%. We're comfortable with our franking. And obviously, it's a board decision at the end of the day as to what we do around dividend. But all I'd say is we're relaxed and comfortable with what we've done and franking capacity, et cetera. In relation to return on risk-weighted assets, clearly, we've -- we had derisked in Joseph's world, where we've seen some reduction in risk-weighted assets. The -- our risk-weighted assets in the -- that's an average risk-weighted asset number we're using, so it's not a spot number. And so, over the last year in Australian banking, the average risk-weighted asset number hasn't actually grown. It's been -- it's around $248 billion or thereabouts. So it's -- but I think we are seeing some dividends from that if we hadn't have taken some of the action. In many respects, some of the dividends will actually also flow down the track because if you're lending into the wrong customers today, it might take 2 or 3 years to find that you have a bad debt or debt down the tracks. So there is a bit of a focus on, one, trying to maximize ROE in the short-term by doing the right things, the right terms and conditions, the right pricing, et cetera, and also, trying to make sure you don't have a problem down the track. So it will be -- I'd like to think it's a progressive thing. It's not something that's going to happen overnight. But we will see the benefit of that if we're making the right decisions today to lend and transact with the right customers today we'll go a significant benefit down the track.

Unknown Executive

Andrew?

Andrew Hill
BofA Merrill Lynch, Research Division

Andrew Hill from Merrill Lynch. I have 2 questions on just a couple of the uncertainties that you've got sitting out there. Obviously, the Scottish Independence part is very difficult to deal with from your perspective. But I'm just wondering what you actually do ahead of that time to try to minimize the risks, if you do get an unfavorable outcome? And then the second question was just around the tablet business loan portfolio in the U.K. Could you remind us just how big that portfolio is and how much of that, if any, can actually be ruled out from the perspective of some of these redressed claims that are starting to pop up?

Cameron Anthony Clyne
Former Executive Director

The -- on the second point, I mean, yes, the conduct at the moment is specifically focused on interest rate hedging in some of the derivative products. So that's the scope, but I mean, so therefore, is a, yes, quite significant component of the business lending we do which is much more generic in nature that's certainly not being suggested at any focus of conduct, but you don't know how things are going to go in the future. The problem with independence, no -- there's a lot we can do, and it's certainly been a significant focus of the U.K. board which, obviously, I've been sharing for the last couple of years. Some things you don't know. You don't know what's going to be happening to the currency in that regulatory regime, but you can start to say, that what's the work program we would need to engage in, and you can have those sort of things done. And you can also look at broadly, upper and lower ranges of what you think the impacts might be and how that would play out in terms of your business and your stress testing and all that sort of stuff. So we have got a very well-developed program that is there to go. And obviously, we will see. It's one of those sort of strange issues where -- but I think the -- it's a little difficult also at the moment, obviously, we are watching it closely, is that -- the debate is in that phase at the moment where it's more political and emotional and rational of course, because people are trying to prosecute cases on either side. Obviously, when it occurs, then you get -- let's assume it was a yes vote. Well it's in -- it's really in no one's interest for there to be bad outcomes. So when it's done, then you get people tend to come back to the table and negotiate a more pragmatic outcome. So that generates uncertainty, but it's not in Scotland or England's interest to have a catastrophic outcome if it was a yes vote. Then, once it's done, the parties have to negotiate. But we've done a lot of preplanning on what are the sort of things we need to do.

Andrew Hill
BofA Merrill Lynch, Research Division

And the book size?

Craig M. Drummond
Former Group Executive, Finance & Strategy

I don't have the size of the book at the moment, but it's something we could get.

Unknown Executive

Right, GBP 10 billion, GBP 10 billion. That's non-housing, GBP 10 million. But obviously, the vast majority of that is just generic term lending in the -- as opposed to what's in scope, which is the derivatives and things.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson of CLSA -- nice to speak to you as the enemy. Craig, 3 quick questions, if I may. The first one is, unexpectedly, you've wound up your balance sheet liquidity which was already monstrously higher than the peers. You're saying, that you knew your cost of funding is about 80 basis points above basically the reference rate. I'm assuming the yield is below. How much has this cost the NIM, and how much will the CLF be going forward, presumably you've got some read on that at the moment?

Craig M. Drummond

Former Group Executive, Finance & Strategy

Brian, I'm not going to go into the specific numbers. But all I'd say is, obviously, from a CLF point of view, EPRA'S negotiated with the 4 major banks and we're very comfortable with where our CLF is and very comfortable at the cost -- the likely cost of the CLF going forward from 2015 onwards. You may -- I don't know whether you've got a particular number that you have in mind, but I don't think it's a number that the regulator -- and I'm looking at Eric here -- I don't think it's a number the regulator, EPRA would -- has disclosed publicly.

Brian D. Johnson
CLSA Limited, Research Division

Yes, they've disclosed 295 billion across the full bank's...

Craig M. Drummond
Former Group Executive, Finance & Strategy

No, but not -- the cost?

Brian D. Johnson
CLSA Limited, Research Division

Well, it's 15 bps on that, isn't it?

Craig M. Drummond
Former Group Executive, Finance & Strategy

Okay.

Brian D. Johnson
CLSA Limited, Research Division

So have you got a lens on how much it is for you? If you already run the higher liquidity, Craig, so presumably, this is more a problem for the other banks. I think it would be nice to walk out of the room with something nice to say about NAB, wouldn't it?

Craig M. Drummond
Former Group Executive, Finance & Strategy

Brian, I think it's -- look, it's fair to say that our -- we're probably in a more comfortable position relative to system on LCR, but I don't think it's appropriate that we talk about our specific situation when it's really a conversation that we're having with the regulator.

Brian D. Johnson
CLSA Limited, Research Division

Craig, the second one is...

Craig M. Drummond
Former Group Executive, Finance & Strategy

Sorry not to answer your question specifically, but I just don't think I'm at liberty to give you that number. And you might talk to EPRA if they're willing to tell you what...

Brian D. Johnson
CLSA Limited, Research Division

They told me to ask you guys. Craig, the next one is the nonrecourse debt. Does this mean that as it matures, you've got to put more equity into the funds management business? If so, which drags down a pretty low ROIC at the moment, and then what are you going to make Andrew do about it?

Craig M. Drummond
Former Group Executive, Finance & Strategy

I think Andrew is, as you can see from even from it's very early days, he started to, by bringing the wealth management business closer to the bank, and you can see with his FTE numbers, he's achieving some efficiency gains. He's already made I think quite an impact, Brian, on the result. But to take your point, yes, it's a low, currently a low ROE business, and it's something that Andrew, with the rest of the executives, are very focused on making sure we can get to a higher ROE business. And that's probably all I'd say at the moment. But I understand how we're going to write off the goodwill, is that the next? Well, I suppose, we look -- again, we have management and supported by external audit, have looked at impairment testing of that goodwill, as we've done again in this half, and we're comfortable that there is no impairment.

Brian D. Johnson
CLSA Limited, Research Division

Craig, the final one is, in this result, the most disappointing aspect of it, and by the way, congratulations on what a new CFO should do, which is kitchen sink everything, but Craig, the most disappointing aspect is yet another GBP 300 million hosed up against the wall going into the U.K. When you have a look at the core equity Tier 1 in Clydesdale, it's been out sitting at 13.4%. Two questions on that, is that part of setting a higher than expected 8.75% bottom of the floor target? Because basically your capital's disclosed at level 2 but that masked the fact that your level 1 capital in Australia might be a bit lower. And then the second one is, when -- is there some plan apart from divestiture, to ever get this capital start to flow back. We see earnings, but if we don't get dividends, it's meaningless, what's the plan to ultimately get some capital out of this business?

Craig M. Drummond
Former Group Executive, Finance & Strategy

Do you want to? Look, I can -- you're right, the capital ratio -- we did put an additional GBP 300 million and then you'll also note in there that we converted a hybrid into equity into -- in the structure. It's not an additional, not an additional GBP 300 million, but there was a conversion of a hybrid, so that's why the Tier 1 has gone to 13.4%, and that Tier 1 is at that level to give us some buffer, and we have now got some buffer over and above the Basel III requirements for U.K. banks. And for us, as I said, we've got some buffer, but we did need to put that GBP 300 million in to make sure that we weren't going into capital conservation buffer, and we feel we're now adequately capitalized. In terms of actually getting the capital back, there is -- I might just pass it to Cameron, but we're clearly very focused in the short -- in the very short-term, we're very focused on running the business and making a better return out of the business.

Unknown Executive

As I said [indiscernible] 8.75% [indiscernible]

Craig M. Drummond
Former Group Executive, Finance & Strategy

No. But we're running the target at a group level, Brian.

Unknown Executive
Okay. I think that was the last question. So we'll wrap it up there. Thank you very much for attending.