Question and Answer

Victor German
Macquarie Research

Victor German from Macquarie. A couple of questions, if I may. Matt, maybe one for you in terms of recognition of some of the expenses. I'm not going to sort of challenge you on recognition of software balances. You are an accountant and I'm not, so you know better than me. But sort of from a compliance-related expense, I mean in the current environment, do you really think that there's one-off type expenses that shouldn't be included in cash earnings? Just you're thinking on that. And if we do see higher compliance costs going forward, are you planning to exclude that from expenses going forward? And maybe the second question for Jon. Obviously, lots of excitement on -- from Royal Commission recommendations. Be interested in your thoughts in terms of how you think it's going to play out for BOQ. Obviously, you haven't been as kind of negatively impacted by some of the comments from the commissioner, but he did highlight one of the issues that BOQ actually may have with respect to remuneration and the structure of OMB. So I'm just interested in how you think that may play out for you.

Jon Earle Sutton
Former MD, CEO & Executive Director

I might take the first question -- your second part of your question first, and then let Matt talk to expenses. We run a very, very simple business model. We're servicing retail businesses, and we're servicing SME customers. Our Owner-Managers are -- have a huge connection within the bank and their communities, and they do a lot of great work in their communities. We've gone a long way to being Sedgwick-compliant with our owner-manager branch network. We've introduced a balance scorecard, and that balance scorecard has key gateways relating to compliance, relating to responsible lending and relating to deposit gathering and actually servicing our clients. We are comfortable that we will be able to meet the recommendations that may come out of the Royal Commission. I think that given the simplicity of our business model stands us in good stead to actually continue to grow in the lines of businesses that we have, and we are fully supportive of our owner-manager model.

Matthew Baxby

Yes, Victor, I think in terms of compliance cost, I think your question had 2 parts to it. One was treatment of the one-off and then outlook in terms of the second limb of that, so I'll pick those off each. In terms of treatment of the one-offs, we assess those case by case. Our objective is to enable comparability of reporting period-on-period. And in terms of the underlying nature of the specific cost that we've taken below the line there, in the regulatory and compliance bucket, it was about $9 million after-tax. That was predominantly external legal costs relating to the Royal Commission and some of the other regulatory aspects, so that was the predominant amount there. In terms of the outlook for higher compliance costs, what I would say is, over the last few years, there's a number of costs that we absorbed in the business relating to compliance. Jon's called out that we've validated 100% of mortgages now for a number of years, our fee cost within the cost base that we have absorbed. That's one example of many that we've taken into our operating cost and have managed to control them very tightly.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

Okay. A question here.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Got just 2 questions on the NIM, if I could. The first one, 2 basis point benefit from the extension of behavioral weighted average life. I think this is just reducing the deferred acquisition costs for the broker charges and that must be on Owner-Managed branches as well. Can you run through that? What have you actually changed? Are you now seeing less churn in the book because people can't refinance elsewhere given everyone else is tightening underwriting conditions? Is the term mortgage prisoner, which is now being used for people who can't move out, or what are we seeing there? And then, secondly, on the NIM as well, comment around the deposit pricing has been improving given sophistication in pricing of the TD book. That's another big word. So I just wanted to get an idea on what those 2 drivers are, so the behavioral weighted average life and the TD book as well?

Jon Earle Sutton
Former MD, CEO & Executive Director

So I might just start at a high level, and Anthony -- I'm sorry, Matt, slip of the tongue there. Slip of the tongue, sorry, mate.

Matthew Baxby

Too many periods.

Jon Earle Sutton
Former MD, CEO & Executive Director

Too many periods. And Matt can take you through the NIM walk. But in terms of the behavioral changes, we are seeing changes in loan behavior and people are not refinancing as quickly as what they've done in the past and, therefore, also our runoff is less through the branches. I think there are a lot of moving parts in the market, and we're very firmly open for business. When we've assessed our loans, we've always done it on 100% validation. And even for -- including for our interest-only, we've actually done it on the P&I basis, so we're very comfortable with the behavioral aspects of what we're seeing on our loans. And what we did do is fairly conservative. In fact, it was a conservative setting that we took. And I think what you will see over the market as this plays out with the Royal Commission as where there are changes to credit underwriting standards at other banks, you'll probably see less velocity of repricing, but that's just an assumption that we have at the moment there.

Matthew Baxby

So Jon, picking each of your questions off, one on weighted average life and the other on deposit pricing. The first around the weighted average life change, that is something in our portfolio we've been observing over time. So less churn, customers staying with us for longer as a result of shifting that from sort of 5.5 years out towards 6. We've got a big buffer actually in terms of that underlying behavior that resulted in deferred acquisition cost being spread over a longer period, and that shows up in the third-party cost line of the NIM walk. The second part about deposit pricing, I think there were 2 things at play. One -- and again, this is something we've been talking about over the last couple of halves -- is a concerted push towards what we call relationship-based deposits. So we've seen 7% or 8% growth in low-cost transaction account balances. That, I think, reflects our service offering of staying closer to the customers. In terms of the way the TD book has played out, part of it has been less reliant on TD as a result of the growth in -- at core savings, and the other is a project, I think, Jon kicked off a number of years ago around using analytics to really understand the elasticity of our term deposit book. And I think as many of you will have known, BOQ historically has played [above those] in terms of carded rates on TDs. That hasn't been the case over the last 12 months or so, so it's really tightening of the TD spreads.

Jonathan Mott
UBS Investment Bank, Research Division

And how much important that is...

Jon Earle Sutton
Former MD, CEO & Executive Director

It depends on the different buckets that we use. And I think I've said this in the past briefings, it's fighting for every basis points and looking at each side of the balance sheet, and it's actually taking those opportunities when they arise. And even in the wholesale funding markets, at the beginning of this year, we could see a really strong opportunity to be able to lock in some wholesale funding at very, very attractive rates, which we chose to do. And also, on the cash-to-bill spread, we've taken those opportunities when they arise to actually hedge as well. And the TD pricing is dynamic. I think that the days of BOQ having these massive maturity tails of TDs rolling off and then having to bid them up is over. We're carefully managing both the deposit side and the lending side of the margin.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

Okay. I think we've got a question here in front.

Anthony Hoo
Deutsche Bank AG, Research Division

It's Anthony Hoo at Deutsche Bank. Just can I ask you about your mortgage book in your proprietary network? It looks like the runoff deteriorated in the second half versus the first half. Can I just ask about how do you improve that? And is that particularly disappointing in light of the fact that the branch rationalization process, that has been a few periods since that is supposed to have no sell-down and also given the fact that as peers have tightened the lending standards and have reverted towards where you have been, that should have given you a better competitive position in this period?

Jon Earle Sutton
Former MD, CEO & Executive Director

So a few parts to that question. Actual runoff in the branches, a percentage of runoff has actually moderated. And what we do need to do is to put more on the top of the funnel with our corporate branches and our owner-manager networks. So it's not so much the runoff, it's about filling the pipe. And we're currently in our spring campaign, and the results early on are good. I would not expect to see us, all that branch network, return to positive growth this year. We'll certainly look to moderate that flow. Your question about peers catching up to underwriting standards, I think that's very much an open question. I still see through different intelligence sources that other banks still have a long, long way to go. People are certainly validating income, but there are other competitors that have a long way to go towards validating expenses. And if there's one comment that I would make is I think that the industry would benefit greatly if there was greater clarity around the validation of expenses. And the playing field was materially evened up in that regard because I still think and still see that there's a long way to go with certain other players within the market.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

A question over here.

Andrew Triggs
JP Morgan Chase & Co, Research Division

It's Andrew Triggs from JPMorgan. Just a couple of questions, please. Firstly, on the NIM, some good commentary as always on the outlook, but just perhaps a sense of where the exit margin sits versus the average of the half. That would be my first question. And second question, Jon, you mentioned that you looked compliant -- that you believe you're compliant with the Sedgwick recommendations?

Jon Earle Sutton
Former MD, CEO & Executive Director

I said we're moving towards it.

Matthew Baxby

Moving towards.

Andrew Triggs
JP Morgan Chase & Co, Research Division

So just in terms of the -- both the Fit for Biz reward program and the balance scorecard, I mean, ultimately, they all sort of rely on value-based commissions. Just your thoughts on can you refigure that structure to make it fully compliant with where the industry appears to be moving?

Jon Earle Sutton
Former MD, CEO & Executive Director

I think there's a number of dimensions to look through this. So obviously, we continue to have our Fit for Biz program. And our Fit for Biz program does reward our owner-managers for their compliance, for their work in the community and what they do. We do have commission-based sales within the owner-managers, but it is like what it goes -- it's like what happens in the broker network. We do have gateways. We do have rigorous compliance and rigorous auditing of our branches. And I am -- it's difficult to hypothesize where the recommendations will fall out of the Royal Commission, but we have done a lot of work internally on what models may or may not look like. And I think that when you think about this, you need to think about it in terms of the broking industry as well and what changes may or may not come out of that. We've engaged with our Owner-Managers. We're working with our Owner-Managers. And I think the most pleasing aspect for us is that they have embraced this. 80% of the Owner-Managers are now on the new balance scorecard, and we did moderate that balance scorecard earlier this year. We've just come off conference, and they see this is a great opportunity to actually be out in their communities and offering the services that consumers want.

Matthew Baxby

In terms of the second part -- the first part of your question around spot NIM, we think that that's probably less meaningful and is part of the reason we do talk about the moving parts. And in terms of the experience that we have today, they're largely in line as I've talked about ongoing competition on front book, particularly for owner-occupied as the market begins to slow; quite aggressive TD rates out in the market still; and then the final part is really basis. We've seen that moderate slightly but still remains at elevated levels, certainly relative to what we saw in front-end of FY '18.

Jon Earle Sutton
Former MD, CEO & Executive Director

Just to top it off, too, Richard (sic) [Andrew], as I think that when you look at the bank, you need to think of the bank just not through the prism of the owner-manager network. These results have shown tremendous growth in Virgin Money. We've got a $1.6 billion loan portfolio in a fairly short period of time, attracts a materially different customer base to what we traditionally have. It's allowing us to diversify away from Queensland. If you look at BOQ's housing growth, $644 million. 2014, we acquired that business. That's now $4.3 billion in mortgages. And that is flowing through into the improved arrears given that particular clientele that's in that business. BOQF lending, $250 million. For many years, it's been the unsung hero of the bank. But we are now partnering, and we've been doing it for quite a few years with global iconic brands. And we continue to see further growth in the BOQ Finance business. And it's an important product and tool for small businesses. And this year, in our niche commercial lending, we've done really well. So think about the bank in -- it's not just in a component part of Owner-Managers but the whole.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

I'll take another couple from the room. Just here, thank you.

David Ellis
Morningstar Inc., Research Division

David Ellis from Morningstar. I've got 2 questions. The first one is about the St Andrew's group sale, the announced sale to Freedom Insurance Group. Considering the challenges that Freedom are currently experiencing, do you expect this sale to complete as planned?

Jon Earle Sutton

Former MD, CEO & Executive Director

Probably the most practiced question I've had. So we have an agreement in place, and it is subject to regulator approval. And I really can't speak any further than that on that matter.

David Ellis
Morningstar Inc., Research Division

Okay. My second question is to do with the margins and the increase we've seen over the last 9 months or so in short-term wholesale funding costs, and you referenced the spread between the cash rate and bills. And I think you mentioned, Matt, that you consider that structurally high rather than -- and you didn't say cyclical -- cyclically high. But what are the reasons do you think that it's structural rather than cyclical?

Matthew Baxby

I think there's probably a few parts. One is, as we've seen a similar dynamic in the U.S., one, that, that hasn't followed in Australia in the way that we would have expected, as one point. And then I think other elements, too, are the -- have been the dynamic around who's on the other side of some of the trades. Early on, we saw a repatriation of tax proceeds in the U.S. as one of the drivers. That seems to have largely played out, yet basis remains structurally high. So I think there's a -- and we've heard most of them, a variety of views across the market in terms of the real drivers of it. Based on everything we've seen, it looks like it's more likely to be sustained.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

Okay. Just over here, please.

James Ellis
BofA Merrill Lynch, Research Division

So James Ellis from Bank of America Merrill Lynch. Assuming that St Andrew's does go ahead, what are you -- can you just confirm that it's 20 basis points of capital that you would still expect to be released? And...

Jon Earle Sutton
Former MD, CEO & Executive Director

About 17, I think, James. Is that right?

James Ellis
BofA Merrill Lynch, Research Division

About 17.

Jon Earle Sutton
Former MD, CEO & Executive Director

Yes.

James Ellis
BofA Merrill Lynch, Research Division

And 6 months ago when you announced that, there was a slide, which sort of gave an array of sort of choices for the capital, including capital management. What would -- assuming the transaction goes ahead, what would be your thoughts around deployment of the capital?

Jon Earle Sutton
Former MD, CEO & Executive Director

I think what we've shown today in the results that we do have a high degree of optionality for capital. And I'm not going to make any comment about what we would do around capital initiatives. But what I will say is that we fundamentally believe in the strength of Virgin, and that is an iconic global brand. And we have already demonstrated through Virgin over the last few years what it can do, and we would -- we have under active consideration some investment, which would be in the existing capital envelope, that we may undertake to accelerate Virgin further on its journey to become a full digital bank. And that may be around deposits or other types of products and services.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

Okay. We may take some calls from the phones.

Operator

The first question comes from David Spotswood from Airlie Funds Management.

David Spotswood

Can you provide some comments on the cost outlook? There's a lot of comments here about the digitalization and investment in IT and not a lot on the sort of steady outlook for the cost lines, though.

Matthew Baxby

Yes, David, I guess, as we've laid out, there's been a real disciplined approach to managing costs. I think in a lower revenue growth environment, that's absolutely the right thing to do and a focus that we're going to maintain. In terms of the outlook, what we have called out is, certainly, this year and then moving forward, we're running slightly higher technology investment. We think that's the right thing to do to position the business for the long term. So we will see some of the drag of that amortization flow through over the next few periods. But I guess, what's incumbent on us is continuing to look for opportunities to structurally shift the cost base. And that's where things like digitization rolling out, tighter vendor management, looking at ways of serving our customers in a way that improves the processes is where all the focus is.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

Our next question from the lines?

Operator

The next question comes from Azib Khan from Morgans Financial.

Azib Khan
Morgans Financial Limited, Research Division

Look, 3 questions for me. Firstly, so on the 7 bps that you will use to accelerate investment spend, can you provide a rough breakup of what you anticipate in terms of OpEx and CapEx? Also, on that, are you hoping for a new productivity savings or headcount reduction to stem from the acceleration? Second question is, so historically, BOQ's mortgage fulfillment times have been inferior, particularly relative to the major banks. One of the reasons you have cited for that in the past is that you do a 100% validation. Given that the other -- given that many of your peers are now doing more and more validation, is that gap between fulfillment times now closing? And is that starting to provide a positive delta to your position in the broker channel? And when can we expect BOQ to actually match the majors on fulfillment times? And the third question is -- apologies if I've missed this in your disclosure, but are you still speaking with an interim CET1 target of 9.25%?

Jon Earle Sutton
Former MD, CEO & Executive Director

I'll have a go at answering most of those questions. So for us, around the 7 basis points investment spend, it's across 3 key areas. And the first one is the blue brand, BOQ. We all know that our digital asset in BOQ is not where it needs to be. And over the next 12 months, we will be working -- a part of that investment spend will be to bring the blue brand digital assets up to an acceptable standard where it hasn't been in the past. Telephony and call centers are so important because customers, that's normally their first point of call. We have a wonderful team in our customer connect area up in the Gold Coast, in Brisbane. And what we are going to be providing them with are the latest in telephony and telephony technology to allow us to serve those customers' needs whether it's a service requirement or whether it is a -- an inquiry into a home loan or to help them through the home loan process, that's critical. And we'll be also rolling out our single view of customer as well right across the group. That will have an added advantage in that we'll assist brokers to be able to understand where they are in the queue with their broker applications. And I would argue that we have improved substantially our time to yes. I actually think some of the other competitors are going back the other way as they start to think about how they validate expenses. And there is any number of reports, newspaper articles, analyst reports, on what others are doing to bring them up to the expected standard of validation of customer expenses across the industry. So I would expect that perhaps they may be going out further.

Matthew Baxby

I'll handle the last part of your question, which is around the 9.25%. Now talked about a 9.25% range in the context of the special dividend, i.e. handing capital back to shareholders. It was also the number we printed at the point APRA released, unquestionably strong. I think, on any measure, we believe we're well capitalized and do have the flexibility to invest in the way that we've talked about. So there's a number of moving parts. You touched on the St Andrew's sale, more clarity from APRA around the regulatory guidelines. And I guess, the last part, which would put the stake in the ground today, is around the forward outlook on investment.

Azib Khan
Morgans Financial Limited, Research Division

Sorry, just to be clear on that, are you still speaking with a 9.25% interim target?

Jon Earle Sutton
Former MD, CEO & Executive Director

The 9.25% was a point in time, and there is still some uncertainty around what -- how APRA will adopt the Basel IV rules and the localization, so we want to see where that is. We believe that we're in a really strong position with our capital compared to peers, and we will manage our investments within the existing capital envelope that we have. So it is where it is, and we're happy with where we sit at the moment in terms of CET1.

Azib Khan
Morgans Financial Limited, Research Division

The fact that, that target is no longer there, can I take that to mean that, that target was looking too conservative and your capital position is looking very strong and maybe 8.5% is the more likely target with the current risk weight setting?

Jon Earle Sutton
Former MD, CEO & Executive Director

Absolutely not. Okay, let me be really clear about that. We are not targeting 8.5%. We've always been conservative on our capital settings. We'll continue to be conservative on our capital settings until we have the absolute clarity from the regulator on the localization and adoption of Basel IV. It might be a few basis points here or there, but we are not going to 8.5%.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

Our next question from the lines, please?

Operator

The next question is from Ashley Dalziell from Goldman Sachs.

Ashley Dalziell
Goldman Sachs Group Inc., Research Division

I just had firstly a question on the NIM. I think at the previous result, you said on the hedging cost piece is prevailing spreads, cash-to-bill spreads will maintain, but that would be a circa 5 to 7 basis point NIM headwind over the next 2 halves. And I guess you've sort of booked 2 bps in this half, but it sounds as though you've taken advantage of some hedging. Can you just kind of help us square, I guess, what you've seen in terms of headwinds in the current half with that previous comment around the 5 to 7 basis point headwind over the next 2 periods?

Jon Earle Sutton
Former MD, CEO & Executive Director

I don't think those headwinds have changed much from the first half or the previous half other than the front to back book pricing is pretty -- is very, very competitive out there at the moment. And we haven't seen a great deal of moderation at all in the cash-to-bills spreads. So I think Matt's given a very clear view on the NIM walk. And the component parts of that NIM walk can change fairly quickly, and I think we've been very clear on all the moving parts for NIM.

Matthew Baxby

And Ashley, just to add to that, I don't think there's any inconsistency with what we've previously said. You saw 2 basis points this half, bills-to-cash has remained elevated. We've taken some opportunities to hedge where we can, but that looks like an ongoing headwind.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

We'll take one last call from the phones.

Operator

The next question comes from Brett Le Mesurier from Shaw and Partners.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Slide 32 contains a lot of useful information on your housing portfolio. We've seen falling house prices, but the information that you provided there looks like the people you lend to have increasing house prices. Well, another way of saying it is that the average house price was $550,000 second half '17, and you lent 69% LVR. Second half '18, it was $590,000, and you lent 69% LVR. What are you doing to find more valuable houses in a declining housing market?

Jon Earle Sutton
Former MD, CEO & Executive Director

So I think -- thanks, Brett, for your question. There are a couple of moving parts on that. If you look at the growth in the BOQ Specialist mortgage business, they tend to -- doctors and dentists tend to have a higher borrowing capacity. And if you go back to my previous comments, since 2014, that portfolio was over $4 billion. Virgin Money actually brings us a different type of customer, particularly in the capital cities, in Brisbane and Sydney and, again, that they would have a higher borrowing value. Prior to the results, I did go back and worked with Peter Deans, our Chief Risk Officer, just to have a look at where we are in the cycle of repayments. And obviously, the older the vintage, the further the -- our customers are ahead of their repayments. So going back 5 years, they're 6 months or even further ahead of their repayments. And even in the last 12 months, our customers are some 1 month to 6 weeks ahead of their repayments. So I'm comfortable where we sit with them, where we've booked. But those differences are primarily driven by the growth aspects of our business in capital cities and the lines of business that we're doing and mortgages.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

And just one further question, a simple one. When you showed your portfolio metrics here, you showed the weighted average LVR. Is that on a dynamic basis? Or is that based on the value of the house or value of the property at the time you put the loan on?

Jon Earle Sutton
Former MD, CEO & Executive Director

It's historical.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

Okay. We can come back to the room. We've got time for 2 more questions. We've got a question here.

Andrei Stadnik
Morgan Stanley, Research Division

It's Andrei Stadnik from Morgan Stanley. Just wanted to ask a couple of questions. Firstly, on the deposit side, are you looking for more opportunities to change that deposit mix away from term deposits and towards transaction accounts? And my second question, looking at mortgage growth from maybe from a touch -- a different angle, you've grown about 2% annualized in the last half, systems grown about 5.5%. The nonbanks have grown probably double of system. So is there a -- what can BOQ -- so clearly, the customers are moving away from the major banks but, for some reason, are not going to BOQ, they're going all the way to the nonbanks. Is there any opportunity for BOQ to differentiate itself more from the majors and prevent some of the growth opportunities going to nonbanks?

Jon Earle Sutton
Former MD, CEO & Executive Director

So I'll deal with a couple of parts of that question. Just on -- we've talked for a fair few halves now about what we're doing around managing our deposit spread, and we are deploying analytics capabilities. As I said before, we want to manage those maturity tails a lot better. But what is really important is what we are doing in actually getting the deposits in through the door in the low-cost deposit accounts. And that is so important. That is the lifeblood of any financial institution. And it's a slow burn, it takes time. And we are on that journey, and we are getting great momentum. One of the things that really gives me optimism about that slow burn journey is what we've actually done in the last 12 months. We've now got a partnership with Square. It's part of the Jack Dorsey empire, and Square is the fastest-growing merchant facility in the U.S. And Square has chosen us to partner out here in Australia, and we do that quite proudly. It's a great piece of technology for SMEs. So if you think about being able to provide the Square device and actually have the bank account, that's really important. We've also been doing some work with First Data out of the U.S. in deploying their Clover systems. And again, we've done that in one of our high-profile clients in the snowfields, and that's similar to what some of the high-end products that you'd see at other institutions. And again, that is helping our business customers to manage their cash flow on a daily basis. So it's not just about trying to slice a few basis points here and there off the TD book but it's also the long burn strategy that we actually have around garnering deposits for retail customers and for business customers, using some of the best technology and bringing it in the partnership. The question you have asked about nonbank lending is -- that's a big question. There is a lot of pent-up demand heading towards nonbank lenders. They have a role to play in the financial community. The last thing you'd want to see is wholesale, large parts of the community unbanked. But are they subject to the same scrutiny and regulation and responsible lending even though they do hold an AFSL credit license is an open question. And we do see that, over time, through our growth initiatives with Virgin, BOQ Specialist and the focus with the BOQ network that we will continue to grow our mortgage business. It is important to us. Whether we'll grow at multiples of system in the current environment, that's probably a period away, but I'm very, very comfortable about the growth options that we actually have across the group.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

And one final question, just over here, Ed.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

It's Ed Henning from CLSA. Two questions from me. Firstly, just touching again on the funding cost you kind of just ran through, and you talked about -- a little bit about the sophistication in your TD book and what's happening there, can you see any -- you've obviously done a bit in this period, is there any more tailwinds for you going further on that besides the current account stuff that you obviously continue to work on?

Jon Earle Sutton
Former MD, CEO & Executive Director

Look, we have been very open about what we believe that NIM walk is in the NIM outlook and what the component parts are. And as we've said in the past, it's a competitive environment. Things can change quite rapidly. And we -- what I take comfort of is that we've got the ability to take advantage of any of those changes that we may see in the marketplace that will aid us in managing our NIM. It's a much more dynamic approach that we're using in managing both sides of the balance sheet for NIM and NIM outcomes.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

And then the second one just on cost, and you touched on it briefly before. You've talked about your investment in cloud, investment in digital, can you -- and you've talked about the acceleration of amortization going forward. Can you talk about the cost savings and stuff from going to the cloud, from going to digital that you'll see offsetting that increased amortization at least in the next couple of years?

Jon Earle Sutton
Former MD, CEO & Executive Director

Yes. So I think we've been very open about where our cost growth has been, and we believe we will continue on that trajectory while we also continue to invest in our business. Let me talk a little bit about the cloud. We're going to a hybrid cloud. That's a huge change for us. Our infrastructure doesn't allow us to be very flexible at the moment, and moving to a hybrid cloud will actually increase our flexibility. So at the moment, our production and test environments are co-mingled. That's not where we want to be. So when we do want to develop really fast products and get them out to market and meet customer needs, moving to a hybrid cloud is going to be fantastic for us because it will allow us to unpackage that co-mingled environment and set up discrete test environments, which will actually lower the cost of product development. There will be some onetime savings in moving to the cloud. It's not significant, but the piece where we get the most juice from is actually having a faster and more responsive IT infrastructure that allow us around our product development.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

We do have time for one more. Richard?

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles from Morgan Stanley. Jon, you mentioned a few attractive features of the result this morning. So more diversified, margins are up, line loss is 9 basis points, and I think your underlying cost growth was 1% for the year. So a lot of things going right for the bank even though it's a challenging environment. And yet on Slide 4, we can see that the ROE has gone below 10%. That's the lowest it's been in 5 years. That just leads me to ask a few questions. Firstly, do you think it can get back above

10%? Secondly, what's the ROE of BOQ business because that's the bit of the group that's growing fastest? And thirdly, are you prepared in the short term to actually give up a little bit of ROE to accelerate some of the growth initiatives that you've mentioned this morning?

Jon Earle Sutton
Former MD, CEO & Executive Director

Yes, certainly, the ROE line has been challenged through -- and noninterest income, certainly. In the BOQ group, we are very attuned to the return that we need to generate. And some of the lending that we would do would be probably less than what we would like in terms of the hurdle rate. But we are prepared to do that because what we are trying to leverage is that total relationship model. And when we do, do that, the ROE for those customers is quite strong. So I am hopeful that we can restore the ROE, and we will do that over time through the investment that we've outlined today. But importantly, if you think about FM digital that we'll be bringing online this year, it gives us the ability to be able to talk to our customers, and they'll be able to deal digitally with us for their foreign exchange, for their interest hedging. And again, that will help restore some of that noninterest income that we actually have. It is a challenging environment at the moment. I would still argue -- for competitive neutrality, I would still argue that standardized banks' capital allocation on mortgages is materially higher than what an advanced accredited bank is. And we should see further narrowing of that, and we would be hopeful in that regard.

Tanny Mangos
General Manager of Corporate Affairs & Investor Relations

Thank you. That brings an end to the briefing, so thank you for joining us.

Jon Earle Sutton
Former MD, CEO & Executive Director
Thanks, everybody.