# Question and Answer

**Jarrod Martin**
*Crédit Suisse AG, Research Division*

Jarrod Martin from Crédit Suisse. Thank you for the detail that you've provided today. It makes it a lot easier. One area of confusion or maybe healthy skepticism that if you could ask. So on the 1 hand, you've announced an increase of expenses between 5% and -- 5% and 8%. But if we go out 3 years, it's sort of flat for the other 2. So on a 3-year view, it's 2%, 2.5% per annum increase in expenses, which is not too different to what you've done in the past. On the other hand, you've announced that there's 4,000 FTE that are coming out of the business, which is 12% of staffing. So it seems to me that there's a disconnect in reconciling 2.5% per annum expense growth over a 3-year period, yet staffing, which is half of your cost base, is coming down by 12%. Could you sort of talk a bit to that? Because that seems -- it doesn't seem to be all that audacious outcome. Or is it the fact that the benefits really don't come through until FY '21?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

Yes. Okay, so, Jerrod, I'll kick off and, Gary, you can add. So I'll cover the first bit because Gary can cover the trajectory, particularly beyond '20. But on your first point. So I think you're right to say if you just take the straight line on facts cost plus to '20, we get to maybe essentially the same number. I think the key thing is, though, that the bank is going to be a very different bank at that time. It's going to be materially simpler and leaner and far more efficient. We are going to have less people. We're going to have 50% less products, up to 20% less IT applications and so on and so forth. So I think whilst a number of cost base at that point, leaving us out where it runs to from then -- Gary will cover it -- I think the bank is going to be a completely different place in terms of ease and efficiency and simplicity. I think that's going to be the thing. And what that's going to do is set us up for the environment that's out there. We know that it's going to turn or be more demanding one way or the other. So we're getting ready for that. So whilst the cost number's the same, I think the people in the bank, the attitude, the simplicity, the leanness of the company is going to be like chalk and cheese. Gary, do you want to add on -- Jerrod's part of the question?

**Gary A. Lennon**
*Chief Financial Officer*

Yes, Andrew. Just a couple of points. So Martin, you're right. We essentially end up in the same old spot, but there's a lot going on. There's a lot of increasing investment. There's increased amortization that will be flowing through from prior investments with these investments as well as the productivities of offsetting a lot of those increases on the way through. But once we do get to that 2020, we are through the peak of that investment phase and we're able to then to generate full year benefits from the productivity that -- savings that we have delivered in those 3 years, particularly the final year. So we are very much hopeful that as we exit '20 that we have some good tailwinds on productivity through all of the things that Andrew has spoken about. Because investment will be coming off and we get momentum from having a simpler bank from a revenue perspective but also the next phase of productivity perspective.

**Ross Brown**

Richard?

**Richard E. Wiles**
*Morgan Stanley, Research Division*

Rich Wiles, Morgan Stanley. You're right, Gary, there is a lot going on. All these investments been -- I think implies that there'll be some meaningful EPS downgrades in 2018. But what I'm interested in is what it means for EPS in 2019? Do you think it's net positive or net negative? Also, what's it mean for the capital. You're taking a restructuring provision. The expenses are going to grow 5% to 8%. You're suggesting you'll keep the dividend flat at $0.198. All those things would suggest capital headwind. So do you think the capital ratio will improve in 2018? Or is all the heavy lifting towards APRA's target going to be done in '19 and '20? And finally, it's possible the payout ratio goes back over 80% next year. So you're still sticking with your 75% target in the medium term?

**Gary A. Lennon**
*Chief Financial Officer*

Thanks, Richard. There was quite a bit in that. Remind me to get all the pieces of it. Yes, in terms of thinking through our capital management strategy, obviously, we've thought through this in detail around all the moving parts. The first thing is 10.06% today, we then have the benefit of the discount that we're putting on today in terms of the final FY '17 dividend. That will take us through a pro forma [ 10 20 ] to [ 10 25 ]. That is reasonably close and well on track to a 10.5. We've had quite a track record now within the current environment of generating capital around about 20 basis points a half. So there's some good momentum on that front. But there will be some headwinds from the things that you've talked about with the restructuring, so that will pull it back. We still see a very orderly pathway to get there. There's 1 final bit of information, which could be interesting for us, which is APRA's further guidance on how the risk-weighted asset mix might change. It is impossible that, that favors business vs. mortgages, so we'd like to see how that plays out, and we had more than enough levers, we think, to get to the 10.5 in an orderly manner. And it'll be throughout that period. So we won't be pushing it out to those -- those outer years. We can try to do as much as we can as soon as we can as well.

**Richard E. Wiles**
*Morgan Stanley, Research Division*

Payout ratio [indiscernible]

**Gary A. Lennon**
*Chief Financial Officer*

For next year specifically, that is certainly a possibility. And again, it's been at 80 or slightly above or below. And we're still generating capital each half. So it goes to this point about the current environment with relatively subdued growth in risk-weighted assets. It means that we can do that.

**Richard E. Wiles**
*Morgan Stanley, Research Division*

So 80% is okay with this growth in RWA?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

Yes. Can I just add just a plus-1 to our guest? On this last bit, Richard. So what we clarified last year was that the range was a guide. It was set in a very different time and it's still a guide the Board takes into account. But really, we're looking at ROE and RWA. So it's probably going to go up a bit but we still think it's manageable. Also, you started with there's a lot of moving parts here and we understand that. There's a lot of things that people need to digest and it'll take a bit of time to do that. But one thing we have said is, I know you started with next year, '18 and '19, and we do have respect for that. But also, we've got to look longer term for the company. And -- but next year, we've said apart from we expect to maintain the dividend, that we still have to grow underlying profit in dollar terms next year even with that higher expense growth with the revenue momentum we've got.

**Gary A. Lennon**
*Chief Financial Officer*

Restructure.

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

Yes, it's [ only ] in the restructure. We're still wanting to produce some good numbers, but we do have to invest to get a much stronger, better performing bank in the medium-term.

**Ross Brown**

Pass it to Victor.

**Victor German**
*Macquarie Research*

Victor German from Macquarie. I was just actually hoping to follow-up on something you just said, Andrew. So if we look at margin trends, obviously, very strong margin performance in the half. There's quite a few moving parts. In third quarter, you talked about higher margins. Are you able to maybe give us a little bit more feel for where -- for the split between third quarter and fourth quarter in terms of margin performance? Obviously, in the fourth quarter, you had the levy coming through the [ bank's ] repricing and largely done. I guess would it be fair for us to assume that kind of the fourth quarter trends should persist into next year?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

Yes, so Gary's probably better to answer that, the detail of that, but let me just start with -- I think it's been pleasing to see the margin performance and I think that's because we've been -- we've taken some actions, but we've built a discipline around it and I think we will continue. And I think the businesses we're targeting, we really believe that there's growth that can come and people that will be prepared to pay for that, right? So it's not just a price war that we want to enter. I think we're trying to build a business, particularly in the relationship part of the business where retention, margin improvement, service can really improve the whole value proposition so that we can get perhaps improving margins. But on the specific question, Gary, [ 3, 4 quarter ]?

**Gary A. Lennon**
*Chief Financial Officer*

Adding to that, then going into the detail, we've been building margin management capability for about 2 years: the price discovery tool we've been rolling out; the different structures; the impact of the product team. So we have -- it is undoubted we have far better discipline around pricing and margin management than we've ever had for this bank and it's improving and we continue to invest in that. And that's why it makes it particularly pleasing seeing this margin result that we've seen this half. It's always a fraught question about what's the outlook for margins. There so many moving pieces around it. And rightly, Victor, you said next year, we will get the full half impact of the bank levy, but we'll also get the full half impact of repricing. Discounting is still there, albeit it's moderating. Funding costs, pretty benign. So you sort of look at that tapestry and go, net-net, it's looking -- the outlook is looking relatively stable with maybe some slight headwinds.

**Victor German**
*Macquarie Research*

And in terms of sort of the quarter-on-quarter trends, are you able to give us a sense for...

**Gary A. Lennon**
*Chief Financial Officer*

It did start to, as we noted in the Q3, the trends did start to improve in Q3 and then continued into Q4.

**Victor German**
*Macquarie Research*

So fourth quarter was up on third quarter?

**Gary A. Lennon**
*Chief Financial Officer*

Well, it's hard because you've got the bank levy in there as well.

**Victor German**
*Macquarie Research*

No, but including the bank levy, would it be fair to say it's [ improving ]...

**Gary A. Lennon**
*Chief Financial Officer*

Marginally, but we had a good third quarter as well.

**Victor German**
*Macquarie Research*

And just -- sorry, on the...

**Gary A. Lennon**
*Chief Financial Officer*

Sixth question?

**Victor German**
*Macquarie Research*

No, that was first question. So it was a question on margins. The second -- it's a related question as well. But on the underlying and maybe just if you can elaborate on that revenue trajectory? Because you kind of told us what the cost numbers are going to be. And you effectively you're telling us that underlying earnings are going to be up. Clearly, good performance on revenue this half. I mean, what, I guess, gives you that confidence going into next year that you're going to get that?

**Gary A. Lennon**
*Chief Financial Officer*

And really the way we think about it is that, on an underlying basis going forward, that based on what we see today, that's what we'd be going for. We'd been looking for that type the outcome. One of the biggest swing factors as you've seen play out this half is just markets and treasury and how that plays out. That's always a variable. It was a bit off in terms of this half. It's had a great year. It does seasonally tend to do better in the first half of the year, so it will depend a bit on that. And then just other factors as how we progress next year.

**Ross Brown**

Okay, why don't we take one from Jon, and then we'll go to phones?

**Jonathan Mott**
*UBS Investment Bank, Research Division*

Jon Mott from UBS. A question on aspirational targets. They've been the curse of chief executives for many, many years. We've heard [ Asian ] revenue targets, ROE line in the sand, and now we've got a 35% aspirational cost to income target. So let's just run through that. If you've given us cost guidance for next year, and then flat for a couple more years, but even if we assume costs are flat forever, you need 30% revenue growth to get there. So how long do you think it will take to get 30% revenue growth? Or is this just another wishy-washy I'd love to get to 35%, but it will never happen aspirational target?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

No, it's a good challenge. So as we've been working through it over the last -- this half about what we're going to do with the bank and resetting it for the future, we felt that we need to go on offense, but we need to deliver some cost out. Absolutely, it's productivity and growth. There's 4 objectives, so you've referenced one, Jon. We see them as a package. We don't want to get one and not the others because you've got to keep the company in balance. So we're talking about employee engagement and service experience and the ROE and then the CTI. On the CTI piece, I think we've done a lot to get a bit more efficient, but I think we need to go up a level from where we're at the future. Look, I just think we have to be a lot harder and tougher and more disciplined and more angry around costs in a sustainable way because I think that's the environment in the future that we're going to have to be ready for. So the CTI, I mean, we could target 40% and that's not going to change the mindset or the urgency or the investment deployment we need to change this company. And so we do need a step change. So what we've said is that the CTI towards 35%, right? So we haven't said it's at by a certain time, but inside the company, and also to our shareholders, we want to say that's where we're traveling towards. We think we'll have to be materially fitter in the future to be able to fight against the sort of competitors and the environment that we're going to be facing. So it's a direction of travel. It's a mindset change. It's got no specific time frame. And so I wouldn't describe it as unattainable by any means. Obviously, we wouldn't have done it. But I think we'll need to step it up a bit, drive the automation, drive the digitization, and I think it is an achievable target over the longer term.

**Jonathan Mott**
*UBS Investment Bank, Research Division*

So just following that on, "angry around costs." I like that term. Does that mean beyond 2021, costs will most likely have to fall given this competitive environment that everyone is talking about, absolute costs down in the medium term?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

Yes. Well, look, you're going to 2021, that's a long way out. New Zealand will have won another World Cup by then -- the rugby. So there's been another Olympics. I mean, it's like, so look, what we're trying to say is we need to look 1 to 3 years out, give you confidence that we're serious about productivity -- that's the $1 billion of cost saves out and the FTE reduction. And you can see the line of travel that we want to go on CTI. Look, after that, I mean, we're just going to have to adapt -- but like, yes, so you got to just give us a little bit of time.

**Ross Brown**

We might go to the phones. I think we've got a couple of questions.

**Operator**

[Operator Instructions] Your first question comes from Frank Podrug, Merrill Lynch.

**Frank Podrug**
*BofA Merrill Lynch, Research Division*

A couple of questions from me, and just a follow-on from Jon. So embedded in that 35% cost to income aspiration, how much have you factored in revenue upside from the kind of initiative you're talking about as opposed to be it becoming a lot more angry around cost, so to say, beyond FY '20?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

I can see this angry thing hanging around.

**Gary A. Lennon**
*Chief Financial Officer*

[ I'm down with it ].

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

So yes, CFO says that's good. So, Frank, look, we're being very specific around costs over the next 3 years because I think we need to deliver and we need to produce that, so that we have the confidence and you have the confidence and then we need to look beyond that. I'll come back to the CTI. It's 1 of 4 objectives; it's a direction of travel. That's why we've said 35%. On the revenue point, this is about productivity, clearly, and growth. If you look in the [ 1-year ] plan, we've got 4 boxes in the middle. Two have got a growth orientation, and that's because we actually think the environment is somewhat conducive to that. We've got businesses that are well-placed to grow into that. So actually we think this is a growth story. We haven't said revenue numbers. We haven't put them out there. We've really focused on the cost piece and that's because we think we should deliver the cost bit and because if we put up revenue numbers, you probably wouldn't believe them. But we do see in the businesses we've got, with retention, NPS improvements, market share growth, we do see a better revenue trajectory as we go forward.

**Frank Podrug**
*BofA Merrill Lynch, Research Division*

And my second question follows on, on the topic of aspirations. So the other one you point out is to be the #1 ROE among the major banks. Do you have a view on what the sustainable long-term target is? And I'm sure if you asked the other banks, they'd have a similar aspiration too, so what do you think is the edge that helped you outperform your peers on ROE?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

So what we've said on ROE, Frank, is that we aim to be over the longer term -- as part of that long-term focus, #1. Now we've -- I think we've caught up through divestments and through good capital discipline and that's got us to the 14 and we continue to build muscle in that area. That's what gives me confidence, the discipline we've got about how we deploy capital, and the businesses that we're wanting to grow, that we've called out, particularly the Business Bank, but the others as well. So we do see opportunity there. We haven't specifically said what that number is. We've just said that, we know the #1 and it's -- the gap has narrowed a bit and that's something that we should aspire to. So these are objectives that we've thought through, that we think are achievable. They're very sensible areas that we should just continue to work on. And they've got aspiration attached, and I think that is what you want to have if you want to have a company that's the best.

**Gary A. Lennon**
*Chief Financial Officer*

Andrew, a bit of a plus there, particularly around this ROE objective. There is potential that the macro environment for us is changing, that there was a period from an ROE perspective, it was far more beneficial to have a tilt towards a mortgage bank. And it is possible that, that is shifting. And so with our Business Bank, our SME portfolio, with good momentum and continuing investment in that momentum, there is -- possibly that dynamic could change over a number of years and that's something that we're playing into as well.

**Ross Brown**

Could we take the next question on the phone, please?

**Operator**

The next question comes from Azib Khan from Morgans.

**Azib Khan**
*Morgans Financial Limited, Research Division*

You talked about the restructuring provision of $0.5 billion to $0.8 billion next year. On its own, this would result in an expense growth of between 6.5% and 10.5% next year, but at the same time you're saying total FY '18 expense growth will be between 5% and 8% would suggest that expenses excluding the provision will reduce by between 1.5% and 2.5%. How will you achieve that reduction in basically your normal operating expenses? That's the first question. And the second question on expenses is, so obviously, you're providing a 5% to 8% cost guidance range for FY '18. If it comes in at 5%, then can we expect the remaining 3% to come in over FY '19 and FY '20?

**Gary A. Lennon**
*Chief Financial Officer*

Right. So they're good questions -- I'll take the second question first because I might need help on the first question. The second question about, well, why the range and what happens with the range? The range is for a few very clear things. One, we just know the environment changes and we want to keep that flexibility. If things change, then we'll make different decisions and we'll flex -- if it's a bit tougher, we'll start to flex towards the bottom end of the range. If it's looking better and momentum is strong maybe we'll be able to invest more and flex towards the top of that range. There's always bumps in the road in terms of the timing. When the timing of some of these investments will always land and Andrew has called that out, so that timing might vary, so that is taking into account that flex and the FX as well. So that's why we went with the range. In terms of what we've said beyond that is broadly flat. Now if we landed at the bottom end of the range, say, in '18, then if we look for '19, broadly flat, might be slightly up, but not significantly up. And similarly, if we're at the top end of the range, broadly flat would mean it will be coming down slightly. Now obviously, that's just sort of directional guidance, not absolute specifics. In terms of the first question, which I think you were trying to reconcile the numbers. That's why I was getting a little confused where you were going. But there is very clear guidance on the 5% to 8% range. That excludes the restructuring. And the restructuring provision that we take, that will be a significant portion. That will be people and people-related costs. There are some others as well, but that's a significant portion, that will deliver benefits in future years. And so that's how the 2 sort of operate together.

**Ross Brown**

Okay, we'll take the final question on the phone.

**Operator**

Your next question comes from David Spotswood from Shaw and Partners Limited.

**David Spotswood**
*Shaw and Partners Limited, Research Division*

Good on you for having a go. So it's -- I can't see in these documents anywhere that you're saying that the core growth is going to be up. So maybe -- and obviously bad and doubtful debts will behave with interest rates at such a low level. So you're sort of budgeting the future cycle forecasts for profit growth in 2018, is the first question. And the second question, the takeup on the DRP that you're expecting with the discount and is that going to -- are you going to have the discount for both dividends?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

All right, Dave. So, Gary, can do the dividend one? On the first one, I mean, clearly, it's hard to see too far into the future, including next year. But assuming there's no significant asset quality deterioration or downturn in the economy, what we are saying is that whilst expenses will be up 5% to 8%, and look that's just flowing from the extra $500 million investment spend next year to get at the sustainable efficiency that's flowing through. I think we've done a good job on the $300 million this year on productivity. But we can't keep doing that without investing in the things to get it sustainably. So the 5% to 8% comes simply out of that higher investment piece. But what we are saying is that we're hopeful that we can grow underlying profit in dollar terms next year, that despite the 5% to 8%, the revenue number obviously being a lot larger. We're still hopeful that we can grow underlying profit in dollar terms in the '18 year. That's what we're saying, David. And sorry, the second one?

**Gary A. Lennon**
*Chief Financial Officer*

Yes, on the dividend point. So it's in terms of the range of what we expect from the discount and the overall DRP is getting that 15 basis points to 20, your best guess we're hoping for sort of the midpoint of that range. I don't know would that translate into others, but that gives you a sense of the takeup rate.

**Ross Brown**

Okay. We'll come back to Sydney. Andrew Lyons?

**Andrew Lyons**
*Goldman Sachs Group Inc., Research Division*

Just a question on asset quality. Your new impaireds were down significantly in the half, delinquencies were broadly flat and the performance of the retail trade book actually, through the half, appeared pretty good. You've obviously raised a collective provision for both the mortgage book and the retail trade book. Can you just talk a little bit more about that, is there anything you're seeing at the moment in the book or is it more just trying to get ahead of issues? And then just second one related -- just around WA. Delinquency is up quite a bit in that part of the book. Can you maybe talk about what you're seeing in the loss performance, both in the SME book, but also in the retail book as well?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

Yes. So in terms of retail trade and mortgages and the rationale for putting the overlay in place, and I think we've had discussions in this forum before about the differences with the first 9 -- so if first 9 is much more forward-looking and there's encouragement to be making forward-looking overlays, what we're seeing when we look forward is that there are potential stress down the track around retail trade when you think of the factors I talked out: disruption, consumer spending is lower. So it is behaving itself relatively well today. So this is somewhat preemptive. And it's a very similar scenario around mortgages, that overall the mortgage book the loss rates are still very low at [ 2 ] basis points. The mortgage book continues to perform well. But we do recognize the fact that the consumer is challenged, and the outlook for some of the consumer spending is challenged and discretionary spend, et cetera. So just looking into that outlook, we've taken the opportunity to make those preemptive overlays.

**Andrew Lyons**
*Goldman Sachs Group Inc., Research Division*

And on Western Australia just...

**Gary A. Lennon**
*Chief Financial Officer*

On Western Australia, it's -- we really see it more in the mortgage book. It's a relatively small portion. And as I note, as I went through, that the actual losses we experienced are still quite low. We view that while some of the arrears continues to tick up, underlying, we think the West Australia could be bottoming out, could be through the worst of it. But we're not seeing a hell of a lot in our other books that you'll see across asset quality, more generally. It's still looking pretty good.

**Ross Brown**

Next, Brian?

**Brian D. Johnson**
*CLSA Limited, Research Division*

Brian Johnson. Congratulations on a great result. Commiserations on the confusion that you've created. I'd just like to understand a little bit of the mess. By my count, on 4 times today, you've actually said that FY '18, if we exclude the restructuring charge, will be up -- 4 times. Can I just get you to say that a fifth time so we can confirm it?

**Gary A. Lennon**
*Chief Financial Officer*

So what we said -- we are still trying -- we are looking for underlying -- not cash earnings though because you can't control bad and doubtful debts, but an underlying level that's what we're still planning to go for.

**Brian D. Johnson**
*CLSA Limited, Research Division*

Okay. So, Gary, we know the tax rate. We know the cost guidance. So the difference is 100% either revenue or the loan loss charge.

**Gary A. Lennon**
*Chief Financial Officer*

I'm saying take out bad and doubtful debts.

**Brian D. Johnson**
*CLSA Limited, Research Division*

Okay, okay. Gary, the next one is, I'd just like to understand a bit of the mess on this. You're taking a big thumping restructuring charge upfront. We're guiding that costs will go up, but we're taking staff out over time. You've taken the redundancy costs upfront. As you take the staff out, why don't the -- why don't we actually get the expenses going down? You've taken the restructuring charge upfront. You flag most of it is sacking people. Sorry, that's a harsh way of expressing it. But every year -- no, I'm sensing that's kind of provided upfront. But why don't costs start to actually -- why are they only flat?

**Gary A. Lennon**
*Chief Financial Officer*

Yes. Because they -- the 6,000 is by 2020, and they will be progressive each year. It's not 6,000 in year 1. So if it was 6,000 in year 1, your thought process is correct, but it's 6,000 occurring over a number of years.

**Brian D. Johnson**
*CLSA Limited, Research Division*

Okay, but it's 2,000. What happens to the saving on the 2,000 people in the first year?

**Gary A. Lennon**
*Chief Financial Officer*

And that saving will flow through, and so that's why many moving pieces comment is the right one. There are efficiency gains, which we've flagged at for year 1, again, another $300 million. But offsetting that, you've got your normal inflationary uptick; you've got amortization uptick. You've got the impact of additional investment. You've got the impact of investment in [ there ]. So there's lots of things going different ways and that's when you net it all together that's why, because it was complicated, that's why we actually gave you the guidance to give you a help, to say look it's going to be around about this range because there's lots of moving pieces.

**Brian D. Johnson**
*CLSA Limited, Research Division*

And of the $500 million to $800 million restructuring, which I think today you've said is predominantly redundancy. Is there a bit of the old -- let's fiddle down the software -- the capitalized software charge -- the capitalized software balance a bit? Will there be software write-offs in there as well?

**Gary A. Lennon**
*Chief Financial Officer*

Well, we'll clearly be transparent about what's in there at the time, once we work out all the bits. The intent at the moment is that will be around about 70% people or people-related. As you did so note, there will be some sort of project management costs. There's also impacts from the product and the tick --

simplification that will flow through. So they are the sorts of things that we -- that are going to be benefits as we look forward, as distinct from anything looking back.

**Brian D. Johnson**
*CLSA Limited, Research Division*

So, Gary, is it unwise to speculate that in -- after first half '18, we should expect a little bit of gradual capitalized software write-offs that flow through the cash earnings every year? Like, as you get more digital, you look at the existing stuff, you go that's not worth as much, might as well write it off.

**Gary A. Lennon**
*Chief Financial Officer*

Now, that's something we look at as things progress -- if they're -- if we stop using certain bits of technology, yes, that will live through a write-off. What the starting point -- but I think I've said for a number of halves, which is the reality, is our amortization costs will go up. It has been going up and it will continue to go up and that's very clear. If there are things we stop using because we've migrated or switched off certain tech or migrated to digital channels, that's when we will have to look at whether there's any impairments on that.

**Ross Brown**

Andrew?

**Andrew Triggs**

It's Andrew Triggs from JPMorgan. Just a follow-up on that investment spend. Your sales in ANZ, to be fair, have been annualizing around that $1 billion mark per annum for a while now and CBA and Westpac around sort of $1.4 billion, $1.3 billion mark. So is the uptick in the spend that you're expecting a recognition that you have been underinvesting? And if that's the case, how far behind do you think you are? And which sort of areas do think need the most work?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

So, Andrew, I don't think we've been underspending in years gone by. I think we've made particular choices and so we've invested in some infrastructure and some core banking platforms and I think they'll stand the test of time. And you'll have to take a longer-term view to decide whether they were the right things or not to do. I think we've spent a lot in recent times to get a lot more digital capability and when you go through the detail in our story I think our competitiveness in the digital space has a really improved. So I think we haven't been underinvesting. I would think we've been spending what we thought was sensible. But now we've got to this point of we've done a lot in the last year to trial and experiment and pilot lots of things, and we've just watched them and now we think they're backable and we're confident we can scale them and really drive out efficiencies and simplify the bank, but we're going to have to invest to get that. We've really got -- otherwise other things will be compromised and we'll have some regrets a few years down the track. So we feel now is the time to make that step. We're confident as to know where they are. And our goal is to deliver cost savings of $1 billion in 2020 to show that.

**Gary A. Lennon**
*Chief Financial Officer*

So it's very clear, this is -- well, hopefully, it's come through very clear. This is by no means a defense -- this is an offensive strategy that we're calling out with bold goals. We're stepping into this and investing more to set this company up for the future. So it's -- you know, it's not a -- there's no way I'm going to catch up in this. It's totally offense.

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

And having said that too, I think there are some areas like -- whilst we've invested, we're probably still a bit behind in some areas against competitors. We're conscious of that and this is going to help us catch up and go beyond.

**Ross Brown**

Craig?

**Craig Anthony Williams**
*Citigroup Inc, Research Division*

Craig Williams from Citi. If you look at your collective overlay today, you've called out retail trade in mortgages, which sort of indicates a subdued outlook for consumption in the economy, which is the biggest sort of single component of Australia's GDP. So with your CTI ambitions, you sort of talked about a stronger revenue outlook and expectations there. So how do we reconcile those 2? Or are we just sort of being conservative and preemptive in terms of your collective overlay trajectory?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

I think, Gary, sort of covered this a bit before so now I'll say it in my words. I think on the first one, Craig, yes, look, we just think it's the time to be prudent and watchful and conservative, and I think we've done another 160 this half. We've done it previously -- different areas. They are not areas that have a material concern to us, but I think we're being watchful and conservative about it and we're providing. So that's the first bit. The revenue piece is I think a little disconnected in the global sense. It's just that we see pockets of the economy and big parts in the Business Bank with agri and health and education where there's real businesses doing real things growing their businesses with confidence. Now I know that's not fashionable to talk about that because everyone likes to talk about the negativity and -- but I think there's opportunities there and that's the business we're stronger in. So we do see the opportunity for selective investments to grow over the 1-, 2-, 3-, 4-, 5-year period.

**Gary A. Lennon**
*Chief Financial Officer*

Andrew, I'd add to that. It's the -- and to reconcile, Craig, to help you sort of reconcile those [ points ] because I think there is some concerns around that pocket in terms of the consumer. But business conditions have been high at 14. They're above long-run average of 5, higher since the GFC. We are starting to see and talk to customers that they're getting more active. So that is going to be where we see real opportunities for growth as that business conditions translates and it's starting to translate in a modest way to date through an uptick in credit and activity, et cetera. And particularly in some of those areas that Andrew called out, agri, health in particular and within our CRB business in the infrastructure space which presents a massive opportunity.

**Craig Anthony Williams**
*Citigroup Inc, Research Division*

And you talked about being a little bit behind in some areas in terms of your investment spend in technology. Is there a degree of sort of just biting the bullet in your investment spend projections today, including sort of the completion of things like next gen really wrapping that up?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

So I think my response to the bite-the-bullet -- bite-the-bullet sounds a little sort of cavalier. I don't think we're being that at all. I think we're being very considered and very thoughtful and very precise. I think next year if you look at the investment spend of 1.5, there's a page there where we itemize half a dozen things that we're investing in that we've got a clear line of sight to those and the benefits and efficiencies they will drive. So I think we're being really precise around those. That doesn't include core banking platform work at this point. You can go through and you can see that things that -- things like journeys and digitization, automation of processes. Those are the things we're going after and obviously digital capability particularly into the Business Bank is going to be important. So I think that's what we think we'll be going for. Now, obviously we have to be a bit flexible on that. But you can get a pretty clear rate on that, those dot points, Craig, of where we plan to point the 1.5 in '18.

**Ross Brown**

Jon?

**Jonathan Mott**
*UBS Investment Bank, Research Division*

Jon Mott from UBS. Just a quick follow-up. You talk about the great opportunities in the specialist segments of agri, health and education and a few of the others. But when you look at the Business Bank, it's only got $100 billion of business loans in there. I think you said in the past about 1/3 of that is the special segments is somewhere around $30 billion, out of a balance sheet of loans of [ 565 70 ]. So does it move the dial? Like if $30 billion can grow 5%, 10%, but you're going to grow your mortgage book in dollar terms, multiples of that, anyway. So can you center the entire bank around 5% to 6% of the balance sheet?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

Yes, no. So we're not doing that. Because the $100 billion is business lending and then you've got another $100 billion of loans actually held by SME clients. So we do think of it -- this is going back to how we think of the margin and we think of the total margin -- the total relationship revenue. We've seen lots of opportunities for consumer products for SME customers as well. And obviously, markets and treasury and FX and interest rates, there's a lot of things that we can package around the small business client, if we get it right. We do think specialization, these sort of little pockets that then start to becoming more material and our total agri portfolio is now $40 billion so it's -- and then, you start with profession -- health and education. We're extending into professional services. You've got to sort of start these things and let them grow and flourish, and then they become quite material potentially in 5 years' time, but I think you should be -- and they're profitable today. But yes, the core -- we're not neglecting, Jon, the core business book in the Business Bank. You're absolutely right. That general book that's sitting there is a really good quality book. So we're pointing at when you go to the business -- best Business Bank slide, there's a lot of -- that we reference in 1 box specialization, but we talk about all the other things, relationship bankers and we talk about empowerment and we talk about digitization. Those things are going to be really important and maybe in overall sense, more important. I acknowledge that.

**Ross Brown**

Anthony?

**Anthony Hoo**
*Deutsche Bank AG, Research Division*

Anthony Hoo at Deutsche Bank. Couple of questions. Firstly, can I ask about the -- can you give us some insight to competitive environment institutional? If I look at Slide 18, you've turned to growth in GLA this half and your margin also still went up ex markets. So just wondering, is that purely just mix? Or can you give us some insight whether there's been any change in competitive environment? And the second question, just on margin and markets. Markets income obviously went down this half, something like 16%, but impact on your margin was neutral. So looks like there was a bit of a benefit in terms of the changing mix of NII versus other interest income in markets. Just wondering can you give us a sense of that benefit and whether you expect that to revert next year? In other words, is that a headwind?

**Gary A. Lennon**
*Chief Financial Officer*

Yes. So I might sort of push into both of those. So the second one first, on the impact of markets and treasury and the downturn in that during the half. The majority of that impacts [ ROI ]. You can get volatility flowing back into NII, but as you noted for this period, that wasn't the case. So you can see it mostly through that decrease through [ ROI ]. In terms of the structure of the balance sheet growth in CIB, you are somewhat right in the proposition that it's a bit of mix impact playing out. We're continuing -- and the strategy of that business has been for a while to recycle out of lower margin, lower returning institutional business into higher returning capital finance, FI, infrastructure finance. So that's what we're seeing occurring for a number of halves and that's what occurred again this half. You can see that flowing through the margin. I think it is probably right at a modest level that there is a little bit of pricing pressure starting to come out in the institutional space as more banks are adopting a very similar strategy about -- a bank has to get a reasonable return from their institutional customers. And as us and others are getting more discerning about what business they do, that pricing is likely to change. I think that's been modestly changing to date, rather than a major factor.

**Ross Brown**

Okay, Brett. I was going to say likely last, but maybe not.

**Brett Le Mesurier**

Brett Le Mesurier from Velocity Trade. A couple of questions. Firstly, what functions do the 6,000 people currently performing that will no longer be required? And secondly, with the uptick in amortization that you're talking about, are you planning to shorten the average life of your software assets?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

Yes. So maybe I'll go first. Gary can do the second. Thanks, Brett. So we did talk about flattening the structure. I think we've got it flattened to get people closer to the customer so that will be a general management line. But as we go forward, as we invest to simplify and we simplify end-to-end process, like this customer journey work, you're going to see activities through the whole value chain, which are going to not be required. So it's going to be less transactions going through branches or things happening a lot quicker right through into operations and marketing and product development and all the way through. So I think it's going to be broadly across the board. We don't know at this point if it's going to be some here and some there. But as we do the simplification and we analyze the workflow and productivity, we're going to find we need less people to do that task, and then we will be managing attrition and maybe redundancies to get there. So I think we'll have to wait and see where it turns up, Brett, I think, but we are expecting it over time to be reasonably broad-based. So that's the first one. And on the second one?

**Gary A. Lennon**
*Chief Financial Officer*

Yes, Brett. On the capitalized software, well, that amortization type will get dictated by what we invest in. So the more that we're investing in digital type capability, that will tend to have a lower useful life -- or less of a useful life and the period will shorten up. The more you invest in long-term infrastructure, like we had been doing in the past, then that lengthens it out. So based on how we're structuring that additional $1.5 billion, I think it's tilted more towards digital customer journey type investment, which would imply it is going to shorten up. That would be my expectation.

**Ross Brown**

Okay. Brian, just one question from you.

**Brian D. Johnson**
*CLSA Limited, Research Division*

Brian Johnson from CLSA. Now, Andrew, history says execution hasn't been particularly good at NAB over the last 25 years. We also know that smart CEOs under promise, over deliver. I just really want to get a feeling on today. Is this general or have you mapped this out to the nth degree and there's a little -- is this a stretch target? Is this mapped out? I just want to get a feeling on the degree of precision that we've actually got in what you said today. Because if -- because I'm sense -- if you're smart, you're actually under promising just a little, but I don't -- that's what we really need some clarity on. Because it does -- I think he's very smart, Richard. I'll fight you to the death on that one. I like Andrew Thorburn. And by the way, Andrew, before you've completed this Australia will have won another gold medal in the Women's Rugby Sevens at the Olympics.

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

Yes, right. So, Brian, I think your point around the 25-year piece, I know that you've tracked it that long and I think that's correct, right? But I want us to come back to -- I feel over the last few years, 3 years, we've said we're going to do this, we're going to work through, we're going to transparent and we're going to deliver. And I hope that you can get confidence in that and even this last half that we're going to do that. So I'm not going to set us off on something that we can't deliver, although, there has got to be a longer-term plan here to have an aspirational stretch in the bank to make it different. Otherwise, I think we're just going to be out-flanked potentially in 3 to 5 years' time. So we've got to get ready for that so there is some stretch in it. But coming to the specifics. We have said, particularly in the cost saves of 2020, the $1 billion, greater than, there are specific numbers that we've mapped out and we know how we're going to get them. The investment, we know how we're going to apply it, particularly in '18. So the objectives themselves, the 4, they are part of our longer-term focus, right? So that's why the CTI towards 35%, we absolutely have to get that mindset. But you've got to hang your hat on things like the cost outcome in 3 years' time at more than $1 billion.

**Brian D. Johnson**
*CLSA Limited, Research Division*

[indiscernible] restructuring provision, you've got to have it quite specifically identified.

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

Yes, and that will come in the first half of 2018.

**Brian D. Johnson**
*CLSA Limited, Research Division*

So why did you [indiscernible] executive [indiscernible] on the second half of the year?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

You need a microphone.

**Brian D. Johnson**
*CLSA Limited, Research Division*

[indiscernible] ostensibly [indiscernible], but if I have a look on Page 23, it actually says in reduced incentive-based remuneration. Why [indiscernible] result? Why didn't the [indiscernible]?

**Gary A. Lennon**
*Chief Financial Officer*

Can you repeat the question?

**Andrew Gregory Thorburn**
*Former Group CEO, MD & Director*

Can you repeat the question, please, Brian?

**Gary A. Lennon**
*Chief Financial Officer*

No, can you repeat the question because you need to use the microphone.

**Andrew Gregory Thorburn**

*Former Group CEO, MD & Director*

Okay, the question from Brian is, why did we [ risk all ] which I think means reduce the pool? So I think the first thing is that today is day we're talking to our results with our people, all right? So we need some time to go through all this with our people including the incentive pool, right? So I do want the time to do that properly. But the brief answer is that, we're saying to our people, bonuses have got to be earned. They're discretionary, right? And we set a couple of goals this year that we wanted to achieve, particularly around NPS and service that we didn't quite get there. So it's been slightly reduced, but I think it's a very fair and balanced outcome for the result, for what the company produced.

**Ross Brown**
Okay. I think that's a good place to wrap it up. Thank you, everyone, and for your attendance today.