Half Year 2018 Australia and New Zealand Banking Group Ltd Earnings Presentation - Final

15,624 words
30 April 2018
CQ FD Disclosure
FNDW
English

Presentation

JILL CAMPBELL, GROUP GENERAL MANAGER OF IR, AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED: Good morning, everybody. I'm Jill Campbell, the Head of Investor Relations for ANZ. Welcome to everyone joining us in Sydney today for the presentation of ANZ's First Half 2018 Financial Results and also to anyone listening by phone and the webcast. We're live streaming today's presentation on social media through Periscope and Twitter, and you can access that feed by searching for ANZ media on Twitter.

We've launched a number of results materials earlier this morning, all of which are available on the ANZ website in the shareholder center. You can access a replay of the presentation along with the Q&A on our website this afternoon.

Our CEO, Shayne Elliott; and CFO, Michelle Jablko, will present for around 40 minutes. And after that, we'll go to Q&A. Thanks, Shayne.

SHAYNE CARY ELLIOTT, CEO & EXECUTIVE DIRECTOR, AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED: Thank you, and good morning. I know that the Royal Commission is top of mind for many of us. And so I will begin with a few remarks on it and why I think ANZ is well placed to lead the changes necessary before talking through our result.

The revelations over the past few weeks from the Royal Commission have damaged the confidence of the community in our industry. Despite the fact that the vast bulk of people in the sector behave and act honorably and ethically, it is likely that more damaging issues will be identified with more appearances over the coming weeks. While we don't know yet the specifics, it is clear to me that there will be implications for who we bank and how we operate. While confronting and challenging, this is a watershed moment for our industry and an opportunity for ANZ to lead the required changes for the benefit of all stakeholders.

The worst examples of misconduct and failings revealed to date only strengthen our resolve to build a more focused, simpler and faster bank with a stronger sense of purpose and executional excellence. The community, our customers, our shareholders and, indeed, our own people rightly expect nothing less.

We are fundamentally changing the way we do business, and we need to do more to reduce complexity and change the culture that has too often harmed customers and delayed remediation where that harm has occurred. In the past 2 years, ANZ has already been aggressively reshaping our business to compete and thrive in response to the headwinds facing the industry. These actions position us well to deal with the ramifications of the Royal Commission, building a bank that is nimble, focused on execution with a leadership team willing and able to make courageous decisions. We do have significant work to do, but I'm confident ANZ is well positioned to be worthy of the community's trust and to grow a responsible and decent business for customers and shareholders alike.

So now to our financial result. This half demonstrates solid progress. We've again delivered on our promise to simplify and improve the group by focusing on businesses, segments and customers where we can win, divesting more noncore assets, further reducing complexity of our product offering, reducing fees and interest rates for many core services, decommissioning redundant technology and significantly reducing the extent of vertical integration in our Wealth business, making significant progress on our customer and process remediation where that's needed and in reshaping our workforce so we can better respond to the changing market dynamics. We've strengthened our customer offering, managed costs well again, further increased the allocation of capital to better-performing businesses. We've strengthened our balance sheet even more and, again, improved returns and earnings per share.

Return on equity continues to improve and is up 32 basis points to 11.9%. Earnings per share rose again and is up 4% versus a year ago. Common Equity Tier 1 capital is at a sector-leading 11% with a further 85 basis points of benefit yet to come from announced asset sales. And capital management is driving real benefits for shareholders, including a reduction of almost 39 million shares this half and a CET1 already comfortably above APRA's 2020 requirement.

And finally, we're pleased to announce a fully franked dividend of $0.80 per share, and that the DRP will be fully neutralized on market.

We are now well on the path to create the least complex, most focused major bank in our region. While many of our peers still need to manage the legacy from a different time, we are increasingly ready to meet the challenges of a new and very different era.

While the environment has changed faster than anticipated, the core priorities that underpin our strategy remain as sound today as they did 2 years ago. Our priorities remain the same, and this slide should be familiar: a better allocation of capital, doing a few things for customers and doing them really well, competing and winning with a better everyday experience underpinned by digital capability and, perhaps most importantly, continuing to drive a purpose and values-led transformation.

We're conscious of the fact that we manage $59 billion of our shareholder's capital, and our job is to allocate it to the right businesses and customers. And our capital management has become increasingly dynamic. Since late 2016, we've grown and strengthened the capital base, freed up more than $6 billion of capital via divestments, announced or completed, and released a further $5 billion or so of capital through the repositioning of our Institutional business.

60% of our capital is now allocated to our Retail and Commercial businesses, up from 46% 2 years ago. And at the same time, capital in Institutional has reduced from almost 40% to around 33%. This also driven a dramatic reduction in our credit costs. Of course, the benign environment has helped, but the fact that our loss rate has reduced much faster than our peers, indicates to me a structural and sustainable improvement. The rapid rebalancing of our business has been key to improving returns, but we still have more to do.

Announcing divestments and reductions in risk-weighted assets is one thing, but executing them well is another. And a great example from this half was the separation of 6 Asian Retail and Wealth businesses. This was a significant task involving hundreds of staff, transferring 2 million customers, 40 branches, 69 systems, 2,700 employees and more than 15,000 gigabytes of data to 2 different buyers. We sent 5 million customer letters, engaged with 10 international regulators and held 700 employee training sessions to ensure a smooth handover. And we delivered all 6 transactions on schedule, under budget, and we produced a better financial outcome on sale than we originally indicated.

And we got that done while still maintaining focus on our Asian Institutional business, which despite the risk of disruption, was again named the #4 corporate bank in Asia. And we actually strengthened the quality ranking of our relationship management team to an overall #1 position across the region, notably with #1 positions held in China, Singapore, Hong Kong and Taiwan. And this is a good example of the quality of our team, our execution capability and our ability to deliver on our promises.

It's critical that our strategic decisions drive simplification and allow us to get the costs out and drive much lower operational credit and reputational risk. Simplification is everyone's business at ANZ, and the results are evident. However, we are still rich with opportunity to do more. For example, simplification and productivity are clearly the benefits from asset sales, but the hard work driving those benefits really only starts after the businesses are fully transferred to the new owners. Asia Retail has only just been finalized, and the 2 large Wealth assets only begin transfer later this year, and they each provide more opportunity to deliver a simplification dividend. And Michelle will talk through progress, but I see this is a further opportunity to deliver productivity benefits through 2019 and beyond.

Given our strong progress on releasing capital from asset sales, focus has shifted to capital efficiency within the businesses, proactively aligning capital with our focus segments, notably to owner-occupied home loans in Australia and New Zealand and to Institutional customers that value and pay for our differentiated network.

It's no secret that the key to our strategy has been the reshaping of Institutional, and that has already driven significant value. Today, Institutional consumes much less capital than before and generates a better return on that capital. There's more to do, of course, but it is roughly the right amount of capital to operate a successful and relevant business, but its proportion of the group's capital will continue to reduce over time.

Institutional Banking is a tough business, but we've a strong core and significant strengths to build from. We've decent return businesses in Australia and New Zealand and a differentiated Asian network, which is radically transforming itself and closing the gap on returns, with top-rated product capability and top-rated relationship management teams and a strong and stable leadership. We can and we will continue to focus on rebalancing Institutional, driving further capital efficiency. And importantly, there is more that we can do on cost.

In a complex world, we need to keep it simple and focused on operational excellence. Today, more of our capital, our people, technology and financial resources are focused on where we can win, but to strengthen execution and increase speed, we also need to change the way we work. So we have reshaped our Australian and technology teams to strengthen customer focus and controls and increase speed to market. Our New Ways of Working as we call it, which we announced only 1 year ago, became fully operational in the Australia Division a few weeks ago with more than 3,000 people already in new roles utilizing agile methodologies, and we have detailed plans to scale as close to 13,000 people by year-end. Now there is a cost of this transformation, but it will be largely absorbed within our normal operating cost trend.

It's early days, but we are seeing tangible benefits. And a great example is how New Ways of Working pushed out ANZ mobile banking app from the lowest rank in the Australian App Store and with a rating of just 1 out of 5 to the #1 finance app in a matter of weeks with the highest rating of 4.6 out of 5. 25,000 new users are joining our app each day, either customers transitioning from our old goMoney app or first time ANZ users. In fact, of the 937,000 new users who have signed up in the last 3 months, 737,000 moved from our old app, but 200,000 are first time users.

This new app is also a great example of how we're building a superior digital experience for customers. We were first to market with mobile banking apps in August 2010, but our traditional way of decision-making saw us underinvest time and resources in that platform, and we lost that leadership. Applying new ways of working and human-centered design principles, we've delivered a new app to market in February and now have the platform and the agility to release new features and functions monthly.

But of course, digital transformation is about more than a new app, and you don't need to go to Silicon Valley to realize that technology is disrupting our industry. We responded early by establishing and resourcing a fully-fledged digital banking function to lead the development and the delivery of a superior digital experience for our 8 million retail and business customers.

The digital of division has built the function from scratch, recruiting world-class experts in product design, customer experience and marketing to help reengineer the bank, and now we are in implementation phase. This is a complete overhaul of how we think about banking, and it means increasing the use of technology to replace manual processes, which will also improve the customer experience and reduce errors at the same time. It's about using data better to better inform and ultimately improve the customer experience in a respectful, meaningful, safe and relevant manner.

To accelerate our progress, we needed to think differently about partnering. And so in addition to our work with Apple and Google and others, we made a small investment in Australia's leading data company, Data Republic, and this allows us to better share and analyze data securely and prepare for the open banking environment. And we've also made really good progress on preparing for the launch of the New Payments Platform. The industry has spent more than $1 billion on NPP, and I believe it will be the most important initiative built by the sector in decades. It removes a significant pain point for customers, and it's a huge opportunity for a digital, customer-oriented bank with a partnering mindset like ANZ.

In the end, embracing digital and New Ways of Working is all about improving the employee, the customer and the shareholder value proposition. For our existing people and the increasing number of talented people seeking to join ANZ, it means simpler processes that are changing the work experience, making it richer and more satisfying. For our customers, our new technology is making ANZ easier, more enjoyable and more rewarding to deal with. And for our shareholders, these investments are bringing more customers to ANZ at a lower cost to serve.

Now in order for ANZ to thrive, we must change ourselves but also be an active participant in industry reform. The financial sector's reputation has been damaged, badly. Because we haven't listened, we haven't balance the needs of all stakeholders, and we've had too many failures, too many examples of misconduct, been far too slow to report and fix these failures, and we haven't always put customers' interests first. The public and confronting nature of the worst examples of failures and misconduct from the Royal Commission have sharpened ANZ's focus and our determination to make the changes necessary.

In fact, to my letter to staff in July last year, I said that I want ANZ to be known as a company that's respected for being fair and balanced in the way we think about issues and for taking actions to meet the expectations of our customers, our employees and the community. And we are making progress, but in no way do I believe that it is enough to respond to the very real ethical and cultural issues that the Royal Commission has painfully exposed. My team will do what it takes to change the way we serve our customers now and into the future. For issues already known or identified during the commission, there is no need for delay. And you should expect to see changes in this regard over the coming months, and I expect to be held to account.

So let me now turn to the outlook. As you know, the economy continues to track well. Credit conditions are benign in Australia, New Zealand and the region. The economy continues to grow, unemployment is low as is corporate leverage. Household debt has increased further but at a slowing rate. Wage growth remains low with some early indications of growth. So there is a risk to household disposable incomes as more borrowers switch from interest-only loans to P&I, but historically low interest rates and the buffers and the credit standards applied at origination indicate that this transition should be smooth. There is little on the economic horizon to suggest that the overall credit environment will deteriorate. The Royal Commission will have a significant impact, and some of that is already with us.

Credit standards are tightening, particularly for households and small business, and credit growth in the regulated sector is slowing. The role, incentives and impact of mortgage brokers and financial planners will change. Caution across the sector from head office to the branch network will change the behavior of our people, and these are changes for good, but it does mean the industry will need to adapt.

This is not the time for an incumbent mindset nor the time to continue what has worked in the past. It's time for change, and our strategy is right for these times. To build the best bank for people who want to buy and own a home or start, run and grow a small business in Australia or New Zealand or to be the best bank for Institutional clients who are in the business of moving goods and money around the region. To simplify our business, to focus on those few areas where we can win for customers, to radically reduce operating reputational and credit risk, manage costs tightly while still investing in digitalization. Relative to our peers, we're the only major that does not own a mortgage broker. Our Wealth business will be the least vertically integrated. We have more growth options, the highest allocation of home lending to owner occupiers, and we are building the best track record on cost management and taking decisive action. We were early to build a diverse senior leadership team relevant for the time, a mix of deeply experienced, hands-on bankers, plus executives from outside the industry bringing new skills in marketing, technology and more contemporary business models. We have the team, the experience, the culture and the strategy that will make the changes necessary for ANZ to reearn the trust of the community, deliver high-quality growth in the right segments, further improve the balance of our capital allocation, drive out unproductive cost and improve returns. And I'm confident that despite the difficult environment, ANZ is well positioned to thrive. I'll now pass to Michelle to talk through the results in more detail.

MICHELLE NICOLE JABLKO, CFO, AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED: Thanks, Shayne. Good morning. We've worked hard to be a better-balanced, better-capitalized and simpler bank, and our actions are driving real benefits. We're partway through our first share buybacks since 2001. We've bought back $1.1 billion worth of shares, and we've again neutralized the DRP. Earnings growth now translates directly to EPS growth. We continue to manage costs. Absolute costs are down again. This is the fourth half in a row of absolute cost reductions. Importantly, our businesses have performed well through a period of significant change. We improved continuing cash profit by 4.1% on the prior period and 1.1% half on half. We've improved the composition of revenue with less coming from one-off benefits. As well, we've continued to improve risk-adjusted returns.

We've also improved our risk profile with credit losses lower at 14 basis points. Of course, the macro environment has helped here, but the work we've done to improve our risk profile is clearly evident, a point I'll expand on later.

As you'd expect, there are some short-term impacts as we build a stronger and more sustainable bank for the longer term. Some of the revenue impacts have been more immediate with the full benefits on cost and capital still to come. Going forward, you will see more of these positive benefits.

I'll focus today on 4 key areas. First, I'll step through the impact of announced divestments and how they've shaped our first half result. This will clarify for you what we look like going forward. Second, I'll outline the decisions we've made around our balance sheet and capital. These underpin the performance of our business and provide flexibility for the future. Then, I'll cover the performance of our ongoing businesses. This will become the baseline for 2019 and beyond. I'll talk about performance for the half and also discuss the trends that we're seeing. And finally, I'll touch on IFRS 9.

The next 3 slides set out the impacts of divestments in 2018. The largest of these is a sale of our Australian Wealth businesses, which we announced towards the end of last calendar year. In accordance with accounting standards, we've classified these as discontinued operations within cash profit. This includes 2 things, a $632 million loss on sale, which we flagged at the time of the announcement, and the results of our underlying businesses we sold but continue to hold until the transactions are complete. There are also some group consolidation adjustments. You can see the net $617 million impact in the table on this slide.

There's an important element here that you will have noticed, and that is the timing differences. We recognize the loss on sale in this result, but the substantial capital benefits won't appear until a later point. $1 billion or 25 basis points in Core Equity Tier 1 capital is expected to be received upon the commencement of a reinsurance arrangement with Zurich. We expect this to be done in the coming weeks. The remaining 55 basis points will come at completion, so 80 basis points all up.

On this slide, you can see the combined impact of our other divestments. We spoke about these at the full year '17 result. What I've shown here is the current expected outcome compared to our previous expectations for this year. These are largely in line with what we took you through last year. There are some small differences that are set out on the slide, for example, because the HNA acquisition of UDC didn't proceed. Costs that were previously allocated to Asia Retail are now allocated to our continuing businesses.

The first half contribution is set out on this next slide. You can see that Asia Retail contributed $24 million in cash profit in the first half. We also recognized a net gain on sale from divestments of $138 million and received 55 basis points of capital.

Our strategy has delivered greater capital flexibility. Proof of this is that we've increased our APRA CET1 capital ratio to 11% at the same time as returning capital to shareholders. This reflects 72 basis points of organic capital generation, which is 15 basis points above our historical average. We've also had 55 basis points of divestment benefits. We've completed around $1.1 billion of the $1.5 billion buyback we announced in December. Our share count is down by 1.3%. This will further benefit average shares on issue in the second half. And for the third half in a row, we will neutralize the DRP.

The remaining $400 million will be bought back in the near term, equivalent to just under 10 basis points of capital. We will receive a further 85 basis points from divestments. So this implies a pro forma CET1 ratio of around 11.8%. This is significantly above APRA's unquestionably strong benchmark, which means we have flexibility to consider further capital management as divestment proceeds are realized.

With better capital allocation and a stronger balance sheet, we're driving improved and sustainable returns. The benefit of these decisions are already coming through with improved risk-adjusted returns and credit quality. We have a better-balanced, lower-risk portfolio, particularly in the Institutional division. Institutional risk-weighted assets are around 20% lower than they were in September 2015 and around 30% lower in international. This half, there was a small amount of growth. That's more about timing than a change in strategy. We've also restricted growth in some higher-margin but higher-risk parts of the market. These include commercial property and unsecured personal loans, so it's a better-balanced and better-quality business.

Risk-adjusted returns are central to how we think about the business. Our portfolio decisions and execution discipline have more than offset mortgage risk-weight increases, and we have again improved risk-adjusted margins. For example, we improved these in Institutional by 8 basis points and by 24 basis points in New Zealand, with a small improvement in Australia. We're putting our capital to work in a more effective way.

Margins were broadly stable in our ongoing businesses, down 1 basis point, excluding Global Markets balance sheet activities and the impact of the Asia Retail sale. The government's bank tax reduced margins by 2.4 basis points in the half. Asset margins benefited from mortgage repricing of investor and interest-only loans in 2017. However, this benefit was largely offset by portfolio mix, reflecting changing customer preferences and our tighter risk appetite. For example, interest-only mortgages were only 14% of flow for the half. This was because of customers switching and our preference to focus on owner-occupied P&I lending. We also restricted growth in segments such as commercial property and unsecured loans. These decisions have improved our risk profile but not margins.

On the liability side, the cost of funds improved in the half outside of the bank levy. Longer-term wholesale funding costs were lower. We also saw lower deposit pricing. Short-term wholesale funding costs have increased significantly over recent weeks, but this had minimal impact in the first half. The future impact depends on the base spread as well as other factors such as how long it remains elevated, how various assets and liabilities behave and on the mix of our balance sheet. Based on our current balance sheet and current spreads, the impact in the second half could be a couple of basis points. But as I've said, there are a few moving parts.

The Australia division has delivered consistent growth throughout a period of major change. Cash profit was up 9% and revenue up 5% on the prior period. NIM was up 5 basis points. Net lending assets grew 4% and deposits, 3%. We prioritized growth in owner-occupied P&I home lending. We grew above system in owner-occupied and prioritized P&I lending over interest-only. We were slightly below system overall.

A feature of the half has been completing the move to an agile way of working. We took a restructuring charge this half in cash profit of $57 million to facilitate this and some other simplification initiatives. You will see the benefits emerging in the second half.

We've also invested more in technology and digital capability, 18 more digital branches, a new mobile app, the move towards 1 retail lending system and upgrading the banker desktop in business banking. To give you a sense of the potential benefits, we're making it easier for our Retail customers to engage with us in ways that suit them. And in business banking, we've cut lending application times by 40% to 50%. These initiatives are all about improving the customer experience and underpinning future business growth. This restructuring and investment were the main reasons costs were up 8.6% on the prior period and 5.8% half on half. Australia Division expenses will be down in the second half to more normal levels.

Our focus in Institutional is to create a better, simpler platform for profitable growth and better returns. We're benefiting from actions taken over the past 2 years. As you saw earlier, we've improved risk-adjusted margins. We've also reduced costs again. And credit losses remain low. Revenue in Institutional has largely stabilized. I've focused here on half-on-half performance because of the significant risk-weight reductions over the course of 2017 and abnormal conditions in Global Markets in the first half of last year. Revenue half on half was down 1% but was actually up 1% when you exclude the bank tax. Customer revenue was up 1% with our loans, trade and cash management businesses all performing well. Loans and trade both of saw revenue up 5%, driven by balance sheet growth and more stable margins. NIM, excluding Global Markets, was down 3 basis points half on half. This was driven by the bank tax. Excluding this, margins were flat across all businesses and all geographies in Institutional, driven by lower funding costs and stronger deposit margins.

Our approach in Institutional remains disciplined. Revenue to RWA for the division improved by 5 basis points. After the big change in risk-weighted assets over the past 2 years, we're continuing our program of exiting lower-returning assets. This is balanced by an increase in better-quality, higher-returning business. This half, the pendulum swung towards more of those higher-quality assets. This is more about timing than a change in strategy. And we're not done on costs. We've shown great improvement to date with a cost down 2% half on half and 13% since the first half of '16, but there is much more to do. Our network remains a competitive advantage for us, but we are focused on significantly greater efficiency, particularly in international.

Global Markets revenue was lower this half. The 2 key drivers were lower valuation adjustments, $11 million versus $67 million last half, and the bank tax, $37 million versus $13 million. Excluding these, revenue was up 1% with franchise trading up 1% and balance sheet trading revenue up 6%. Sales revenue stabilized after a significant period of change last year and picked up towards the end of the second half -- sorry, the end of the half.

As we've said before, in allocating capital and resources, we think of this business as around a $2 billion annual revenue business. In the first half, it was a bit lower than its typical run rate due to the bank levy and market conditions, but I can tell you that it reached $1 billion by the second week of April.

The New Zealand business delivered another solid outcome. Cash profit was up 11% with revenue up 6% and expenses up 1%. We saw volume and margin improvements in both our Retail and Commercial businesses. There was a positive one-off in other income during the half of $20 million from an internal group recovery. This is in New Zealand's result but consolidated out from a group perspective. Looking forward, we've also announced the removal of ATM fees and some other fee reductions in New Zealand.

You will have picked up by now that this is the fourth half in a row of absolute cost reduction. Costs were $4.4 billion for the half. Our cost reductions were achieved while absorbing restructuring spend of $78 million, which is $52 million higher half on half. We also had external legal costs for the Royal Commission in the first half of $16 million. We expect this to be around $50 million this year.

Asia Retail legacy costs have now been reallocated to our ongoing businesses. Much of this has been allocated to Institutional. These are being dealt with as part of our group-wide productivity initiatives, and we're on track, even a little ahead of previous expectations. Outside of divestments, we reduced FTE by just over 900. More than half of this was towards the end of the second quarter, so there was little dollar benefit this half. Our ongoing businesses now have fewer than 40,000 FTEs.

Cost reductions this half included property consolidation and the benefits of last year's FTE reductions as well as a number of other efficiencies. We remain focused on absolute costs. This is about being simpler with less duplication and more streamlined processes. We will do this in a sustainable and sensible way. The benefits won't necessarily be linear as we will do what makes sense for our business, our customers and our staff. But I do want to reinforce that this is about continued reduction in the running costs of our core businesses, a must for the environment the industry faces.

Yes, we're reducing the overall expense base, but we're actually investing proportionately more in the future of our businesses. Investment spend was above the average of the last 2 halves, while our BAU costs were down, a good result. We have continued to skew more investment to our Australia Division, and we're putting less on the credit card. We've continued to reduce our capitalized software balance. It is now $1.8 billion, down 4% half on half and well down from its peak of around $3 billion in 2015. We're investing more but capitalizing less. We've also reduced the average amortization period to 3 years. Therefore, all things being equal, amortization is less of a headwind beyond FY '18.

The $312 million improvement in the provision charge was a key contributor to group profit. The total charge was $408 million for the half. As a result, the annualized group loss rate was a much improved 14 basis points, down 2 basis points half-on-half and 11 PCP. The loss rate would've been 13, excluding Asia Retail, which has now been sold. This reduced loss experience is consistent across all our ongoing businesses. New impaired assets were $963 million, which is 46% lower than the same time last year. There was a reduction in the collective provision of $22 million. This was driven by a small release of economic overlays and Asia Retail.

The improvement in credit quality comes from a combination of decisions we've made and the macro environment. I know it's really hard to distinguish between the 2 and -- between how much of this is our doing and how much is the environment. But a few data points that might be helpful. Over the past 3 years, we have sold Asia Retail, sold Esanda Dealer Finance, largely exited the higher-risk portfolios such as emerging corporate in Asia and restricted growth in commercial property and unsecured personal loans. You can see in the charts at the bottom of the slide that we've grown EAD in lower-risk portfolios and reduced exposure in those with higher loss rates. And of course, as I've said, we prioritized owner-occupied P&I home lending over investor and interest only.

Finally, some comments on IFRS 9. From 1 October, we are moving to a new accounting treatment for provision charges based on expected credit losses rather than incurred loss. Our CP balance was $2.66 billion at the end of September 2017. If we had adopted IFRS 9 at that point, the CP balance would've been between $2.9 billion to $3.2 billion, probably more likely towards the higher end. This would have increased our CP to CRWA ratio from 79 basis points under the current standard to 86 to 95 basis points under IFRS 9. We had a regulatory expected loss deduction of $719 million at the end of September, so we don't expect any material day 1 capital impact, but this will be reaffirmed at the full year.

This is a solid result with continued delivery of our change agenda. It reflects some but not all of the benefits of our decisions to create a better-balanced, better-capitalized and simpler bank. Cost and capital allocation continue to be our key focus in the near term to create a better platform for future growth. Thank you. I'll now hand back to Shayne.

SHAYNE CARY ELLIOTT: Thanks, Michelle. At our last full year result, I shared this slide with our 7 execution priorities for the year. And I think we've made clear progress on all fronts. But underpinning them all is a drive to be a simpler, better bank, a bank worthy of community's trust and a bank fit and capable of adapting quickly and appropriately to the changing times. The Royal Commission is asking serious questions about the conduct, motives and standards of the industry and the impact of getting it wrong. And while the commission has a long way to go, there is no doubt in my mind that its impacts will be a significant factor in defining the future operating environment. Until recently, I believed a Royal Commission was unnecessary. I felt that the issues would be largely known and were being addressed with the appropriate reforms being put in place. And while I only had detailed knowledge of ANZ's situation and our actions and plans to remediate, it's clear with the recent revelations that I was wrong. The sector needs to change materially. Our industry has the power to do good. But unfortunately, we have seen that we also can cause significant damage, and no one is proud of that.

I want ANZ to lead the changes required, and I will use whatever influence I have to continue to advocate for cultural reform across the industry. My commitment is that we will take quick and decisive action to fix issues and hold people to account as well as being open and transparent with our regulators. I am proud of the way that my team is engaging with the Royal Commission openly, honestly and transparently. We will not defend the indefensible.

I believe that the only way to win in a volatile, unpredictable, highly competitive and uncertain world is to recognize and embrace the need for change, surround yourself with open-minded, curious and ethical leaders and work in an adaptive and agile manner and at pace. ANZ has been early to recognize the changed operating environment and kickstart the changes required. We've acted with diligence and pace to radically transform ourselves and ensure that we're ready, willing and able to meet the challenges of our time. We are better-balanced, better-capitalized and a simpler bank than before. We have more work to do, and I believe that the difficult environment is an opportunity to drive meaningful change for the community, our customers, our people and a long-term competitive advantage for ANZ and its shareholders.

It's actually a difficult time for the industry and in many cases, for our people. And I want to thank all the good people at ANZ for their continued focus on doing the right thing and on producing good customer outcomes. Yes, we have a lot of work to do together, but they have shown that they are ready, willing and able to make the changes necessary.

Before moving to questions, on a different note, this is, of course, the final result for my deputy, Graham Hodges. Graham joined ANZ in 1991. And everybody in this room has gotten to know him pretty well over the years. He's been a key member of my team, a close adviser and our representative on so many fronts. He's deeply experienced, thoughtful and he cares deeply about the industry he has contributed to so positively over the years. And I know I speak on behalf of everybody at ANZ in publicly thanking Graham for his loyal service to us, to the group, to me, to the broader industry, and we wish him and his family the very best in his retirement. So we move over to questions.

Questions and Answers

JILL CAMPBELL: The man, the myth, the legend, Hodgey. Okay, you know -- all know the drill for Q&A. But just for old times' sake, if you wait for the microphone, let everybody know who you are, and we'll go from there. And we'll start with Andrew Lyons, please.

ANDREW LYONS, EQUITY ANALYST, GOLDMAN SACHS GROUP INC., RESEARCH DIVISION: Thanks, Jill. Andrew Lyons from Goldman. Just a question on your expense guidance that absolute cost will fall. It's been delivered upon once again in the half. Just a few questions on that. Does your expectations that absolute cost fall in FY '18 include the Royal Commission cost and the restructuring costs that you've booked in the -- or largely booked in the half? But more importantly, just in relation to FY '19, do you think absolute cost reductions can more than offset the impact of inflations such that cost growth from continuing operations will actually fall?

MICHELLE NICOLE JABLKO: Okay. So maybe I take your second one first. And I think you can see the way we've been managing our cost has more than offset inflation, so that's what -- and that's still our focus and our approach. And so that hasn't change. In terms of the first half restructuring and Royal Commission costs, yes, I think so. We haven't made decisions into the second half yet but, in terms of the first half cost, yes.

JILL CAMPBELL: We'll go to Jon.

JONATHAN MOTT, MD AND BANKING ANALYST, UBS INVESTMENT BANK, RESEARCH DIVISION: Jon Mott from UBS. You mentioned before the Royal Commission a big focus has been on the financial advisers and the mortgage brokers. With the mortgage brokers, we've seen the Royal Commission, Productivity Commission, Sedgwick, all recommend moving to a fixed fee for service, most likely paid for by the customer, which is probably going to have a pretty dramatic impact on that industry. So given that you've got 56% of your flow coming through via the broker channel, and I think just looking at quick numbers, 75% of all your mortgage flow is going into New South Wales and Victoria, so very heavy into those 2 areas. Firstly, how will these changes impact your business if we do move to a fixed fee for service for brokers paid for by the customer? And also, will you need to reinvest in proprietary distribution or other digital -- what will you need to do if the broker channel changes so dramatically?

SHAYNE CARY ELLIOTT: So I think we're a long way from knowing that, that's outcome. There's people talking about whether we move to a fixed fee for that service and whether the consumer should pay for it. What we know is consumers don't like paying for it. And I think we've also got -- there's going to be implications from a competition point of view because, today, brokers are a very relevant part of the market. They're more than 50% of the market. We're a little bit higher than that. Customers like it. Customers like the service they get from brokers. The irony would be, if we make broking more difficult, that actually would drive volume to proprietary channels. Who has the proprietary channels? The largest banks. So I think there's going to be a lot of things to weigh up before we get there, Jonathan. But your point, your broader point, I think yes, there's no doubt that the broking industry needs to reform in terms of its processes and, potentially, in terms of the incentive models. That will have an impact. It's too early to say because we don't know how the competitive reactions will be to all of that. We think it's a really important channel. We're going to -- we're working really closely with the major aggregators, in particular, to improve standards, and we're making investments there. And Fred can talk those through in a minute, about some of the things that we're doing. And we think it will remain a major channel. In terms of proprietary, we are investing in our proprietary channels. We don't think that investment is about just expanding the footprint. So it's about actually better quality in the branches. So we've launched our first home buyer coaching service, which has been -- it's early days but successful. In fact, we've rolled that out in New Zealand as well, and we certainly are looking on the digital side. I mean, I think the digital side, and maybe Maile after this, it's really too early to tell that people really want to be able to access mortgages on their mobile phone. But you're right, we'll have to shift our investment philosophy. Do you just want to quickly talk about the reforms in broking?

FRED OHLSSON, GROUP EXECUTIVE OF AUSTRALIA, AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED: A couple of things to add to that is that we're doing a lot of work with the brokers and with aggregators, and that's everything from training and development. And we are quite proud in how we are dealing into that with aggregators. A couple of more examples is that we have what we call now dashboards that we work very closely with aggregators on, where we identify trends, any behaviors that they should know of and we want to know of. And that then leads a lot of the investment we have in regards to say quality file reviews that we do with the brokers or aggregators. There's a lot of things we do with the brokers.

SHAYNE CARY ELLIOTT: The other thing -- before Maile just talk about digital, the other thing that we shouldn't forget is that we have our own proprietary mobile lending channel, which is about 10% of our flow, roughly, which is an ANZ-branded operator. So there's no kind of conflict there in terms of people know what they are getting is an ANZ product. But that -- by providing not the same but a lot of the services in terms of making it easy for customers. And I think there's a competitive advantage that we have on that channel.

FRED OHLSSON: Certainly, when it comes and flexibility, seeing you any time, any way, where you want.

SHAYNE CARY ELLIOTT: Yes. Do you just want to talk about digital thinking?

MAILE CARNEGIE, GROUP EXECUTIVE OF DIGITAL BANKING, AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED: Sure. I guess, the way we're thinking about it -- well first of all, as Shayne said, it's too early to say definitively what's going to happen. But the way we're thinking about it is, first of all, to take a more nuanced approach versus, I think a lot of people as Shayne said think, in a very kind of common way, that people go to brokers just for price, when in reality, people go to brokers for many things, including helping them navigate through the system. So I think that when we look at the digital solutions we're going to be pulling together. First of all, we're going to be separating out, what are the reasons -- why are people going to brokers? And we potentially are going to find out that maybe what we can do is put together a really slick way to help them navigate the task of getting a home loan. And it might be that they end up going to a physical channel to actually end up sealing the deal but really separating out things like investigation research versus all the way through to sale. So again, we're exploring the space, and you will see more in the near future.

JILL CAMPBELL: Thanks, Maile. Jarrod?

JARROD MARTIN, DIRECTOR AND JOINT LEAD ANALYST, CRÃ©DIT SUISSE AG, RESEARCH DIVISION: Jarrod Martin from CrÃ©dit Suisse. A couple of questions on revenue and margins. Shayne, in your media release, you do make a comment at the end of it about a constrained revenue growth environment, and obviously, you have to focus on costs. But if you could go into a bit more detail about exactly what you meant, and I assume some of that's on margin side. And then, just a couple of questions on the margin slide, the -- Michelle, you called out a couple of things at the end of the margin waterfall. Are they likely to reverse? And then just on some of the components, you focus on owner-occupier. That's likely to continue, therefore, will that type of impact be similarly in the second half, and now we're hearing that investor and interest only has significantly more competition than it did 6 months ago? So is that a further headwind in terms of margins? And then with long-term funding cost, if they stay with where they are, is that likely to offset the short-term costs that you've talked about?

SHAYNE CARY ELLIOTT: So why don't you -- you talked about margin. I'll just talk about -- so first of all, we like owner-occupied, right? And it's not -- this is not just a risk assessment. We think that's where we can provide the most help actually in terms of the kind of end-to-end service. So we like that, and we're going to continue to skew towards that. That doesn't mean we are not going to be in the investor side, but we will have a natural skew and affinity towards owner-occupiers because we think it's a better competitive position for us to be in. But Michelle talked about the -- and that comes at a cost. Absolutely, margins are lower in that business. We understand that. In terms of revenue constraints, what I'm really talking about there is -- so you're saying that there is just a slowdown in credit demand, that is true. It used to be housing system growth was kind of 6, and now it's 4, and it's probably still falling. So it is just that happening. So you've got less demand. And then at the same time, what happens in that environment, and we've talked about this before, it becomes increasingly competitive. So people are fighting over that -- it's not smaller but -- business. So I think, yes, it's going to be increasingly competitive in that. And what we're saying is competition, and if you look at the recent APRA data, it's really interesting, increasingly, it's from the non-majors. So I think none of the banks at the moment are growing -- we're pretty close to system, but the majors were all below system which means it's the smaller banks that are actually growing faster. So that's what I was talking about there in terms of the constraints. So I don't see that really changing. Royal Commission impact is real. All right, look, people are still going to want to buy and own a home, so it's not like any of this changes the fundamental demand, but it will change the process. And it probably will make it harder for people to be successful in their applications, and it probably means that banks are just going to be really just a little bit more cautious, either just psychologically or because of a little bit of fear or putting in place more process and stuff. And in that environment, they will just slow things down, I imagine. So I think we might be wrong, and that's good. But we're going to be prepared for that slower growth outlook, and that's why we're really focused on cost. Do you want to talk about the margin?

MICHELLE NICOLE JABLKO: Yes. So I think there were 2 parts to your question, Jarrod. There was what's happening to the right of the slide. If you like, I'll touch on that first and then talk about the various movements in what -- the ongoing business. There are 2 things on the right. So there's markets activity. That moves around depending on decisions we make in markets, so that will -- and it's not -- we don't really run that business for margin. That's high ROE business that has low margin. In terms of the Asia Retail exit, there's probably about the same [impact] again into the second half, but then Asia Retail's gone in terms of impact . In terms of the outlook for our ongoing businesses, I -- there are some ups -- positives and negatives. Putting aside the bill-OIS, thing that I spoke about, I think it's probably slightly more on the downside than the upside for the points you mentioned, yes.

JILL CAMPBELL: If you could hand to Victor, that would be great. Thank you.

VICTOR GERMAN, ANALYST, MACQUARIE RESEARCH: Victor German from Macquarie. Maybe 2 questions from me. One, probably simple one or really just straightforward one for Michelle, just on capital. So just if you can maybe give us a little bit of kind of the way you're thinking about capital going forward. Should we assume that as proceeds from divestments come through, you will adopt a similar methodology to CIBC and effectively do buybacks to manage the capital level? And also, if you can maybe give us a little bit of a color what's happening on the franking side and direction for dividend growth from here. And for Shayne, just if I can follow up from Jarrod's question. I mean, you're painting a pretty bearish revenue picture actually for the sector because you're talking about pressures emerging. And at the same time, earlier in your slide, you talked about a commitment to put additional capital into Australian business. How are you planning to kind of reconcile? I mean, is it purely cost story from here? Or do you see some sort of offsets on the revenue side that perhaps we're missing?

MICHELLE NICOLE JABLKO: Do you want to do that one first? Or do you want me to go?

SHAYNE CARY ELLIOTT: Okay. No, I'll do that one first if you'd like. Perhaps it's just part of our psychology, I mean, and perhaps it reflects who we are as a bank and our history. I mean, I think it's good to be bearish in terms of the outlook. I don't -- we don't come to work every day and assume the tide is rising. We come to work assuming it's going to be hard, and we don't want to have a complacent mindset and say, well, things will just always get better. So we do have that, I think, that overrides our thinking. And as I said, perhaps it's more psychological of the -- reflecting of the leadership. And so we do tend to run the bank prudently and really tightly in terms of cost. I think that's been a good thing, and I think that's actually served us well. And if there is -- if we're wrong, and housing system is higher, or there's boost in other parts of the business, I think that's a no regret decision for us. I don't believe we're underinvesting. I mean, one of the slides that Michelle was -- and one of the points she's trying to get across is while we're managing operating expenses down, we're actually increasing investment.

MICHELLE NICOLE JABLKO: And proportionately more in a smaller business if that makes sense because...

SHAYNE CARY ELLIOTT: Yes. Now, it's always hard for you to know, and I understand that to know whether we're putting it in the right places and is it enough, that's our job. I understand that. But that sort of -- that's how we look at that. In terms of the capital allocation -- so it is a bit bearish. But in terms of the capital allocation, it forces us to be really ruthless with the capital that we have. And so while it might be a little bit -- you might think it's bearish outlook on Australia, what we're saying is it's still going to grow. It's just going to grow less than we've all been used to. It's still faster growing than many parts of our portfolio, and it's still got fundamentally the highest ROE for major -- for any major business line. So it's still, at the margin, always the best thing to put our money into, provided we invest wisely, and we make sure there's a correlation between what we invest, and we're actually getting a return. And that's always -- it's not always easy to get there.

VICTOR GERMAN: Sorry. Just I mean, do you operate on the basis that Australia's going to deliver revenue growth?

SHAYNE CARY ELLIOTT: Yes.

VICTOR GERMAN: On the medium-term outlook?

SHAYNE CARY ELLIOTT: Yes, absolutely. It will deliver -- now remember, we've got us again -- part of our comments are about the sector, part about ANZ. The sector is going to slow. We're little. We have 15%, 16% market share. We look at CBA with 20 -- they're huge compared to us. So we can grow in almost any environment by eking out share. If you look over the last 5 or 6 years, that's what we've done. Now we've had -- the markets grown, and we've increased share. We're just saying we think the market's going to grow a little bit less, but we're going to continue the right share. And that's why yes, it's skewed towards owner-occupied. Yes, it's skewed towards New South Wales and Victoria. I think that's -- particularly New South Wales, which we've been underweight in New South Wales forever. And now we're closing that gap, and we've got more of a natural share here.

MICHELLE NICOLE JABLKO: Yes. So then in terms of capital and franking. Our approach to capital management is similar to what we said last time. We wait for the proceeds to come in. We don't spend money we don't have, and then our first question is how much capital do we think we need to hold, what does the regulator say we need to hold? We've worked through that. And we look -- if there's surplus, when you look at these numbers, there's clearly likely surplus. We say, is there a better use for that in our existing business that can drive a better return than returning it to shareholders? It's hard to -- and if there is, we'd rather invest in the business. It's hard to say in terms of the magnitude of capital we've got coming in, but we make those decisions as the proceeds come in. And then in terms of franking, our franking position remains tight but manageable. So based on what we see today, we think it's still manageable.

SHAYNE CARY ELLIOTT: And just on that. I know it's at a different scale, but when we sold our old head office in Queen Street, and there was about $100 million gain on sale there, I mean, again, I understand it's a different scale, and the billions of dollars of capital release. And -- but we headed -- we put half of that into the business. We said look, we do have opportunities around driving some e-statements, and there were some other product innovation and digital things we wanted to do. But it's just the scale that's completely out of whack at the moment in terms of the amount of capital we're releasing.

JILL CAMPBELL: Brian and then Richard.

BRIAN D. JOHNSON, RESEARCH ANALYST, CLSA LIMITED, RESEARCH DIVISION: Brian Johnson, CLSA. 2 questions for Michelle. Michelle, the first one is you bought $1.1 billion of stock back. And pretty aggressively just based on the market share that was done. But you've ended up buying the shares substantially above the current share price. Perversely, I would've thought it's -- bought them at 28 something. Share price is not 28 something anymore. So that's just a fact. But I'm just intrigued that this will flow through to U.S. [as well, Shayne]. The way the incentive structure works, does it disincentivize for anything apart from share buybacks? And then, I have a second question.

MICHELLE NICOLE JABLKO: So in terms of the investment in our business et cetera.

BRIAN D. JOHNSON: So you can hand back an unfranked cash dividend, which is returning capital at 1x book as opposed to buying back the head stock at 1.4x book.

SHAYNE CARY ELLIOTT: Yes. So look, our -- so if you're asking about our incentives. Our scorecard is [executive me], is it's balanced amongst a bunch of different things. The financials are less than half of the scorecard. And within those financials, there's a range of things, and I'm trying to remember off the top of my head. But the relative -- TSR is just one of many. I don't think there's a SKU that -- I can tell you, Brian, hand on my heart, I haven't sat down and sort of thought about that strategy in terms of our incentives and which is better for us. We think it's the right thing to do for shareholders.

BRIAN D. JOHNSON: So there's no exploration or any other ways of handling that.

SHAYNE CARY ELLIOTT: Absolutely there is. Absolutely there is. Every time -- I can tell you, every time that money comes in the door, we have a very, very robust conversation with our board. We explore all options from actually investing in the business to unfranked dividends to on-market buybacks, off-market, we look at everything, and we should. And we have to make the determination at the time what we think is right. And that's why we're not sitting here today saying we will always do on-market buybacks. I don't know. We'll have to -- we'll see at the time.

BRIAN D. JOHNSON: Michelle, the second one is APRA largely got rid of unquestionably strong as an issue when they came out with the 10.5%. But the other day, there was a veiled reference to unless people behave, we might apply countercyclical capital buffer. The mystery is why that wasn't applied years ago. But when we have a look at the 16.3% core equity tier 1 internationally harmonized, it seems to me that there's no adjustment there for nonstandardized home loan. In Australia, investor loans are still treated the same as everything else whereas everywhere else, they're not. Is there a risk that that 16.3% is substantially overstated to the fact that there's no adjustment in there for the investor property book, which we know when APRA does its [Basel] adjustments, that will change. These things aren't standard.

MICHELLE NICOLE JABLKO: I mean, the way I look at it is if you look at the paper APRA released on the [Basel] adjustments, yes, there will be more capital for nonowner occupied P&I lending, and our books actually skewed more the other way. The -- what APRA also is saying in that paper, we need to go through. There's a bit of devil in the detail, but they've also said if you're at 10.5 in total capital...

BRIAN D. JOHNSON: You're there.

MICHELLE NICOLE JABLKO: You're there. So I mean, we need to work through the detail on that. That's the way we look at...

BRIAN D. JOHNSON: But is the 16.3% vulnerable?

MICHELLE NICOLE JABLKO: Possibly. That's what I was going to say. It's not -- I mean, they're not -- we're not saying we've got to be top quartile, and that's the measure. It's about your total capital level.

JILL CAMPBELL: Richard?

RICHARD E. WILES, MD, MORGAN STANLEY, RESEARCH DIVISION: Richard Wiles, Morgan Stanley. I have a couple of questions. Firstly, Shayne on your overview slide, you say you're reducing interest rates for many core services. What does that actually mean? And what are you doing?

SHAYNE CARY ELLIOTT: Well, so just really quickly. We've been -- we reduced rates on some of our core credit card products. So it's really about making -- as part of our product simplification agenda, we've been radically reducing the number. We've gone from high 300s down onto the high 200s in terms of the Australian Retail business, have also been looking at the fees and charges in a lot of those and maybe simplifying them and reducing them. Are they from your -- material in our revenue line? Not probably -- not so much. I mean, they're real. They cost tens of million of dollars in us doing those, making those decisions. And the same is not just here in Australia, we've done the same thing in New Zealand.

RICHARD E. WILES: So it's just credit cards. It's not mortgages or...

SHAYNE CARY ELLIOTT: No, it's not mortgages, but we'll credit -- we price all of our products, we look at the fees and charges and the rates. But what I was referring to was more the simplification around a bunch of personal loans, cards, those things.

RICHARD E. WILES: Yes. My second question relates to Institutional revenues and particularly net interest income. In this half, net interest income was down in Australian Institutional. I assume that was largely due to the bank levy.

SHAYNE CARY ELLIOTT: Yes.

MICHELLE NICOLE JABLKO: Yes.

RICHARD E. WILES: In Asia -- or in APEA, it was up, which is the first time for a very long time that you've had a reasonable outcome in APEA Institutional revenue. Looking forward, do you think the outlook for Institutional revenue is better in your APEA business or in your Australia business?

SHAYNE CARY ELLIOTT: Do you want to answer that, Mark? I'm hoping he's going to say both, but I...

MARK WHELAN, GROUP EXECUTIVE OF INSTITUTIONAL, AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED: First time you said to say both in a while. Look, I would say that we're seeing very good opportunities in both. I'm not sure where the question came from.

SHAYNE CARY ELLIOTT: It's Richard.

MARK WHELAN: Sorry, Richard. Well, it's the first time in sometime we're seeing some really good opportunities in Asia. We've been actually -- what's been happening the last, I suppose, 2 to 3 halves is we actually have been growing. That's been overridden by the fact that we're still been exiting all that low-returning risk-weighted assets. You haven't seen the growth that's been coming through. What we saw this half is that we've slowed down a little bit on that risk-weighted asset reduction that we've seen particularly in Asia. It doesn't mean it stopped. It just meant that we haven't seen the same pace, and we've seen some really good opportunities to do some business with some core customers. Some of that was in Australian, and some of that was in Asia, particularly with our FIG customer base in Asia, just really high-returning. So where we see good opportunities to do business well above our return on equity -- well above our return on capital to get the right return on equity, we will do it. But I would expect we would still see a bias towards Australia. But it depends on where the opportunities are coming from.

SHAYNE CARY ELLIOTT: I mean, just chatting to some of Mark's team yesterday, he had the sense is that the pipeline, whether it's M&A related or just general business investment, and Asia is actually really strong with good quality names.

MICHELLE NICOLE JABLKO: And things like trade have picked up.

SHAYNE CARY ELLIOTT: True.

MARK WHELAN: I mean, if you look through some of the numbers where the mix has been, it's certainly been in segments that we've said we want to focus on. So in the fixed -- financial institution segment, in FB&A, has really been quite strong. We've seen some good opportunities in technology. Some of the FIG and tech opportunities have been out of Asia, but we have seen really good growth in our trade book which we're hoping will continue because it's been at margins that we find attractive in.

JILL CAMPBELL: Brett, and then we'll go to the phones.

BRETT LE MESURIER, SENIOR ANALYST OF BANKING AND INSURANCE, SHAW AND PARTNERS LIMITED, RESEARCH DIVISION: Brett Le Mesurier from Shaw and Partners. Just following on the asset questions. The Institutional business has 40% of the risk-weighted assets and therefore, 40% of the group's capital allocated to it. The returns in that provision seem to be falling, sorry, if you just take the cash profit divided by risk-weighted assets for the appropriate capital allocation implied by that. And within that, the APEA business has an ROE of about 7 or 6.5. And that has 15% of the group capital allocated to it. You're talking about better opportunities, but the ROE in the Institutional business has been falling and the ROE in that APEA business is not picked up either, and there is no change to the risk-weighted assets, over the last year in that APEA business. So how does that all fit? We probably -- we just heard about the improved opportunities when nothing's coming through.

SHAYNE CARY ELLIOTT: So we don't have an APEA business. We don't have an Asia Pacific, we have an Institutional business. It's a global business. So it's all about connectivity and connection. We Bank Asian customers who do business in Australia, or Australian companies who do business in Asia, et cetera. It's about the network. So slicing and dicing, just like we've had this kind of central -- we've had this conversation before just like we don't sit and talk about the Western Australian business of the Australia piece and carve it out and look at that. So it's not a particularly helpful way to slice the business. What we have is a business that's really focused on capital allocation to customers who value and pay for that network. And what we've been saying and Mark's talking about is there's been a radical -- and it is radical, quite big shift of that allocation, a, it is much lower. So the risk-weighted assets in the Institutional bank, credit risk-weighted assets peaked at 199, and they're down in kind of high 150s, 160s. And as a proportion of our book on a pro forma basis, after the bits and pieces that are sold go, it's 1/3, not 40%. So it's actually has fallen significantly as a percentage of our capital, and the returns have increased. Now unfortunately, it's like 2 steps forward, 1 step back because mostly on the cost side, because what's happened in Institutional, as we said, when we released the Asia Retail in particular, a lot of the regional and group costs that were allocated to Asia Retail have to find a home, and that home they found is Institutional because that's all that's left in that part of the world. And Mark has been -- and the good news is they've got really strong track record on cost because their costs have been coming down dramatically, and they're dealing with those stranded costs. But that's the reason that the returns are under a little bit pressure in the short term.

MICHELLE NICOLE JABLKO: I sort of look at it and say there's 3 parts to the Institutional strategy. There's some good growth when you -- when the -- and it's about being disciplined and making sure we're getting paid properly for the capital we're putting to use. Then there's continuing to exit low-returning assets, not at the same pace that we've done but continuing to do that. The timing of those 2 things might not be perfect, but that's a focus, and then it's cost. And I agree, the team have shown really, really good discipline on dealing with them, but we've got a huge amount more to do there.

JILL CAMPBELL: So we'll go to the phone, please.

OPERATOR: (Operator Instructions) Your first question comes from Frank Podrug, Merrill Lynch.

FRANK PODRUG, VP, BOFA MERRILL LYNCH, RESEARCH DIVISION: Two questions from me. The first is IOOF has called out certain contractual protections that were built into the sale contract with respect to adviser conduct. Could you confirm what exposure you retained, what protections you've had in place and what a worst-case scenario looks like? And secondly, to pick up on the discussion about cost but looking out further. Given opportunities in robotics process automation, simplification, et cetera, how radically different could the cost base look on a 5-year basis? How big is the opportunity? I appreciate you're not giving guidance, but can you, for instance, get your cost-to-income ratio into the 30s by then? I appreciate it's partly a function of revenue but care to hear your thoughts.

SHAYNE CARY ELLIOTT: Yes. I'll answer the second one, and I'll get Alexis, our Head of Wealth, to talk on the IOOF piece. It's a really good question. I'm glad you gave me 5 years. So I -- we don't think about CTI because to your point, the I has a huge influence on the outcome. What we look at is just the absolute cost of running the bank. And so what we've thought about, and again, it's not always easy, we sit and say, hey, to run the bank that we know and love, the bit that we want to keep, so this is on a pro forma basis. And let's assume that it will grow over that period of time with the market a little bit stronger. We think we can run it at the same cost today in absolute terms and actually lower. And the question is by how much lower, by using the technology that you talk about? And again, all else being equal, assuming no major changes in other areas, we think it is up to 10% lower. So run -- cost about $9 billion to run the bank today. Is it possible that you could say it would cost $8 billion? Yes, it's possible, right? It's not easy. I don't have a path. I don't have it all on a spreadsheet how you would do it, but it's not out of the question when you look at the sorts of where we spend that money today, the sorts of things we do and the high degree of manual processing that's still happening in our business, the high kind of variable cost that sits in there. It is absolutely achievable. And I think what's -- the good news about it is newer technology today, and I'm talking about even compared to 3 years ago, the technology landscape today is vastly different. And what you're talking about is things that are at lower cost. So I'm not suggesting that we have to go and spend billions of dollars to achieve that outcome either. I think they're much, much more affordable. But it is all aspirational rather than a plan. But I think, Frank, to give you -- I think that is absolutely possible. And I think -- I'm looking at Gerard and Maile and Fred and others, we've had this conversation in our exec team, and that's how we sort of think about it when we're setting our resourcing for the future. And just to talk about IOOF, we've got Alexis here.

ALEXIS ANN GEORGE, GROUP EXECUTIVE OF WEALTH AUSTRALIA, AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED: Okay. In relation to the contract, as you would expect, there are certain warranties and liabilities that anything that occurred under ANZ's watch will be addressed by ANZ. And the things raised in the Royal Commission are not particularly new to us, as Shayne mentioned earlier, so they've been provided for in the results or actually have been completed during the periods of the time. So I think there's probably not too many things that emerge from the Royal Commission that we weren't aware of in our business.

OPERATOR: Your next question comes from Andrew Triggs from JPMorgan.

ANDREW TRIGGS, RESEARCH ANALYST, JP MORGAN CHASE & CO, RESEARCH DIVISION: Shayne and Michelle, just 2 questions, please. Firstly, the net stable funding ratio averaged 115% for the half. Just your thoughts on any opportunities to restructure your funding mix given that's well above where the rest of the bank's running at around 110%. And a related question to that, how much higher do you think you need to run versus peers given the Asia tilt? That's the first question. And the second question, just to flesh out the very strong performance in New Zealand. Could you comment, please, on the NIM trends there, perhaps the outlook as well. And noticed a very -- a continued improvement in the cost-to-income ratio to around 36% this half.

SHAYNE CARY ELLIOTT: Yes. Just while -- I will get Rick to answer on NSFR. Just on the New Zealand one, you're right. Going back to Frank's question actually about the CTI. As much as we don't kind of run the bank with that in mind, New Zealand is a really good example there where I remember being on the board there for some years and thinking that the idea that you could get to 40 was aspirational. And now we've got a business over there that's well run, and it's in those mid-30s. And I think there's clearly an opportunity to continue to improve. So it can be done at scale, and so I think that gives us confidence about some of the comments I made before on cost.

MICHELLE NICOLE JABLKO: Yes. And then on margins, in New Zealand, unlike elsewhere, it's probably more asset pricing driven than liability driven. And I think if I look at the second half, you probably just have the continuation or the full year impact of those into the second half as being the big driver. They haven't seen such a big impact of short-term funding costs over there as we've seen here.

SHAYNE CARY ELLIOTT: Rick, did you want to...

RICHARD MARC MOSCATI, GROUP TREASURER, AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED: Yes, look, on NSFR, I didn't really follow the point about running a higher NSFR because of the Asia business. It's all like-for-like there, so I don't think that there's a link there. It probably does afford us a little bit of flexibility, so we have some headroom there. But otherwise, we're in a comfortable position, and we broadly expect to run at similar levels.

JILL CAMPBELL: We'll go to Brendan, please.

BRENDAN SPROULES, VP, CITIGROUP INC, RESEARCH DIVISION: It's Brendan Sproules from Citi. I just got 2 questions on mortgage serviceability. What impact do you expect your new module, where you will verify expenses? How will that impact your approvals in this coming year? And my second question is what risks do you see for the industry and I guess for ANZ itself of a customer who may have been underwritten under different standards, say, 2 or 3 years ago in the event that we do get a downturn and that they might say back to you, you shouldn't have given us the loan?

SHAYNE CARY ELLIOTT: Yes. So on the first question, I think you're referring to the changes we made in terms of our statement of financial advice. The questions we asked, we have expanded more. We actually implemented that in December last year. So we've actually -- what's interesting is despite the fact that you ask customers more and more detailed questions, the answer at the end is pretty much the same. So you still get the same outcome. And I think the reality, and I think Commissioner Haynes used the term that people are poor financial historians. And it is difficult for people to recollect, no matter how much nudging you do and reminding about this, that and the other. So we haven't seen a massive change in that. And so it hasn't really had a big impact in terms of the kinds of business that we're writing. In terms of your second question. Look, we don't know. That's obviously a very -- that's an interesting question. We think that we have been complying or we know we've been complying with our responsible lending standards. That doesn't mean that every single loan we've ever written is perfect. There will always be cases where that's not the case, but we don't believe that it's systemic or of sufficient scale that we have a problem that emerges there. What we have today, we already have people that do get themselves into hardship, and it's usually event-driven as we know. It's not usually at the time of the loan that anything was wrong or that they misled us or we didn't ask the right questions. It's usually that after that loan is written, something bad happens. People lose their jobs, their families break down, or they get sick. Those are the things that typically lead to that. And in those situations, we worked really, really closely with those customers to put them right and see them through it. And we will continue to adopt that same approach.

JILL CAMPBELL: We have -- I'll go to the phone for one more and then I'll come back to you, Anthony.

OPERATOR: This is the operator. The person that had lined up for question has actually unregistered.

JILL CAMPBELL: Okay. Anthony. Thank you.

ANTHONY HOO, RESEARCH ANALYST, DEUTSCHE BANK AG, RESEARCH DIVISION: Anthony Hoo at Deutsche Bank. Just a question. You talked earlier about capital efficiency within divisions. So look at mortgages, if we look at owner-occupier P&I versus investor interest-only, are you effectively saying that the existing price differential is basically not sufficient? And how do you reconcile that with existing conditions which seems to be very competitive?

SHAYNE CARY ELLIOTT: Yes. It's a good question. No, I'm not saying that. We're not just a ruthless machine who allocates capital to the highest return irrespective of our views on the business or our views around customers. So I don't -- that's not what I'm saying. I'm saying that we like owner-occupied. We think that actually, in the long run, there's more opportunity to add value end-to-end around the whole customer experience of buying and owning a home than there is around investors. Now these are gross generalizations. But what we find is that investor relationships are far more transactional. And so when we look at the NPV of a lifetime relationship, it's much higher with owner-occupier. And that's just still today, and we think even greater, much greater opportunity. This is something Maile and I and Fred are working a lot on, much greater opportunity to add value today. So that's why we like it. So it's not a decision based on the maths of today. It's really our assessment of where there's future opportunity for us to grow. So that's why. But your point is -- we're very conscious of the fact that, that decision has come at a cost to us. We can increase our margins and our ROE by just putting the foot down on the accelerator on investor interest-only, but we've chosen not to do that.

MICHELLE NICOLE JABLKO: And then if you look forward, there will be more differentiation in terms of capital usage.

SHAYNE CARY ELLIOTT: It's also true, yes.

JILL CAMPBELL: Go back to Brian for one last question, and then we have no more on the phone as far as I know.

BRIAN D. JOHNSON: Brian Johnson, CLSA. 2 lightning quick questions. Just on Page 27 of the result, we can still -- the number is lower, but it's still pretty chunky. The write-backs and recoveries are still about $300 million. Michelle, can you just give us a feeling about the outlook for that going forward because presumably, at some point, you run out of impaired assets to write back. And the second one is for Mark, just the New Zealand Institutional ROE, and I apologize I haven't had the time to crunch it out, but historically, there's been an outsized ROE in that business. We've just seen the Royal Commission here in Australia attract a lot of adverse publicity, and a lot of it comes down to very high ROEs. But what is the sustainability of that incredibly high ROE that you do in the New Zealand Insto ROE, which goes a long way to offsetting things like the APEA ROE, which I know doesn't exist, but which I've got a sneaking suspicion looks bloody low?

MARK WHELAN: Do you want me to take that one first?

SHAYNE CARY ELLIOTT: Yes, you can take that one.

MARK WHELAN: Yes, I'll take the first one -- in fact, the last one. Look, there's a couple of reasons why the Institutional New Zealand business ROE is as high as it is, Brian, as I think I talked to you about on the phone the other week, the mix of business that we have there is ideally the mix I'd like to see right across the division. I mean, most of the -- a large part of their revenue comes from the higher-returning product areas. So for example, in payments and cash management, pretty much in the trade business, in the financial markets business. And it's only a very small percentage, if you like, that comes through from the loan business. It's about 20% to be frank. So if you take that sort of pro forma look and apply that across the division, that's what we're trying to get to. So it's -- I think it's still a sustainable business. And you'll see it going up -- go up and down a little bit because the markets business is a higher percentage as against the other parts of the business. But it's a sustainable business. One, they've got very good market share, very good product, very good people. But also, as I said, the mix is about where I would like to see it globally for the division.

BRIAN D. JOHNSON: So that means APEA is going down.

MARK WHELAN: No, it doesn't mean APEA is going down actually because last year, we won 54 new cross-regional Transaction Banking mandates in APEA, but it's going to take some time to get it to where we would like it to be in the international business. So we're on that journey. That is going to take us a period of time because previously, as you well know, what we did there is we went very heavy on loans. So we've been pulling that back. There's still more to do, I think both on the cost side, another question came from here before. There's more to do on the cost side. There's more to do on getting some low-yielding risk-weighted assets, particularly loans, out of international and more to do with getting more Transaction Banking mandates. But we've invested heavily in a system there which we think is world-class. So it's being deployed, but it will take time to get where we want it to be. It won't get to -- by the way, the international business, it won't get to the same level as what we have in New Zealand, but it's going to get a lot closer than it is today.

SHAYNE CARY ELLIOTT: So I'll make a few comments to that really quickly while Kevin, you can answer the question about the write-backs in a sec. So the New Zealand business is a fabulous Institutional business. When you talk about the extremely high ROEs, they're not that extremely high. They're mid, low mid-teens. They're decent. They're decent return. And it's a great business. And the reason is, to Mark's point, it's got the right balance, very little balance sheet, lots of Transaction Banking more or less. And it's got a fantastic market position, with virtually half of the market cite us as one of -- as their lead bank. What's interesting is if you look at the APEA or Asia, the business outside Australia and New Zealand, just look over there. What have we got there? Well, we've got -- yes, it is lower return for 2 reasons. One was bad portfolio of the mix of business, to Mark's point, way too much lending, not enough of the other stuff, so that was one. And two, the cost of running the business is too high. And so what we've done is we are making progress on both fronts, and I think the standout success is on the capital rebalancing. That's achieving at pace. Cost is hard. It's harder. But we're also doing -- getting really good progress on that. We've got to get both of those right. But it's some reason to be -- I was saying to somebody today, one of the interesting -- you look at the Peter Lee, the Greenwich survey, we actually have a higher penetration on -- and lead bank relationships in Asia than we do in Australia. So when you go and ask large corporates in Asia who is your lead bank, 33% list ANZ. It's only 31% in Australia. So we actually have the relationships. The other thing that's interesting in the survey, so we got that, great penetration, #1 ranked RM team across the region. And third, we're last in terms of competitive pricing. So when you ask who's the most competitive priced, we're at the bottom of the list. So we're not winning there, now that's changed. It used to -- as Mark -- it used to be the other way around. We used to get the gold medal on competitive pricing and not on the RM team. And so I think that really bodes well for the future on that. Yes, so Kevin.

KEVIN PAUL CORBALLY, CHIEF RISK OFFICER, AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED: Brian, on the write-back, look, as the level of losses reduces, then obviously, the level of write-backs will also follow with it. But what we have seen is over the last couple of years, and we expect to continue for a little period, is that a consistent level of write-backs given some of the larger deals that have been written in the past that were actually coming back now.

SHAYNE CARY ELLIOTT: Thank you.

JILL CAMPBELL: Okay. I think we're done. So if there's no more questions, thanks, everybody, for coming today. And the IR team are around, obviously, this afternoon if you need any follow-up. Thank you.

SHAYNE CARY ELLIOTT: Thank you.

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