Question and Answer

Unknown Analyst

Good result across the board today, I think. To your capital position sort of 3 years ago, you see Tier 1's set above 9%. Today, it's below that. You've acknowledged that, Mike, that capital of the banks needs to go higher. Your current dividends settings don't seem to be getting things heading in the right direction in that respect. So is the message today that portfolio adjustments and asset divestments are probably a bigger part of the equation to addressing this than perhaps the market has understood? And a second question, if I could, please. It seems that sort of each year, we kick off your financial year with a weak sort of first quarter result, particularly in the markets business, and the stock price sort of tends to drift off as a result. So the first quarter calendar year, though typically seems stronger for your markets business. Is there some seasonality in your markets business, typically through this period that's worth calling out?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Okay, well, let me talk about capital issue. And I think there are 2 -- well, there are a number of points that I think are possibly misunderstood. The first is that we have been in an era of uncertain regulatory capital for 7 years now. And whilst it is quite clear that capital requirements from a regulatory perspective will generally increase, they are well -- they're well-signaled, and they're generally -- you're given 2 or 3 years to implement the changes. So the important thing here is to think about the phasing of how you build up capital. And the real issue is, what are the options open to you to actually increase your capital? And we believe that a steady buildup through DRP, and of course, DRP you can have without discount, you can have it with discount, you can fully underwrite it, there is various optionality. But it does provide us with a useful means of raising capital. So every half, we will look at a different way of doing it. The second thing, of course, is that the allocation of capital seems to be forgotten. Everybody is obsessed by the actual creation of capital. Allocation of capital is equally important. And therefore, not allocating it to businesses that we no longer think are core, and indeed selling them, does, as you say, provide an option to increase capital through the sale process. And again, that's something we will do. But when I look back over the last 7 years, I think we've got a really good track record of doing this in a considered and sensible way. We pace our growth. We've always held a buffer to any regulatory minimum. And as I say, I just don't see the benefit in holding more capital than you require. Certainly when we did that in the past, we got no premium for it. So I feel that this is the right way to do it. Do you want to add to this?

Shayne Cary Elliott
CEO & Executive Director

Yes, I'll answer the markets question. It's a good observation, Craig [ph]. I mean, I think I would say there are 4 timing issues that tend to impact our markets business, and they've probably grown over time as we have expanded our business internationally. And in no particular order, one is the impact of Chinese New Year, that has an impact on the business; Christmas; and 31st of March, balance date is still an important date and so a lot of our business, people tend to be doing hedging prior to that; and of course, the European summer slowdown. As our business is more Northern Hemisphere driven, that tends to mean the second half is a little bit more subdued than the first half. So you're right, as a general observation, and I wouldn't necessarily extrapolate this. First half tends to be stronger than the second half, and within the first half, second quarter tends to be stronger than the first quarter. But there's a lot of moving parts in there.

Jill Craig
Former Group General Manager, Investor Relations

Okay. Anymore from the floor in Melbourne? Looks like I'm handing over to you, please, Graham.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

Okay, we've got lots here. So starting with Jonathan so, the microphone's coming to you.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Can I just follow on with that from Shayne's question. One of the things that we do see with markets business, and I do understand wanting to grow that business over time given the improvement in the ROE, is the volatility. So when you think about the balancing the returns to shareholders and improved returns versus the lower multiple that these businesses should have, and it does impact the share price from quarter-to-quarter, so how do you balance those 2 out? Is it actually adding value to shareholders, not just from an ROE perspective, but a total shareholder return with the volatility and the lower multiple that generates? And also just another question, just on the risk profile. And you saw this start to come through the collective provision this half, was that you are no longer seeing any benefit on the risk profile. It's the first period in a long, long time we're seeing no benefit on the risk profile. Is this a new trend, and as you were saying, we'll start to see this collective provision start to grow with the balance sheet as we get to a stage where there's no write-backs to provide and the credit portfolio is as clean as it's going to get?

Shayne Cary Elliott
CEO & Executive Director

So first in terms of the markets question. I think that's a fair observation. So there's different types of markets businesses. And our strategy is to really grow customer flow, and it's about -- to build a more actuarial base, if you will. More customers doing more transactions where we're servicing them on a more meaningful basis, rather than a more kind of lumpy trading nature of business. And actually, I've been at ANZ almost 6 years, and the transformation that's happened in that business is profound. I mean, the business used to be heavily Australian rates and balance sheet trading driven. And today, as you saw from the stuff we put up, it's sales driven. And to your point, Jonathan, what we -- it's our responsibility to prove to you and to show and demonstrate that actually that business deserves a higher multiple because it's actually -- it's an actuarially based business, it's more predictable, it's not volatile, and it's based on real customer activity. The reality is 75% of that business is customer-driven. I think we've shown for a few years now that we can grow that pretty sustainably. Yes, there's some noise around the edges, but it is not in the nature of our business to be taking big punts and to actually have a really volatile performance in markets. Clearly, we have -- there will be time is an important thing for us to convince the market that the nature of our business deserves a bit of multiple. In terms of the risk portfolio, I don't think there's been a change [indiscernible]...

Michael Roger Pearson Smith
Former Non-Executive Advisor

If I could ask Andrew just to make a few comments. Perhaps on the use of VaR as well.

Andrew Géczy
Former Chief Executive Officer of International and Institutional Banking

So a couple of comments there. One is I'd echo what Shayne was saying, that our type of markets business is really driven by customer flows. And so when we look at how we measure our success, it's a lot around how much customer activity we have. And as he said, more than 3/4 of our markets business, which is a growing business, is coming from customer flows. The second point I would note would be, over the period of time, the second part of Shayne's comment, is that our markets business today in Southeast Asia, just that one portion of our markets business, is as big as our New Zealand business. Our New Zealand business, our market share, if you look at some people who compute the market shares, it's more than 1/3 of the FX market if we just stay with foreign exchange for a moment. We have less than 2% of the foreign exchange market in Asia today. So our opportunity to continue to grow the business, based upon acquiring more customers and doing more business with them, there's a substantial opportunity for us going forward to continue what's been happening already over the last 6, 7 years. I think the last point, which I'd emphasize would be Mike's point, which is the utilization of VaR. And what we've seen in our bank is the utilization of VaR has continued to very, very low relative to our peer group. And we've been able to do that because we're doing it off our customer business.

Michael Roger Pearson Smith
Former Non-Executive Advisor

So on to the collective provision, I don't think it's right to say that there is no more benefit from write-backs through the cycle. We always expect some write-backs through it. In terms of collective provision, though, I think we are at a more stable level. So I wouldn't expect to see too many benefits from here in terms of reduced collective provision numbers.

Jill Craig
Former Group General Manager, Investor Relations

Okay. Graham?

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

Yes, sorry.

Michael Wiblin
Macquarie Research

Mike Wiblin from Macquarie. My question really, I think, is for Andrew as well. Andrew, I noticed that EMEA was up 167%. I know it's off a small base, but can you just talk a little bit about what you're doing there, how many people you're hiring? And also how that fits into the Super Regional as opposed to a super global strategy?

Andrew Géczy
Former Chief Executive Officer of International and Institutional Banking

Well, it's a good question. The simple fact with our EMEA's portion in Europe and America is to really concentrate our effort on those customers who have a large financial services volume [ph] in Asia Pacific. And if anything we've been doing over the last 6 months is to double our efforts to concentrate on those customers that have an Asia Pacific -- and a need for an Asia Pacific bank. And we've been doing a pretty good job of focusing on that. The second part is, of course, when we look at investor flows and servicing those investors that are coming to Asia Pacific, we are working to continue to service those sets of customers around the funds investments that are coming into Asia today.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

In terms of investment level in EMEA?

Andrew Géczy
Former Chief Executive Officer of International and Institutional Banking

As you know, as it relates to our level of investment, our investment continues to be normal. I wouldn't say there's an extra amount of investment that we've been putting in Europe and America. We have had an investment in our ability to continue to transact with our customers, particularly around our markets business and our transaction banking capability around trade. But I wouldn't call the investment a substantial investment.

Michael Roger Pearson Smith
Former Non-Executive Advisor

We did open a branch in Paris, which really is purely for coverage of French multinationals who are doing business in this region. So...

Jill Craig
Former Group General Manager, Investor Relations

Next question. Thanks, Graham.

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. A couple of follow-up questions on capital. Acknowledge that you said you feel that you've got appropriate level of capital at this point in time, and I don't I've ever heard a CEO say anything different. To what extent are you comfortable that versus your peer group, that you may look 50 to 60 basis points light on capital? And to what extent is that in the best interest of shareholders if it does actually create a further discount in your share price? And then the second question, just on payout ratio and sustainability of payout ratio going forward, where -- I suppose ranking in the things that you're trying to do in the business from a rebalancing asset sales, where does payout ratio rank in terms of doing something to improve the capital position?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, to answer the second part first. I mean, the payout ratio is, by global standards, still very high, and therefore there is always an opportunity to adjust that. Right now, we don't see that we need to do that. We feel comfortable with where the range is between 65% and 70%. And whilst that is a little lower than our domestic competitors, we feel it's an appropriate range, and I'm not too worried by that. Look, in terms of where we are in -- with other -- with our peer group, this is not about a race between the 4 banks as to who's got the biggest capital. It's a question of we are told the amount of capital we have to hold for regulatory reasons, and we hold a buffer above that level. I think to hold more than that, frankly, we should be rewarded for the -- for actually maintaining the appropriate amount of capital, rather than being rewarded for holding excess. So that would be my view on that. But anyway, Shayne you...

Shayne Cary Elliott
CEO & Executive Director

No, I just agree with that. I don't think -- it is about pacing. There may be times -- Jarrod, you're quite right where on the face where we might have a 50 point lower than some of our peer group, but that -- through the cycle and over time that's clearly not the intention. We'll meet the right capital requirements that are imposed upon us and that, we think, are appropriate. As I mentioned, it's really about the flexibility and the choices that we have. And as I said, Esanda alone, when that goes through, there's 20 points. There are other things that we've looked at that are well understood that would have even a more material impact on our capital levels going forward.

Michael Roger Pearson Smith
Former Non-Executive Advisor

And I think it's important to understand that we've never been -- we've never had a situation where our regulators have sort of told us we've had inadequate capital. We have managed this very carefully over 7 years. We've got a good track record at it, and we will continue to do so.

Jill Craig
Former Group General Manager, Investor Relations

It looks like Victor, thank you.

Victor German
Commonwealth Bank of Australia, Research Division

Victor German from CB Equities. I was going to ask a question on Institutional business, so in 2 parts. Firstly, on Australia, it looks like there's ongoing margin pressure in that business, as you've highlighted, operating income is down 3% and volume growth is up 8%. And are you able to comment on the front book what sort of ROEs you're getting on the front book in that business? And also in Asia, sort of the high-level metrics actually look reasonably good. We're seeing quantitative easing in that market. There's lots of liquidity as you highlighted. Just if you can comment on the outlook on margins in that space, and I think, Mike, you've mentioned the trade finance is only 3% of your business, which is not a material number. But it does have a flow-on impact on other parts of the business like markets business. So what does all that sort of liquidity mean for that business over the next 12 to 18 months?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Okay. Well, I'll get Andrew to talk in a bit more detail. But on that, I mean the trade business is -- it is reduced in value. But in terms of volume, it's still actually growing, and that's really the result of lower commodity prices on that. So it remains important. And of course, as you say, the exchange that comes off that, the foreign exchange business is very important, too. Do you want to, Andrew, just talk more about the margin compression and what you're doing about that?

Andrew Géczy
Former Chief Executive Officer of International and Institutional Banking

Sure. I think Shayne and Mike commented on this, is that of course we feel through the effects of quantitative easing around the world and what's happening that the amount of liquidity that our customers are attracting from banks is quite high. So as a result, there is margin compression, and that is felt strongest here in Australia, partially because of the attractiveness of Australia to the investor community around the world. It is also having an impact on trade margins. So that the amount that we make off our trade business is staying flattish, because we're basically making up for that decrease in margin by financing the additional volumes that are out there and taking some market share. But I would direct your attention as you look at APEA in particular around what we're doing around fixing the mix, and that's around going to the higher ROE products, which we look at and Mike has mentioned, which is our markets business, our cash business, our debt capital markets activity. So as we shift our focus from being a lending bank, which is providing trade finance and providing straight loans, we're trying to fix the mix of relationship banking that we do, so that we're more concentrating on those higher ROE products, which is driving the productivity improvements which you see today.

Shayne Cary Elliott
CEO & Executive Director

And I would like to state a couple of points on that, Andrew, if I may. So again, 6 years -- when I started here, 6 years ago, Institutional lending in Australia the general rule of thumb was you can make a loan at a high-quality name and you would get an ROE, a double-digit ROE, and cross sell was cream and that was nice and you can get it up into the high teens. And the reality is fundamental -- I mean, it's massively changed. Today just standalone, high-quality lending in Australia with no cross-sell, the ROE is single digit, it's mid-single-digit and you require cross-sell in order to get a decent relationship return. And that means that the business and us have to work harder at deepening those relationships. And what we need to do is compete where we can win. And just putting out dumb money to customers is not where you're going to win. You have to win on what's different. And what's different is our Asia network and being able to bring [ph] the whole relationship and network benefits to our customers. So yes, we will be doing loans that on -- they're standalone, a low ROE, but we generate the return by extending that relationship into Asia, by doing foreign exchange, by doing cash management. You'll also notice in the results that you see in Australia there's been an increase in cost around transaction banking, and that's because of the investments we're making in getting a better platform to service our customers. The other thing I would note is in terms of margins, we haven't changed our risk appetite in Australia. It would be actually if you look at our -- the discipline we've shown around commercial property, when we've had that in place now for some time, it would have been very easy for us to have expanded our commercial property book in Australia, which would have boosted average NIMs and kind of hidden some of the margin compression. But we made a risk decision not to be able to do that. And then finally, the last point on trade, and Mike mentioned it. Even with those commodity pressures today, the trade business today is essentially a 10% ROE business. And that is -- that's a decent, healthy return in the sense that it's a lead product that absolutely we know leads to cross sell. And we went through that, I think, a year ago, we did some case studies that show we know that when we said -- when we offer trade, we do get the foreign exchange, and we do get cash management that boosts that return well into the teens.

Jill Craig

Former Group General Manager, Investor Relations

Thank you. Richard?

Richard E. Wiles
Morgan Stanley, Research Division

It's Richard Wiles from Morgan Stanley. I just wanted to ask about the Asian partnerships given your comments on optionality and also your comments on the criteria for owning assets. You mentioned that assets need to meet financial hurdles. Is it reasonable to assume that all the Asian partnerships are for sale given that they don't meet that criteria on ROE? And specifically, on AmBank, do you still see a path to control? On Panin in Indonesia, do you think a path to control's unlikely given the regulator's stance in that country? And finally, in China, does the appeal of having exposure to long-term Chinese growth mean that you might view the Chinese partnerships differently from the Malaysian and Indonesian partnerships?

Shayne Cary Elliott
CEO & Executive Director

I'll just start. So first of all, the ROE on that portfolio today is accretive to shareholders. It's above our cost of equity, so as a portfolio, it's low-double digits, so we are generating value for shareholders. In fact, if you look at the -- most of them are above the -- our cost of equity. And then of course, secondly, there is an embedded value in those stakes, in terms of the market value of those stakes on any measure is well in excess of what it sits on our books at. So the returns for shareholders has been very real. I mean, you're quite right that it is a drag in terms of the group average, it's not at the group average, but it is absolutely generating shareholder returns.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes. And as we've said before, Richard, these assets are constantly being looked at as to how we can generate better return from them. And that is either by moving to full control or indeed looking to dispose of them. Unless there is a regulatory reason why we can't do either or it or it makes sense to stay where we are, which is probably the case in Malaysia. However, we are considering our options. As I say, some of the exit strategies from these investments have not been easy. It took us a long time to get the 2 sold from Vietnam, but we managed to do it in the end. And we'll gradually take them off.

Jill Craig
Former Group General Manager, Investor Relations

Andrew [ph]?

Unknown Analyst

Firstly just a follow-up question on the trade book. Given that book is fairly short-term in tenor, do you think about commodity price drag is largely in the base now, or is there a little bit more to come in the second half? And then second question on the Corporate & Commercial Banking business, a slightly soft result there in the half, with flat revenue. Just some insight into what's going on in that business, please, and market growth?

Shayne Cary Elliott
CEO & Executive Director

So in terms of the commodity, yes. Given the short nature of that book and given the fact that the commodity price changes have been with us for some time, it's largely baked into the base, to your point. Probably Mark can mention in terms of the Corporate and Commercial business drivers.

Mark Whelan
Group Executive of Institutional

Yes, just with the Corporate and Commercial business, there's a number of elements to it. I think the -- if you look at the Small Business Banking business, that's growing strongly, and the revenue in that business, both in FUM and revenue, have improved over the half. We expect that to continue. With regards to corporate, it's got a little bit of the same elements that we're seeing in the institutional business. We're getting FUM growth there, but the margin contraction is most prevalent at that part of our book. When you look at the BB and regional Business Banking businesses, good FUM growth, particularly in RBB, margins down a little bit being, again, we've been offsetting that in the lending book with deposit margin. What you'll also -- so down a little bit in corporate. And you'll see also with the Esanda business, we've taken a deliberate strategy there to -- we're seeing lower growth in that year on -- or half-on-half. That's been a deliberate strategy as the OEM has come back -- OEM part of the market has come back in and driven margins down. We've walked away from what we've seen as low ROE business. And we've also chosen not to play in a particular part of the market, which we thought was higher risk. So there's been some adjustments across it, but underlying the business still looks fundamentally very strong, particularly when you strip out some of the negative drag that we've had from Esanda.

Jill Craig
Former Group General Manager, Investor Relations

Brian?

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson from CLSA. I had 3 simple questions. The first one is when I look at Page 44 of the result, it tells me that the actual investment spend that was actually expensed was down, which doesn't marry with the commentary that we've heard today. I'd like to understand the difference between that and what you're saying, also to understand how much of that was discretionary. The second question is that when you have a look at the Westpac result yesterday, they spoke about the structural pressures on the markets business going forward because of the way the Basel III liquidity reform works. I'd just be interested if we strip out CVA, FVA and any number of derivative rubbish accounting, what is -- do you guys face the same structural headwind? And then the other question that I had was -- and I can't find the disclosure here, because I think it's full year disclosure, but when I have a look at the balance sheet contingencies, particularly the performance contingent liabilities, to say ANZ's are massive is an understatement. We've seen commodity prices fall. ANZ has got a pretty ordinary track record, if you go back to the credit intermediation trades, the fall over that we saw in corporate loans in 2009. I'd just like some comfort -- well, that's just the fact, Shayne -- I'd just like some comfort that we shouldn't be worrying about these massive contingent liabilities that are sitting off balance sheet at the moment and some comfort that you've actually reviewed them in detail before this result.

Shayne Cary Elliott
CEO & Executive Director

Sure. So we'll get Nigel to comment on that contingents, because obviously it's the nature of our business. In terms of the investment spend. So fair point, 2 issues. So the investment spend you're talking about in the result is really referring to our kind of project investment spend, so that's things like digital or Transactive or the core banking system in Asia, et cetera, so that is down. And that is down for no other reason than a lot of those programs are coming to the end of their natural life and don't need to be -- we don't need to maintain the same level of spend. And then of course, it's also fair to say that the businesses -- that is a level we have. We have to actually spend as we can afford, and in the lower growth environment we've toned that down a little bit. But there's no -- there's nothing irresponsible happening there, if you will, in terms of trying to stop proper investment. So that's what that is. When I talk about investment in my slides, I was actually talking more about OpEx. So the $63 million I talked about, that was just -- that's salaries, wages, better marketing, and it will be some branch openings, et cetera. So that's more kind of OpEx investment than it is CapEx. Can't really comment, I mean, on the Westpac, no -- I mean, we disclosed in the slides there that the impact of the various valuation adjustments. It's pretty small in the scheme of things of things. Yes, it does swing around, and we'll have to get used to that. It's been plus or minus $30 million, $40 million as we have seen, that will be the nature of it going forward. But in terms of our core business, as I mentioned, I think that's really strong, and then the core business is sales driven. That's what growing the business there. It's not about liquidity management and treasury and trading and all those other things. Those things I don't see any structural shift, as you refer to, on that side. And then perhaps, Nigel, you want to talk about that contingent liabilities and why we [indiscernible]...

Nigel Henry Murray Williams
Former Chief Risk Officer

Good question, Brian, on the performance guarantees and financial guarantees. If you actually break it down, half of those reside in Australia. And of the portfolio, I think 40% relate to natural resources, some of which are project. If you think about the nature of some of these projects, the people involved in them either in off-take agreements or funding, often the financial institutions concerned will not -- their guarantees will not be accepted in a jurisdiction. So that's a natural business for us to actually provide that guarantee, backed by another financial institution. So the underlying is not quite as you would expect in terms of the underlying natural resources. The balance of that sits internationally, 1/3 of it sits in Europe and Americas and relates to the multinational businesses there. So the underlying credit of those portfolios, the majority of it, is either high-grade financial institutions -- it's backed by financial institutions, or it's actually from multinationals. So quite in line with what the Super Regional strategy is.

Jill Craig
Former Group General Manager, Investor Relations

Thanks. Any more on the floor in Sydney? Sorry, Scott. Thank you....

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

We got a couple still to come, Jill.

Jill Craig
Former Group General Manager, Investor Relations

Yes. Thanks. Scott?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

It's Scott Manning from JPMorgan. Just in terms of the reallocation -- 2 questions. Just in terms of the reallocation of capital to higher-return businesses and also many meeting the needs of high capital requirements through potential disposals of partnerships, can you just share some thoughts in terms of how you're thinking about the target of a proportion of earnings from the Asian business and whether you think there's sufficient growth organically to plug the gap of the lost earnings from those partnerships sales potentially?

Shayne Cary Elliott
CEO & Executive Director

Yes, I mean, so clearly, we've got a target of having the business in Asia, or APEA if you will, around a quarter of the group. That's not a hard and fast rule. It's not a minimum, it's not a maximum, but it's kind of a guiding principle. We think that's about right in terms of the balance of businesses going forward. Naturally growth, given that's a faster growing business that at home, you'd expect that, that will tick up over a period of time. You're right that if we were to sell partnerships, there's a drag in terms of earnings. We accept that. And so it would be our responsibility over time to replace it. I think what we're not going to do is do something silly or take risk or kind of put the foot on the accelerator just to replace it. We would sell those partnerships because it was the right thing to do for shareholders, and over time, we're confident that the Asia business would naturally replace that organically.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes. But, Andrew, you'd like to add a little bit of the flavor on that?

Andrew Géczy

Former Chief Executive Officer of International and Institutional Banking

Certainly. I mean, I certainly take the point that if we make a disposal that it will have an impact upon our Asia Pacific earnings. That's -- it will be a mathematical fact. The reality, though, of our market share dynamics that we share today, as I talked about earlier with respect to foreign exchange alone, shows you the upside potential that we still have with inside our Asia Pacific franchise. And if you think that our cash business and our Transactive cash management business is only now really starting to see the benefits of the investments that we've been making over time, we're only now starting to connect lots of customers into our cash platform. And then finally, if you look at what's happening in the debt capital markets world and the amount of fundraising that's happening at debt capital markets and the building of our loan syndication in our Capital Markets business, we've been continuing to grow that business each year, year-on-year. And those 3 products represent higher return on equity products, and this is around fixing the mix. And there, we have opportunities to grow across Asia to allow us to fill that gap, should we, at one day, dispose of one of our partnership interests.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Can we talk, Andrew, about our new Head of Cash Management and...

Andrew Géczy
Former Chief Executive Officer of International and Institutional Banking

Great question -- great comment. So we are very fortunate, joining us in literally under 2 weeks' time is Carole Berndt. Carole Berndt will be our Global Head of Transaction Banking. She's joining us where she was the Global Head of Transaction Banking for Royal Bank of Scotland in London. Obviously, is someone with a broad depth of experience, not just in Transaction Banking but here in the region where she worked for a number of financial institutions, a couple of financial institutions in Hong Kong and here in Australia. Actually a British person by birth, but immigrated here when she was 7 into Australia, so has a reason to be in the region and will be based in Hong Kong helping to drive our Transaction Banking business in Asia Pacific.

Jill Craig
Former Group General Manager, Investor Relations

Sorry, Scott. I've lost you. We didn't hear the beginning. Sorry. Can you go again?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

The follow-on, second part of the question is, if you are comfortable with that organic buildout, maybe the occasional inorganic tuck-in that you've done previously, does that put your mind away from a big bang deal, something like a Standard Chartered for example, which would quite significantly lift the proportion that may be too big to execute or quite challenging from a regulatory point of view, cross-border?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Look, the strategy is based on an organic buildout, and any acquisition has to be opportunistic by its nature. So we will concentrate on that organic build.

Jill Craig
Former Group General Manager, Investor Relations

I think we've got one more, am I right, Graham? Thank you.

Brett Le Mesurier
Asia Pacific Prudential Securities Pty Ltd., Research Division

Brett Le Mesurier from BBY. You talked about the growth in the APEA business, but when I look at the geographic numbers, it shows that the profit was down from the March '14 half to the March '15 half.

It also shows risk-weighted assets fell and there was hardly any growth in loans and average loans. So could you marry the comments of growth in that business with the numbers I'm looking at? And secondly, you've talked about rebasing the business or changing the ROE characteristics of it. The ROE in the IIB Asia business, excluding partnership, still seems to be less than 10%. Can you comment on what you think you can get that to, and how long it will take to achieve your objective?

Shayne Cary Elliott
CEO & Executive Director

So I actually find the geographic review that we provide completely unhelpful, so it doesn't actually reflect anything. The right thing to look at is the IIB business and the APEA disclosures in there. That's the business. What the geography has, has lots of stuff in there like the fact that we run our hubs, which it is a reasonably large expense in relation of people sitting in Asia, so it's not a terribly useful split of the world. Focus on the IIB disclosures on that one, and you'll see there that there is absolutely being the growth in the APEA region that we talked about. Secondly, in terms of IIB Asia. You're right, that the partnerships are a boost to the average return in IIB Asia, that's true. Because obviously, we get a -- we essentially -- equity cannot [indiscernible] earnings essentially with no -- there was obviously an equity cost, but no other cost associated with it. And the fact that our business in Asia is still growing and maturing. The reality is, and we've talked about it before, our business in Asia, excluding partnerships, we think the through-the-cycle targeted net is around -- call it 13-ish percent, or which is more than our cost -- comfortably more than our cost of equity. There will be times when it's higher than that, depending on where we are in the cycle. There'll be times that it's lower, but our aim is to have it consistently above our cost of equity, averaging 13-ish, 14%. And we know -- and again, we can talk about it later, but we know that's achievable because we know that we have the business that looks like that today. But the reality is we want to continue to grow and invest in it, and so that provides a little bit of drag. And we also know that when we look at our competitors, despite some of the pressures they're under, we know that the Citis, HSBCs, Standard Chartereds, the DBSs of the world, when we look at businesses in the field we want to be in, trade, capital markets, cash management, et cetera, that's the kind of returns that are achievable.

Jill Craig
Former Group General Manager, Investor Relations

Sorry. Brett, we just lost the beginning of that question.

Brett Le Mesurier
Asia Pacific Prudential Securities Pty Ltd., Research Division

You said that the geographic breakout wasn't helpful, but when I look at the IIB Asia disclosure on Slide 30, the increase in return on risk-weighted assets for IIB is the same as the increase in profit for the first half '14 to first half '15, which implies there's no increase in risk-weighted assets.

Shayne Cary Elliott
CEO & Executive Director

That's right. I mean, that's good, isn't it? I mean that means we're making more money on the same risk-weighted assets, I thought that was a good thing. Essentially, you're right. I mean, what we don't want to do is just throw our balance sheet and spread our balance sheet around. And Andrew and the team are very much focused on driving capital efficiency. Now in reality, it's not quite as simple as that. Clearly, we will have growing parts of the balance sheet, and we will have been -- we will have shrunk it elsewhere to try to get that balance right. I mean, that's exactly what the team there is focused on doing and would expect to see more of that.

Brett Le Mesurier
Asia Pacific Prudential Securities Pty Ltd., Research Division

My comment was really that the disclosure for IIB Asia is consistent with the geographic disclosure.

Shayne Cary Elliott

CEO & Executive Director

Okay.

Jill Craig
Former Group General Manager, Investor Relations

Any last questions from the floor up there, Graham?

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

I think we've got one more from Brian, or maybe 3, because he always does them in a bunch.

Brian D. Johnson
CLSA Limited, Research Division

Mike, just in your CEO overview, you actually talk about the 16% ROE, but you say driven by improving returns in Asia Pacific, but also driving greater capital efficiency and productivity across the group. Is that what -- that reference to driving greater capital efficiency, is that talking about the standard divestment or is it talking about lowering -- optimizing risk-weighted assets? What's it actually referring to?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, it's all of those, Brian. I mean, it's basically getting the business mix right. It's reducing dependence on the balance sheet and the capital-intensive products, so that's important. It is looking to divest in lower-returning businesses that are not core. So it's a little bit of everything there.

Shayne Cary Elliott
CEO & Executive Director

But essentially, Brian, it's about -- to Mike's point, it's about that business mix. It's about putting more capital to work in the higher-return businesses and taking away capital or reducing our capital exposure to the lower return. It's not about -- I don't want you to think it's about playing around with models or risk weightings or stuff like that. It's not that. It's absolutely about strategically repositioning the business in a more -- but -- and changing the balance of the mix. Some of that's to do with disposals, but some of that's just everyday, old-fashioned, making sure we get a return on capital we deploy.

Michael Roger Pearson Smith
Former Non-Executive Advisor

It's effectively about allocation, Brian. It's going back to that comment I made earlier, I think we tend to focus on where we're actually going to source capital. But actually, the management -- the allocation of capital is very, very critical here. I mean, it's the old saying, you feed the fat and you starve the thin, and it sounds a bit cruel but...

Jill Craig
Former Group General Manager, Investor Relations

On the face of it, it seems unfair.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

I think we're done here in Sydney, Jill. We're done here in Sydney, Jill.

Jill Craig
Former Group General Manager, Investor Relations

Thank you, Graham. I don't believe we have any calls on the telephone. And so unless there are any last questions from the floor here in Melbourne, which it doesn't appear that there are, I think at that point, we'll say thank you very much. The Investor Relations team will obviously be here throughout the afternoon if you have questions. And thank you for coming today.

Shayne Cary Elliott
CEO & Executive Director
Thank you.