Question and Answer

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Two very quick questions. Firstly, Australia had a very good margin outcome the second half, up 5 basis points. I just wanted to get a bit of a feel for it; 2.53%, also a very good number for a margin. The second one was on Asia. If you look at the geographical profit, down 20% in the second half. Now I know there's some seasonality in there, so conscious of that. But did you meet the cost of capital for your Asian business in the second half? Or do you really need that strong markets revenue in the first half to get that cost of capital?

Shayne Cary Elliott
CEO & Executive Director

Okay. So the -- maybe Phil can answer a little bit more with color on the margin, but the margin outcome in Australia is a lot -- was actually a lot to do with also really good performance on the deposit side of the business, so -- I don't know if there's really much more to add on that, Phil. I think it's essentially -- what we saw in the first half -- actually, this is true across the bank. First half NIM -- and there's a slide in the pack there somewhere -- was very much driven by asset competition, and that level of competition actually had very similar NPAT in the second half. But the second half had the benefit of a pretty significant offset, almost 100% offset from funding cost and better deposit pricing coming through. In terms of the geographic half-on-half, there's really 3 things that drive that. One was just FX impact. There was about $21 million FX impact between the 2. Two, the first half had the benefit of some legacy write-backs from the RBS acquisition, so $40 million, $50 million of that, which is -- that's finished. And the third was actually just some internal expense true-ups between Australia and Asia around $25 million. But -- so those are the kind of technical reasons. Your question though, Jonathan, you're right in the sense that markets, obviously, is an important part of the Asia business. We've -- that's part of our strategy. So its performance, because it's generally higher return, has an impact on it. The business is above its cost of capital for the second half but not as much as the first half obviously.

Jill Craig
Former Group General Manager, Investor Relations

Jarrod and then Brett.

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. Mike, not going to let you get away with just 1 or 2 slides on the capital. We're going to have a bit of a friendly sparring match on this. It's all well and good saying that the Aussie banks are well capitalized, and they do look reasonably well capitalized at this point in time. But it's a point in time, measure, and Aussie banks have got to Basel III requirements before the rest of the world. The rest of the world are accumulating capital. So if we fast forward 2 or 3 years' time and the Aussie banks just stand still in terms of capital, they will look relatively lower on capital than they do today. The fact is that the Aussie banks still rely on global markets to raise funds. Therefore, isn't it right that the Aussie banks need to equivalently raise more capital over the next couple of years to be in that top quartile versus the global peer group so that they can actually raise those funds?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Look, I'm not going to talk about what the results of the inquiry are or whatever, but let's assume that we conform with global standards. We can generate capital organically to meet those global standards quite comfortably for the next foreseeable -- over the medium term. We do not have an issue with that. As for where the right capital number is, I think what has been lost here is, again, it's the way that, that capital is defined and the way that it is created. For example, if you read the AFR -- and last week, there was this article on what the inquiry was going to create. If you were to follow those ideas and say, "Okay, that's the amount of new Tier 1 capital we require," that's going to be the adjustments to the mortgage book and whatever. If you did -- if you were to actually adjust Tier 1 capital by that amount, it would increase every loan in Australia in terms of its pricing by 50 basis points, a little bit over, okay? If you were to achieve the same result by actually increasing Tier 2 capital, the cost of that -- the loan in Australia will be 3 basis points. It's an amazing difference. So there is a smart way of doing this stuff, and that's what I think regulators have to now concentrate on. The actual level of safety though is something which is a moot point. I have never seen a bank fall over because of capital. They generally fall over because of the liquidity problem. So I really do not see this obsession.

Jill Craig
Former Group General Manager, Investor Relations

Brett.

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

Shayne, you've got a slide in there, the return on risk-weighted assets in Asia. Does that include the profit from the Asia partnerships?

Shayne Cary Elliott
CEO & Executive Director

Yes.

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

I noticed in the 4E there's no risk-weighted assets for the Asia partnerships, so there's no risk-weighted assets in that calculation. Is the Asia partnership -- would that be right?

Shayne Cary Elliott
CEO & Executive Director

I'll just check. Is that right, Adrian? Yes, it's capital deduction. But the point is that it's the same year-on-year, right? So the point is the trend is improving.

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

Yes, so the absolute level is that you've got a number in the numerator, but you don't in the denominator.

Shayne Cary Elliott
CEO & Executive Director

Oh, for the return of risk-weighted assets, absolutely right. Obviously, we're not disclosing the ROE. I've said that. We've given this as an indicator. It's the best indicator we can publicly -- we feel comfortable disclosing to show you that there's a trend. Actually, the trend, not for the basis point, is consistent with the trend that we have in ROE. Okay?

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

The investments in associates shown in the back of the 4E, the deduction against capital.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Brett Le Mesurier

Asia Pacific Prudential Securities Pty Ltd., Research Division

That would be the reasonable number to put against the profit for the Asia partnerships, wouldn't it?

Shayne Cary Elliott
CEO & Executive Director

In terms of just trying to understand the profitability of the Asia partnerships, yes, you can -- that would be a return on our investment. Yes, a return on capital employed, sure.

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

And that number has increased about more than 10% in the -- I think it's increased 13%.

Shayne Cary Elliott
CEO & Executive Director

Yes.

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

It seems to be a greater effect than currency.

Shayne Cary Elliott
CEO & Executive Director

No. I mean, the partnerships performed well. We get a good return on the partnerships.

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

It's just -- so the change in that deduction is purely about currency.

Shayne Cary Elliott
CEO & Executive Director

Yes, the point is that the returns that we get on our partnerships are good. They're above our cost of capital as a portfolio, and they've actually been improving. And what isn't seen in those numbers, wherever you look, is actually the market value of those. They're obviously at cost or thereabouts, and so you're not getting the mark-to-market benefit, which is reasonably significant on that portfolio.

Jill Craig
Former Group General Manager, Investor Relations

James.

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. Just on the bad debts and asset quality side, obviously a good result. But just having a look on Page 9 and the graph you had on Asian lending, it shows that the Institutional component percent investment growth has gone from 75% down to 70% in the last couple of years. If I look at your bad debts to gross loans, it's now actually at the highest level of the peers given what we saw out of NAB yesterday. Just trying to get a bit of an idea as to -- you say you've de-risked the bank, and granted you have bad debt charges a lot lower. But just in a relative context, do you think you guys are running a higher risk profile than your peers are? And if not, should your number come down to where the peers are?

Shayne Cary Elliott
CEO & Executive Director

No. I mean, we're clearly not running a higher risk profile than our peer group. Part of this has to do with business mix between retail growth and the smaller end of town versus the investment grade. It's actually not -- when -- you're right that the statistic shows that it's declined a little bit from 75% to 70%, but the numbers here, it's a reasonably small impact. The quality of the book remains very high, and it is higher than the home book that we have in Australia.

Unknown Executive

Actually, Shayne, I think that legend's wrong. I think the investment grade is across the 74%. I think that's the tune that it's going.

Shayne Cary Elliott
CEO & Executive Director

Oh, you've done it the other way. Yes.

Unknown Executive

I think that just fits in there [ph].

Shayne Cary Elliott
CEO & Executive Director

It's the other way.

Unknown Executive

Yes. Actually, the investment grade is...

Shayne Cary Elliott
CEO & Executive Director

I mean, so the investment grade has dropped 1% [indiscernible].

Jill Craig
Former Group General Manager, Investor Relations

You have a big week.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, I was going say I think it's about 75%.

Unknown Executive

It is at 75 [indiscernible].

Shayne Cary Elliott
CEO & Executive Director

Yes, all right.

Jill Craig
Former Group General Manager, Investor Relations

James is having a cracker of a week for error pickup. Victor [ph]?

Unknown Analyst

Victor [ph] Garmen [ph] from C.B. Equities [ph]. Question on markets income at the risk of asking for some outlook comments. Given that you mentioned, Mike, that we're running -- or we're in a benign risk environment, do you think in this sort of environment we can actually see markets income grow year-on-year? I understand there's seasonality, obviously, half-on-half but when we will look at it in a year-on-year basis. And maybe, secondly, more broadly, given that risk environment and given you're consistently trying to rebalance the bank more towards less risk, does that in the near term put you at some disadvantage because you're less reliant on BDDs and more reliant on things like markets income?

Michael Roger Pearson Smith
Former Non-Executive Advisor

No, I don't think it puts us at more risk. I mean, in terms of the Global Markets income, I think what's important to understand is that 75% of that income is flow business. It's customer-driven business. Now there is no doubt that increased volatility in markets means there's more customer activity in terms of people wanting to hedge, et cetera. But in terms of trade, that's a fairly constant revenue stream and the foreign exchange business that comes off the back of that. Volatility. Look, it's a difficult one to read. I mean, if you look at the way bond markets reacted, well, a couple of weeks ago, that was really quite extreme. And you have to wonder why that happened. Because, really, the actual -- the provocation or the touch point to create the volatility was the announcement that the fed was pushing out its tightening. And why was it that it created such an extraordinary reaction? And I think it's because actually a number of the major money center banks have actually just pulled in the balance sheet. The Deutsches, the UBSs, the Morgan Stanleys, the Goldmans, JPMorgans and whatever. That just isn't the liquidity that there was before, and, therefore, this volatility I think is just going to be a little bit more extreme than we've seen before. So overall, I feel very comfortable with the way that we've positioned our Global Markets business. They've -- I think it's been remarkably successful. It's been building up. And as you saw, the influence now of the Asian business or the Asian component of that is really very significant.

Shayne Cary Elliott
CEO & Executive Director

Well, I think it's 2 -- I mean it's 2 points of that, right? There's 2 ways to grow that business. I think your comments would be right if we were in a mature level in terms of our customer penetration, right, and we were reliant on the same number of customers year-after-year. But we're not. I mean we're growing our customer franchise really importantly, and that's what that diversity has seen through Asia. I mean it's interesting to note that if you look at our share of global foreign exchange 3 years ago it was -- we were #42 in the lead table, and now we're #20, and that's really -- that's both from more customers and more volume. So we can grow. I think the interesting point is though that won't be without investment. We can't grow with not -- we need to continue to invest in terms of systems and product capability.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Do you want to say something, Andrew or...

Jill Craig
Former Group General Manager, Investor Relations

Richard.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles from Morgan Stanley. I've got a question for Shayne and a related question for Mike. Shayne, on capital, the Common Equity Tier 1 ratio has gone from roughly 7% to 9% in the last 5 years since the end of the crisis, but the leverage of the group -- the simple leverage of the group has remained relatively steady. I wonder if you could give us a rough idea of how much of that has been driven by change in mix or how much is -- in terms of the increase in the ratio, the common equity ratio, how much has been driven by change in mix? How much has been driven by de-risking? And how much has been driven simply by the move to advanced accreditation and the risk optimization -- or the RWA optimization that we hear so much?

Shayne Cary Elliott
CEO & Executive Director

Yes. Frankly, off the top of my head, I couldn't give you those balances. It's a good question. I'll work it out and come back to you.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. And my related question to Mike. Let's forget Murray and the Financial System Inquiry for a moment.

Michael Roger Pearson Smith
Former Non-Executive Advisor

I wish we could.

Richard E. Wiles
Morgan Stanley, Research Division

In the 7 years, you've been in Australia, you've always commented on developments in global banking, and you've tended to be a little bit ahead of people who are more domestically focused. So I'm interested in your views in the G20 and the Financial Stability Board. They're very vocal at the moment on risk weightings for advanced banks. The FSB is chaired by Carney who is clearly well respected around the world. So I'm interested what do you think they are likely to propose at the G20 meeting. What do your counterparts in banks in Singapore, Hong Kong and other regions think will happen on risk-weighted assets for advanced accredited banks?

Michael Roger Pearson Smith
Former Non-Executive Advisor

The FSB at the moment is not so concerned around the issue of risk-weighted assets. Its priority is to get the TLAC issue for the G-SIBs in place. So that's what will happen at the G20. And that is quite advanced now in terms of where that will land. Quite clearly, there's -- it's not only -- they are looking at the complete TLAC. So what will -- what that will include is an element of statutory bail in, for example, fully-funded deposit schemes, et cetera. And of course, it will be different in various countries. The other thing, of course, is the issue with derivatives, and they want to get that one cleared up as well in terms of -- sort that out. But going back to TLAC, that is purely -- and they've made this very, very clear -- this is purely for G-SIBs. It is not about D-SIBs or any other bank. Now we can assume that once the TLAC is agreed for G-SIBs, it's a matter of time before they start to look at that. But that could be 2 or 3 years -- 3 years out. The issue on RWAs is more from -- coming through the Basel Committee, and they're looking at how they get better alignment and better understanding. And I suspect that we will end up with something which is somewhere between where we are right now between the advanced and standardized. It's what I think we'll probably emanate. But again, they're talking 3, 4, 5 years in advance. But the thing that they do want to try and do there is get a proper correlation that the asset that we would have on our balance sheet is the same as that asset that, say, JPMorgan would have on the balance sheet. Quite clearly, that is not the case right now, and that's their main worry. So there is -- there's a degree of concern that -- and this is where the U.S. have got a problem with the whole concept of RWAs because it relies on banks' models. The argument, of course, is that, well, the banks have to get approval from the local regulator to impose those models, so really the regulatory environment has to get more coordinated as well here. But I actually think we all have to work together on this one to sort it out, but I think it's quite a few years out. And this is just going to be an ongoing thing. Regulation is not coming to an end, I guess would be my message here. It's like the babbling brook. It will just go on forever.

Jill Craig
Former Group General Manager, Investor Relations

Shayne? Nothing? Nothing. Okay. Michael?

Michael Wiblin
Macquarie Research

Michael Wiblin from Macquarie. Mike, you mentioned that there's still some productivity improvements to come from here. You gave us the target last year. I was wondering maybe just some color around...

Michael Roger Pearson Smith
Former Non-Executive Advisor

We haven't met our next one yet. So when we've done that, I'll give you a new one.

Michael Wiblin
Macquarie Research

FY '15, I need something for my model. Can you give us a feel -- I mean, Shayne sort of mentioned 1.8%, and sort of maybe next year looks like that. I mean, is that where we're heading? Or...

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, you've got the target. It's out there.

Shayne Cary Elliott
CEO & Executive Director

So the target 3.16%, was that CTI'd be below -- at or below 43%. I would say straight-line extrapolation is not a bad approach for that one.

Michael Wiblin
Macquarie Research

And on Page 67 of the 4E, there's $58 million in impairment in Retail in Asia Pacific. Can you just talk a little bit about what happened there?

Shayne Cary Elliott
CEO & Executive Director

Do you want to do that, Nigel?

Nigel Henry Murray Williams
Former Chief Risk Officer

Yes. So Nigel Williams, CRO. If you look there, that's in our credit capital portfolio. It's largely in Indonesia and in Singapore. In Indonesia, there's a change in behavior on one of the cohorts there, and so their net flows through change the origination models, change the collection models, and it shouldn't be repeating.

Jill Craig
Former Group General Manager, Investor Relations

Andrew?

Andrew Hill
BofA Merrill Lynch, Research Division

Andrew Hill from Merrill Lynch. Can I just ask a question about the APEA institutional business? The returns on risk-weighted assets in that business have been hovering around 1% for a few periods now, a little bit of volatility from the Global Markets business this time around. But I'm just wondering, do you see that as a steady-state return on risk-weighted assets for that business? Or do you see that tracking higher? And if so, what are the drivers?

Shayne Cary Elliott
CEO & Executive Director

[indiscernible] we're doing the -- you want to do that one? Or do you want me to...

Michael Roger Pearson Smith

Former Non-Executive Advisor

Okay, go ahead.

Shayne Cary Elliott
CEO & Executive Director

No, I -- look, I think it's dangerous actually to think about the business and try and silo things into APEA and Asia and Australia, et cetera. That's not how we run the business. It's an integrated business. We do things in APEA for the benefit of Asia. We do things in Australia for the benefit of Asia or whatever. And so there's a danger in doing that and particularly when you start getting down to kind of ratios around return. Our target is to get a decent, acceptable return for the business overall on IIB. And Andrew, maybe you can talk about the specifics on that one. Clearly -- but markets is an important part of the IIB business. It's a relatively more important part of the Asia growth story, not necessarily APEA but the Asia piece of it. It's because that's our whole focus around trade and capital flows. Markets, generally, by definition is a higher-return business than others, not all but than others. So the more weight we have towards, the more successful we are with that market strategy in Asia, the higher generated returns will be in Asia, and actually then that'll feed through to the IIB business overall. I don't know, Andrew, if you want to add anything.

Andrew Géczy
Former Chief Executive Officer of International and Institutional Banking

Andrew Géczy. So I guess, I would just add the point around the fact that our markets business is still 75%, 76% customer flow business. And if we take a look at how we're trying to connect customers across our quarters, it's about trade and foreign exchange, which really drive that. Our foreign exchange business is one of our higher-returning businesses from a product line perspective. And so that's really what we've been building over the last few years, and that's been the success that you've seen flowing through in those customer relationships. So I think we'll continue to see that, and we continue to believe there'll be an improving trend associated with our returns.

Jill Craig
Former Group General Manager, Investor Relations

I'm going to take a call from the phone, please.

Operator

The first phone question comes from Matthew Wilson from JCP Investment Partners.

Matthew Wilson
JCP Investment Partners Limited

Given your leadership in the resources space, could you talk us through the impact of soft commodity prices on your balance sheet? While we've been worrying about David Murray, the iron ore prices obviously slid somewhat, and coal continues to be very weak.

Michael Roger Pearson Smith
Former Non-Executive Advisor

We'll give that to our CRO.

Nigel Henry Murray Williams
Former Chief Risk Officer

So Nigel Williams, CRO. The -- on iron ore, the iron ore prices still above the stress levels that we've actually modeled most of our exposures on, so we're quite comfortable where iron ore prices are currently. On coal, clearly a number of those businesses are under some cash flow pressure, and our portfolio tends to be in the lower quartile -- sorry, lower half of the cost curve, but profitability in that sector is pretty poor. So as long as coal prices don't go significantly from here, we're not expecting any material provisions.

Shayne Cary Elliott
CEO & Executive Director

Yes, it's been soft as well.

Nigel Henry Murray Williams
Former Chief Risk Officer

[indiscernible]. I think the -- where there's a really good news story, if you look at our -- the way we've dealt with our soft commodity portfolio, if you look at our agricultural exposure in New Zealand, we changed our credit criteria there several years ago, and you saw that our portfolio reduced. So we're very much focused on the long-run price. So we were not factoring in a dairy payout price of $8 in New Zealand. It's gone down to $5. So we see a very good portfolio performance through the cycle there as we've -- some of the customers with more leverage chose to refinance over last few years.

Jill Craig
Former Group General Manager, Investor Relations

Take another call, please.

Matthew Wilson
JCP Investment Partners Limited

With the investigation currently underway into foreign investment in residential real estate, are there any part -- potential operating risk concerns that may be exposed to ANZ?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Sorry, what was that? Who is that from?

Shayne Cary Elliott
CEO & Executive Director

No, there's nothing material from that. No.

Matthew Wilson
JCP Investment Partners Limited

But if you funded a foreigner to buy an established property, which the IRRBB hasn't approved, are you inadvertently funding an illegal transaction?

Nigel Henry Murray Williams
Former Chief Risk Officer

I think if you're looking for that sort of story, then it's probably better go and look for some of the non-bank providers who I see have been providing up to 40% to that sector. Our flow there is de minimis.

Jill Craig
Former Group General Manager, Investor Relations

If we could take the next caller please.

Operator

And the next phone question comes from Craig Williams from Citi.

Craig Anthony Williams
Citigroup Inc, Research Division

Sorry, I couldn't be there in person; although by the sound of your earlier reference to Ebola, that may be fortuitous. Notable was the slowdown in loan growth in Asia, I think, 4% half-on-half and 15% year-on-year and risk-weighted asset growth. So how much of this is a reflection of prudence given regulatory uncertainty? How much of this is the realization that they're a part of the Asian business where growth was available but not suitably profitable? I note the contraction in absolute balances of trade and transactional loan balances by a couple of percent in the second half, where ROE on the lending in isolation must have been sort of low single digit I would imagine. And excluding regulations changes, sort of how much change can we expect to see in risk-weighted asset growth profile, say, in this half? How much of that is an anomaly to sort of slow down the risk-weighted asset growth?

Shayne Cary Elliott
CEO & Executive Director

Yes. To your question about the asset growth in Asia, all of it was to do with our own prudence, our own decisions around the risk-reward trade-offs and those businesses we want to book and we see decent returns from. So that was a conscious decision. In terms of the RWA growth going forward, clearly the last 9 months keeping essentially flat is an extraordinary good outcome. We think, however -- so if we assume that RWA growth through the cycle kind of 4%, 5% ongoing, we should be able to continue to get RWA offsets to that through those data improvements and other things, not -- but it won't be -- Craig, it's unlikely to be 100% offsets going forward. That's true. But we see essentially RWA growth will be lower than our net lending growth.

Jill Craig
Former Group General Manager, Investor Relations

If we take the next call.

Operator

The next phone question comes from Andrew Lyons from Goldman Sachs.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Just a related question to Craig's one. Just -- I'd just note that within your Global Institutional business your risk-weighted asset from the global loans part of the business still contributes nearly half of your risk-weighted assets that's been broadly flat over the last couple of halves. Just wondering if you can give us a bit of a feel of around how you'd expect that RWA growth to actually shift just within the various parts of the Institutional business. And then just on a related point, just Slide 63, you highlight the fall in your credit risk-weighted assets to EAD ratio. Just outside of potential changes that may or may not come from macro-prudential and the FSI, can you maybe just talk about the extent to which you see further opportunities just on that front and where exactly that they're likely to come from?

Shayne Cary Elliott
CEO & Executive Director

Okay. In terms of the underlying growth in Institutional, I think it's fair to say -- first of all, our book continues to be heavily weighted towards Australia. We still see exactly those trends I talked earlier on, which is relatively low levels of confidence, low levels of leverage, no real borrowing demand. Particularly as we come to the entity mining investment cycle, it's hard to see that there would be a significant lift in RWA growth in the Institutional business in Australia. And the business that tends to get written elsewhere tends to be extremely high quality and, therefore, low from a risk-weighting intensity. In terms of the trends around the credit risk-weighted assets to the group exposure at fault, look, we've been grinding that lower over time. In terms of -- again, putting all -- given what we know today, et cetera, we think there's further room for improvement there. Don't really want -- obviously, not going to put a number on that. Why do we think that? Because, obviously, we know our own models and data and systems essentially ourselves and know that there's opportunity to do better on that, and that's partly the investments we've been making in those risk systems. Plus, we also can compare ourselves to the -- to our peer group and know what's achievable. So we're confident that we can continue to grind that slightly lower over time, but you wouldn't expect to see a big step-down on that.

Michael Roger Pearson Smith

Former Non-Executive Advisor

No, but there's much more we can do. Maybe it's worth just talking about some of the technology spend there, Nigel.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Nigel Henry Murray Williams
Former Chief Risk Officer

So there's a couple of things on that. There's a lot of focus or uninformed focus that it must be about optimization about the mortgage model. It's not about optimization and the mortgage model. The opportunities, I think, are in our other portfolios. And as you build out these models and as you build out the data that you actually have, there's a lot more pricing for risk. And I think that banks have yet to adjust, and we've done a lot of work on actually pricing for risk at different points across the curve. And I think there's still plenty of opportunity in somewhere around secured portfolios and some of our Commercial and corporate portfolios.

Jill Craig
Former Group General Manager, Investor Relations

One more call on the phone.

Operator

The next phone question is from Brian Johnson from CLSA.

Brian D. Johnson
CLSA Limited, Research Division

I had a few quick questions, and I'd like to go through each one of them individually with the answer if I may. First one is a question to Mike. Mike, if you have look in Australia at the moment, housing very, very profitable, deposits probably not so much. Surely, if you would increase the capital requirement, it wouldn't necessarily flow through on the housing. Wouldn't it make sense to actually reprice everything else up more?

Michael Roger Pearson Smith
Former Non-Executive Advisor

No. I see where you're coming from. I mean, I think -- and this is one of the things that the people don't seem to understand. I mean, if you would allocate more capital against housing, it doesn't mean we'd do less housing business. It's still profitable business. We'd probably have to do something less somewhere else, small business or something. That's the trade-off. But actually, really, it hasn't been about -- as Shayne said earlier, it hasn't actually been about housing where we've had that increase in business. It's actually about the repricing of deposits. Deposits have actually been more of a benefit to us than mortgages.

Brian D. Johnson
CLSA Limited, Research Division

I understand Mike that there's been a positive move, but you can walk around town and get a deposit rate well above the cash rate.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes.

Brian D. Johnson

CLSA Limited, Research Division

And so it seems to me that if I was to fund, for example, a home loan through the branch with wholesale funding at the moment, I'd probably get a 60% return on equity. The whole point is that there's a lot of stuff you could reprice over and above housing if the capital requirement across the board was to go up.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes. I think I need to employ you, Brian, if you could get that. But I think that -- you have look at it at a portfolio basis. You can't just allocate one piece of wholesale funding off against one asset. So it's not quite as simple as that. But I understand where you're coming from. I think that the business mix going forward is appropriate. I think there -- I mean the thing that we have is a smaller market share in Retail, and therefore we see that as an advantage to us because we can take -- we can increase that.

Brian D. Johnson
CLSA Limited, Research Division

Second question for Shayne if I may. Shayne, you equity account the minority interest, the Asia partnerships, so what happens is they generate earnings? There's no risk-weighted assets, as Brett was saying. But when they generate earnings, the investment goes up, which creates capital deduction. But then you pay out a 70% dividend payout ratio across the group. You're paying out earnings. The capital goes up -- the capital deduction goes up. Capital goes down. Now in the last year, in 2013, I reckon that made the capital go down by about 14 basis points across the group. Is there something wrong in that logic?

Shayne Cary Elliott
CEO & Executive Director

There's nothing wrong with your logic. There might be something wrong with your maths, but the logic is sound. So I'll work out the math...

Brian D. Johnson
CLSA Limited, Research Division

So going forward [indiscernible] in this thing where we put the return on the risk-weighted assets, including the APEA investments, isn't that really a bit of a nonsense?

Shayne Cary Elliott
CEO & Executive Director

No. The earnings -- the equity accounted earnings from the partnerships is quite small in the scheme of things, right? And so yes, you're right. Does it flat our return on risk-weighted assets? Yes. Do we -- does it imply the dividend payout ratio might be slightly understated? You can say yes, but we're talking a small number here. And by the way, even though it's been growing, that -- the marginal growth, if you adjust in dollars, is actually completely immaterial, right?

Brian D. Johnson
CLSA Limited, Research Division

Okay. Shayne, the next one is, during this result, could you just update us if there was a move in the CVA or the FVA over the period? Positive or negative, how much was it?

Shayne Cary Elliott
CEO & Executive Director

It was immaterial. It was almost nothing, yes, yes.

Brian D. Johnson
CLSA Limited, Research Division

Okay. The next one, Shayne, you guys, from memory, don't have a GRCL. So when we actually switch across to this new accounting standard, mechanically what does that mean for your capital position?

Shayne Cary Elliott
CEO & Executive Director

Do you -- I'm going to -- I'm looking at my brains trust at the back.

Brian D. Johnson
CLSA Limited, Research Division

Shayne, you are the brains trust, mate.

Shayne Cary Elliott
CEO & Executive Director

Yes, right. I'm a very good delegator. Is there any -- do you want to -- yes -- I think what -- well -- can you get a microphone, Shane? Sorry. No, you can answer that. You can answer on the capital -- on the credit thing.

Shane M. Buggle
Group General Manager of Internal Audit

Thanks. It's Shane Buggle here, the Deputy CFO. If we increase -- if we adopt IFRS 9 and we're still working through when we will do it. We may do it not this coming -- this year we're now in but maybe next year. If we increase the provisioning, it'll reduce the capital, so reduce our book capitals to improve our ROEs. From a regulatory capital basis, something perhaps to -- we'll come back to you on this.

Brian D. Johnson
CLSA Limited, Research Division

Shane, [indiscernible] on capital. So just as a final one. Matt Wilson got in and asked about the iron ore price, and I know that you guys hate to talk about individual stocks or exposures. But when you have a look at Wicket [ph] with basically the coal price where it is, can we just confirm what the approach is theoretically on large infrastructure projects that are exposed on this, where you probably haven't yet handed out money but we're probably staring at a loss on the undrawn commitment? Could you just run us through mechanically what you do in that situation mechanically?

Nigel Henry Murray Williams
Former Chief Risk Officer

Well, we could, Brian, but I think it'll bore everybody else on the phone. The -- we're not going to talk about that individual client. But in that sector, on iron ore we are very comfortable with our position on there. On coal, on the infrastructure assets, at the moment that is a comfortable position. Some of those infrastructure assets have take-or-pay agreements with a majority of investment-grade customers and as bank guarantees for the non-investment-grade customers for the first period of their take-or-pay commitments. So I think it's too early to go into a very detailed discussion about that.

Jill Craig
Former Group General Manager, Investor Relations

Okay. We'll come back to the room. Scott?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. Firstly, just in answering Brian's question, I suspect the capital impact to be neutral because you'd have more eligible provisions, so the regulatory expected loss gap would be smaller, so the deduction would offset. So Michael...

Michael Roger Pearson Smith
Former Non-Executive Advisor

We can also get a job here and [indiscernible]...

Scott Robert Manning
JP Morgan Chase & Co, Research Division

My actual question is more around the Institutional bank where you're talking about de-risking the book, improving returns. But the fact is the net interest margins are still going down there. It's a good performance domestically, good deposits for all the rest of it. So to what extent do you look at the group margin and group capital generation versus the ongoing slide in margins in the Institutional bank? And is there effectively a line in the sand where this margin in Institutional bank starts to kind of normalize given the rollercoaster in ANZ reported margin around mix of business in this area?

Shayne Cary Elliott
CEO & Executive Director

So we think about it at both levels. Obviously, we think about it within the divisions. They kind have to wash their face and make sure they've got decent financials themselves, but we also have to look at it in terms of the whole portfolio and the group NIM as well, right? So we do both, Scott. I think -- so the reality of what's really happening in Institutional in a sense is an exaggeration or extreme of what's happening right across the group. Loan -- and particularly though you're seeing that loan margins are coming down because of the benign risk environment. That tends to happen at the big end of town more than anywhere else. And how far can that go? Who can say? But we're certainly not at the bottom of -- history would suggest that, that can go lower. We know that if you go back pre-GFC. The other thing that's driving margin low is just the absolute level of interest rates. That's actually been a significant driver. We kind of -- we all focus on the loan margins. I understand that. But actually an equally big driver has been the fact that interest rates have just been low. Now it's unlikely I would suggest that they can -- the rate of fall will continue. They may not go up, but it's unlikely they're going to continue to fall. So Institutional margins, loan margins, interest rates, would suggest that they're still -- they can still come down a little bit. And what we're doing is really focusing on diversifying the revenue, growing other forms of revenue streams, like foreign exchange and cash management and those things, to offset it, not because it's just the NIM management, because that's our strategy. It also speaks to what we're trying to do with customers.

Michael Roger Pearson Smith
Former Non-Executive Advisor

I think risk-adjusted margin is the [indiscernible]...

Shayne Cary Elliott
CEO & Executive Director

Yes, you can talk about risk-adjusted margin, Andrew.

Andrew Géczy
Former Chief Executive Officer of International and Institutional Banking

I think that what you see in the Institutional numbers is exactly that. Lending margins have been coming down and that we've been filling that gap with additional earnings through our foreign exchange business, through our Transaction Banking business, whether it's the cash, the growth in the cash business -- the trade business. So that's really what's been happening. Now hopefully, what's going to happen is it's going to flatten out at least and the start -- the rate of decline will flatten down. And that means that if we continue to serve our customers the way we've been doing it, we should continue that growth in the other parts of the business. So that mix of NII and NOIs has been improving, and that's what we've been doing, just been changing that mix of what we've been doing with our customers by growing those other types of earnings that we've got. So that's how it's been playing out. But we expect that the lending margins will certainly slow down in their rate of decline, but there's still a little bit ways to go. But that growth part is the thing we have to focus upon in changing that mix.

Jill Craig

Former Group General Manager, Investor Relations

And the change in your risk-adjusted margins been much less. Yes. Richard, and then I think we're almost ready to finish.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles from Morgan Stanley. Mike, there's been some media reports suggesting that you might look to be selling your stake in AmBank. Previously, you've said you can see a path to control there. It's also been a very strongly performing bank. I think profit was is up 20% in the last year, and that was strong in 2013 as well. So could you give us some comment on your thoughts regarding AmBank?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Look, AmBank has actually performed very well for us. We've been pleased with it. There is a regulatory issue in terms of us obtaining full control there, and that has been something that we've been waiting to see what happens. And I think we're still in that waiting mode. I'm in no hurry about AmBank. I would like to get even more of it. And if we can't longer term, then we'd have to consider what to do with it because quite clearly, just sitting on that stake in terms of the capital treatment now is much more difficult. But I don't think we're in any particular hurry. Things will happen. We have to wait and see which way the cookie crumbles.

Jill Craig
Former Group General Manager, Investor Relations

Okay. I think we're done. So with that, thank you, everybody, for coming today, and we will talk to you over the coming weeks.

Michael Roger Pearson Smith
Former Non-Executive Advisor
All right. Thank you.