Question and Answer

Jill Campbell
Group General Manager of Investor Relations

Okay. Thank you. Now I know you've done this a million times, but just for old time's sake, I'm going to say, if you could way till a microphone comes to you. We'll start with Craig. Thanks, Catherine. Just stand here. And we also have people on the phone, and we may even get some on the web. So I'll turn to those in due course. And with that, Mr. Williams, over to you.

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi here. If I turn to Page 44 of the MD&A. So the strategy all seems very sound. The ROE improvement reflects that despite the capital build that's occurred and you're trying to address that as well. Looking at the divisional results, you see that certain businesses which you're deemphasizing are impacting your revenue performance, and that's been offset a bit this period by the Institutional market's performance in the period, which may or may not recur. So first, the question that perhaps emerges is the engine room in Australia and the lack of revenue there. Are you satisfied with the revenue performance in the Australian business? And so rather than loan repricing, which perhaps comes a bit more challenging, how do you sort of drive better revenue, given you've also flagged that credit card growth may moderate moving forward?

Shayne Cary Elliott
CEO & Executive Director

So I might just -- a very high-level question and answer and then hand over to Michelle. So yes, we are pleased with the progress in Australia. The slowdown in revenue growth really is a result of some decisions we took 6, 9 months ago when the market was incredibly competitive and we decided to step back a little bit and allow our market share, if you will, to shrink a little bit. And that was a conscious decision. It was the right decision based on risk, and we are seeing this slight -- you're seeing the impact of that today in the revenue. Since then, we are now more comfortable with our position, and we're growing again marginally above system. And so you'll start to see the -- also the impact of that, and also recent pricing decisions will start to flow through in the second half result. Now Michelle?

Michelle Nicole Jablko
Chief Financial Officer

Yes. No, I think that covers most of it. What I would add was there was some margin pressure in the first half, not on asset pricing in Retail, but certainly in terms of our mix. So we grew deposits faster than lending, so that had an impact. We reduced the sale lift, so that had an impact in terms of margin. So we have some of those things happen in the first half. But the sale impact probably continues into the second half, but the others are abating. On Corporate and Commercial, lending growth has been slower. So the focus there, as I said in my speech, has been on risk-adjusted returns. Some of the slowdown was deliberate, so we stepped away from some unsecured lending, we stepped away from commercial property, so that had some impact on margins. But overall returns since was positive.

Shayne Cary Elliott
CEO & Executive Director

The only thing I would add actually, you mentioned markets. Actually, yes, we did have a really strong half. I mean, I think we've talked about before that it would be our intention that our markets business is probably a $2-ish billion, maybe a little over that kind of in the normal course of business. But there will be periods of time in high -- with its higher volatility, higher uncertainty, with that market that business will outperform. We are in one of those periods. And when we look through into the detail, we've achieved the result there without taking more risk. So this is not about risking up or anything, this is just about getting more volume and there's been more opportunity. There's nothing on the horizon that suggest that it's going to change anytime soon, so I think we're in a period, probably for a -- slight outperformance in markets for the coming few halves.

Michelle Nicole Jablko
Chief Financial Officer

And the other important thing on markets was one, we did a -- without taking more risk, but also without allocating more resource to the business.

Jill Campbell
Group General Manager of Investor Relations

I'll just -- if you just hand it to Jon please, Craig.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. So just following on for the [indiscernible] on soft revenue, which we saw not just in Australia, but in New Zealand, and obviously, the CVA, FVA and gains on Queen Street, so a lot of other things coming through there. And you commented as well about an absolute reduction in costs over time, with the revenue outlook standing pretty soft apart from the repricing that's coming through, the focus on cost is going to become very important. Can you give us a bit more color on absolute, what you actually mean by that? Are we talking you're going to take the gain from Queen Street, reinvest it, and we'll be expecting in a couple of years' time to have a step change in your cost base? Can you give us a bit more color on what you actually expect in dollars, your cost base to be over time?

Shayne Cary Elliott
CEO & Executive Director

Sure. So I'll have Michelle answer in a bit more detail. But the reality -- let's just start, we started -- in terms of the slower revenue growth. You're right. But we've -- we actually called it. When we sat in this room, whenever that was, early last year, we said we saw a slower revenue outlook for all sorts of reasons and we are preparing ourselves for that. And what we've done is really 2 things. One, yes, there's been slower revenue growth but it's been dramatically slower asset growth, in fact, our asset base is shrinking, and particularly in Institutional. And so we -- that comes at a cost and that obviously comes at some revenue impact. And we've taken out cost, to the second part of your question. What we're saying here is that I don't think it's right to think about it just on a jaws perspective. We are looking at what is the total cost of running this business. And we will get a dividend from that in terms of simplifying the way we run it and what we do. Now what we've been able to do is get cost down in 2 consecutive halves, but essentially by running the same bank. I mean, there's -- we still run everything that we used to have. While we've announced the sales of things, none of those businesses, but the exception of the Esanda Dealer Finance, have actually dropped out of the bank yet. And as those things start to come out, we will see cost continue to fall, and by implementing things like the Scaled Agile approach and further simplifying the business, further de-cluttering, we want to see our cost base come down. Now we -- that -- there is always offsets, there's always going to be -- there's a natural inflation despite the economy wage growth being low, EBA agreements and other a little bit higher in our industry, and so we're going to have to eat some cost inflation. But you wanted to talk about our absolute cost, and particularly the Queen Street?

Michelle Nicole Jablko
Chief Financial Officer

Yes. So I mean, as I look at costs -- so the costs we've taken out to date are being pretty targeted, and I sort of look at costs in 3 areas, 3 buckets. So the first is just taking duplication out of the business we are today, and that's actually where a lot of the focus has been to date. But only in parts of that, with a big amount of it being directly in the Institutional business. So there's certainly more to do there, and we're working on that now. The second bucket is as we become smaller, so for example, as we sell Asia Retail, we just need a different support infrastructure to support that business. So there's, what goes directly with the business, but there's a whole lot of infrastructure, whether that's regulatory and compliance and just sort of support functions that exist around that business, so as we become smaller, that should come through. And the same goes for Institutional. So as Institutional business becomes more focused, you need a different support infrastructure to support it. And then the third one is one that happens a bit more over time, which is technology will enable us to automate more, and we're starting to do that. But over time, you'll see more and more of our processes automated. And so it's really -- I'm not going to give you what the number is, but it's -- but we see, if you take those 3 things, we should be able to drive significant step change over time. On the Queen Street, the Queen Street fund, as I said, most of that's going towards the Australian business. And where -- as we think through how we allocate that, a fair amount of that will go to driving better efficiency in the business. But it's not -- efficiency is not the starting driver, it's sort of the outcome. It's how do we make that business respond faster in its processes in terms of how we respond to customers, and we'll have an efficiency dividend out of that, that actually will help fund further savings.

Jonathan Mott
UBS Investment Bank, Research Division

Okay. And then I'll push my luck here, $4.7 billion was the cost base last half. You've said it's probably down in absolute terms. Let's exclude the divestments, which are going to come. So in absolute terms, how far down? And excluding divestments, would you like to say that number out the next couple of years? You're on the spot.

Shayne Cary Elliott
CEO & Executive Director

That's -- you can't ask that, Jon. No, I mean, look, the reality is -- yes. No, you can't ask that. But I'm not going to give you an answer in terms of a target expense base to say that we expect the number to be materially lower. I mean, that is the objective here. We -- I believe that we are entering into a lower-growth environment, and our response in that is to be really, really tight in the way we allocate capital and then the same with cost. We happen to be presented with an extraordinary opportunity in 2 things: One, the benefits of adopting new technology like actually digitization of things; and secondly, working differently. And so those 2 tools if you will, give us an opportunity to make this real. Now we have had cost down 1%. That's hard, right? I mean, I think we are probably alone amongst our peers to be able to deliver absolute cost down, and we are not satisfied with that. That is not the end, and we've got to work harder and harder to do this. But as I've said, I believe we have the tools available to deliver that in a material way.

Jill Campbell
Group General Manager of Investor Relations

Jon, if you could just hand back to Jarrod.

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Credit Suisse. I'll give a break on costs for the time being, but I'm sure someone else will come back to that. You've had $36 billion of RWA reduction within Institutional, $9 billion in the last half, that sort of slowed a bit. Can we have an update of how far you are through that process? What's to go? And then what about the improving returns on the RWA that you still have left?

Shayne Cary Elliott
CEO & Executive Director

So I'll ask Mark to comment in a minute, but just from a portfolio perspective, there are 2 -- there are essentially 2 factors at work here. One is we believe the right balance for our -- for the bank is to have a split around kind of 60-40, 2/3-1/3, something like that, where Institutional is in that kind of mid-30-ish percent share of our capital. We think that's a sustainable, well-diversified business that generates a lower volatility in terms of returns and decent returns, so there's that. On the other hand, we've also got to be conscious, there's a scale issue within Institutional, about what's the right size of that business and just in terms of its own ability to generate returns. And so there's a bit of a trade-off there. Because you could say, today, as I mentioned, we're already at 38% of our capital. Are we done? No. Because decisions we're making around our Wealth business and other things we do will continually shape -- will continually impact the total. So there is more work to be done, but we are more -- well more than halfway through that change. Do you want to comment about where we...

Unknown Executive

Yes, I -- all I'd to add to that, Jarrod, is that I think we gave an indication at the beginning of the year, which say about $8 billion this year and $8 billion next year. We've done $9 billion in the first half. We did that because we saw the opportunity to do that. We -- the number of customers and initiatives we had underway gathered more momentum than I necessarily expected, so we did it because it was, we think, the right thing to do to -- is to get this done more quickly. I would expect the second half to slow a little bit on that. I wouldn't expect that we're going to see another $9 billion or another $8 billion, but we'll see it slow and then be a little bit more in the tail into 2018. But we are getting towards the base where we think we're getting to the right assets that are throwing off the right return. On top of that though, what we do -- we are continuing to manage on this to try and mitigate the revenue reduction that comes with that, is to be really hard on the costs. So we're still doing a lot of work with regards to our -- both our direct and allocated cost base to mitigate that position. So we're getting to the bottom on this in the -- in a risk-weighted asset sense. We're probably within $8 billion to $10 billion, if you want a number. But we will continue to look at that because if things change in the market, we might change. Within that number, which you don't see too, is that we have actually built some assets, in Australia particularly.

Shayne Cary Elliott
CEO & Executive Director

And by the way, I'm more than happy to talk about costs because I think we've done a stunningly good job on them, and I think it differentiates us from our peers. So...

Michelle Nicole Jablko
Chief Financial Officer

And then, of course, just adding to that, Mark, in terms of where the reductions are coming. So the focus from here is very much still in international. And Australia and New Zealand are probably getting closer to the end state.

Shayne Cary Elliott
CEO & Executive Director

Yes, that's a good point.

Jill Campbell
Group General Manager of Investor Relations

Jarrod, could you hand across to Andrew.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman. Just a question around returns, similar to some of the other questions. Slide 7, just the progress on portfolio rebalance shows that the pre-provision return on risk-weighted assets has been ticking up. And certainly, when you adjust for mortgage risk weights, the improvement's even more than what's suggested on that slide. However, pretty much all of that, apart from a couple of basis points, can be put down to the market's performance? I'm just wondering, have you been underwhelmed by the improvement that you've seen in the return on risk-weighted assets just from the perspective of the mix shift that you've obviously undertaken and the $36 billion of risk-weighted reduction in Insto?

Michelle Nicole Jablko
Chief Financial Officer

So I wouldn't say it's all markets, actually. I mean, part of it is. I think that's fair. But if you're looking at the bottom graph, so that's the PBP outcomes, there's significant cost efficiency coming through there as well. Also, if you go up to the graphs on the top that look at net interest income excluding markets, you can see that improving as well as a proportion of risk-weighted assets. So certainly markets has had an impact and a benefit, but I wouldn't say it's all markets.

Shayne Cary Elliott
CEO & Executive Director

And there's nothing in this result that I'm underwhelmed by, actually. I think this is a really good result. And I think the reality is that the decisions you take, there is a lag of when they have an impact and come through, right? And so I think we've positioned ourselves really well for further improvement in those metrics, Andrew.

Jill Campbell
Group General Manager of Investor Relations

Andrew -- we'll keep going and hand down to Victor or actually, that's fine. Yes, Andrew?

Andrew Triggs
Deutsche Bank AG, Research Division

It's Andrew Triggs from Deutsche Bank. Just a couple of questions on the margin, please. You mentioned the Institutional repricing you put through, I think, you said in Australia and New Zealand. Could you give us some idea of the sort of quantum we're talking about there? And then also in regards to the funding costs side of things, also as you gave some commentary there, but if you could give a bit more detail, please, on the sort of short-term wholesale, long-term wholesale and deposit drivers. And are we at somewhat of an inflection point at the moment on funding costs, please?

Michelle Nicole Jablko
Chief Financial Officer

Yes. So in terms of the asset repricing, that was more -- that was Retail, not Institutional. And you've seen those announced. And there had been some here but also in New Zealand as well. And in terms of funding costs, I think I said in my speech that deposit costs have -- if you look at spot costs, they're pretty much where they were at start of the year. So there was a movement through the period, but they're -- where they're sitting today is pretty much where they were at the start. Wholesale funding costs have improved, but it takes a bit of time for the average to come through because if you look at how they moved over the course of last year, it happened through the year, so there's an average impact into this year.

Andrew Triggs
Deutsche Bank AG, Research Division

So there was a combined 3 basis point drag from deposits and funding costs this half, do say that is a positive for next half or still a drag?

Michelle Nicole Jablko
Chief Financial Officer

I'd say probably more on the positive -- more on the positive. The thing that offsets that of [EBD] is just the CLF impact that happened during the half and will continue.

Jill Campbell
Group General Manager of Investor Relations

If you can hand to Victor and then we'll go to Brian.

Victor German
Macquarie Research

Shayne, I just so hoping to follow up on your comment around credit growth, and as you pointed out, a lot of that is coming from a system perspective in housing. One of the recent changes that APRA announced is around interest-only loans. I can't seem to find the slide in this presentation. I think it might have been in your supplementary one where you provided the flow relating to interest-only loans. And I think you've said it's around 43%. And in that number, equity managers were excluded. Just was hoping if you could provide us a number including equity managers because from what I understand, that would be included in APRA's definition. And also, as that sort of plays out, what impact do you think that's going to have on volume growth, particularly for you, given that more recently you started to gain market share again. I mean, to what extent do you think that's going to stop that...

Shayne Cary Elliott
CEO & Executive Director

So, Look, I don't have the number. We'll get back to you on the equity manager piece. I'm not sure where that one is. It is clear that the regulator, as I have mentioned before, with the gap between wage growth and credit growth, is looking for actions to try and bring those 2 closer together. There is little that a regulator can do on the wage side, so clearly, they're focused on system growth, and they're targeting what is perceived to be higher risk parts of that. So whether its investor lending or interest only, that makes some sense in putting speed limits on. We will be able to comply with those speed limits. That's not an issue. But the intention here is to slow credit growth, and I think it's clear that the regulator will continue to act until credit growth slows. And there is the simple outcome there. Now we're a little bit smaller. We may be able to grow share in that environment, but there is going to be a slowdown. And so in order to be prepared for that, we've got to do a few things: One, manage our cost really well; two, use this as an opportunity to improve the quality of our book, so to make sure that in a slower growing system, we're picking the very best parts of that. And the tool that we have around that is -- frankly is pricing. And you've seen us now implement an ability to price on different measures. Might get -- today, the market is pricing on a 2x2 matrix, owner-occupied investor, interest-only [PNI]. My guess is that it's going to get even more complicated over time. There will be even more granularity in that pricing over time. That's actually a good opportunity for us, because it's -- what it's introducing into the market is more effective risk-based pricing. That must be a good thing in the long term, and we're really well-positioned. Did you want to just talk about the flow because there's some...

Unknown Executive

Victor, in regards to the definition system, we're talking to APRA exactly how they define interest-only, including or excluding the equity managers. So we're actually working on that. But to Shayne's point, we have plans and we've already put things in place to make sure that we hit the regulatory requirements. So we're pretty comfortable with that.

Shayne Cary Elliott
CEO & Executive Director

So the data -- it is on one of those slides. Equity line of credit is about 4% of the portfolio and 10% of the flow, that's -- interest-only is about 37% of the portfolio and 43% of the flow. Yes. So there have to be some changes, obviously, in there.

Victor German
Macquarie Research

I mean, from -- maybe, Fred, as far as you understand, is that higher than the market? And is that going to have an impact on your ability to continue to grow market share? [indiscernible]

Fred Ohlsson
Former Group Executive of Australia

I think it will have an impact on the whole market. If we compare to our competitors, we're probably quite similar to CBA and NAB, we believe, based on the information we have and the one that tends to be higher in interest only. And this is what we see in market, is Westpac.

Michelle Nicole Jablko
Chief Financial Officer

I think, also, it's probably worth noting from a flow perspective what drove it in recent times, was partly because we're quite well below that 10% cap, and I think as others were pushing the cap, we got some of that flow on and also because our pricing changes have taken a bit longer to put through. We got some extra flow. But that should reverse a little bit, which probably goes to your question.

Jill Campbell
Group General Manager of Investor Relations

So Brian? There's a mic just there.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. First off, before I ask the questions, I want to congratulate you on the strategy. But I did have a few questions. The first one is that on the CVA, in 2016, there was a $237 million charge to basically change around the methodology. In the December period, we saw the other banks report negative CVA. At the quarter, you reported a positive. We don't know how big it was, but it was a gigantic positive this time around. Why is the direction of your CVA so different?

Michelle Nicole Jablko
Chief Financial Officer

Well, I can't really comment on others. Ours -- the direction of ours was really driven by change in interest rates and spreads. And if you look in -- I can't remember what page is in the [RA], but you can see the mark-to-market movement in the -- in our derivative book. And you can see that, that's come down and that's really driven -- that's been the driver. But I can't comment on others, only ours. And when you look at last year's, that number last year, which was the negative that you articulated, most of that was catch-up. So the amount that it applied to last year was about $30 million to $40 million.

Brian D. Johnson
CLSA Limited, Research Division

The second one, Michelle, is ANZ, you very kindly used to disclose the expected economic loss over the cycle on the book. And the book's changed, and the figure used to be monstrously higher than the other guys. In this result, you loan loss charge is, what, 25 bps. We got the other banks kind of wondering around 14 to 15. You've done a great job and basically explained to us that you've derisked the portfolio. Could you share with us what you think that economic loan loss charge would actually be?

Michelle Nicole Jablko
Chief Financial Officer

Nigel?

Shayne Cary Elliott
CEO & Executive Director

Nigel can -- No.

Nigel Henry Murray Williams
Former Chief Risk Officer

No is the answer there, Brian. Thought it would be, but I mean, as the portfolio comes down, you can see where some of those risk assets will change, and that portfolio comes off and particularly also the Asia Retail portfolio, as that rolls off over the next 12 to 18 months. So I think the right time to have that concession is, is as that portfolio comes off at that point.

Michelle Nicole Jablko
Chief Financial Officer

And clearly, we'll move to a first nine, which we can be...

Nigel Henry Murray Williams

Former Chief Risk Officer

It [stacks] it all up.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Brian D. Johnson
CLSA Limited, Research Division

Michelle, just the final one. You actually had in -- that the relationship between divesting the businesses and taking cost out isn't necessarily linear. If you have a look at this result, we had a big gain on Queen Street. We had a big, basically, CVA gain. We've got the divestments, which basically -- and thus far, the units have had a higher ROE than the group does overall. Is it unreasonable to think -- and it's still a good result, but the cash EPS is actually lower next year than it is this year. Like, can you take out costs fast enough to offset a 2% to 3% EPS gap credit by selling Shanghai Rural Commercial Bank about 1 plus from basically selling UDC? Can you take cost out fast enough? This is not criticizing the strategy. But can you take out costs fast enough to offset quite a significant decline in the cash EPS last -- next year by virtue of the divestments?

Michelle Nicole Jablko
Chief Financial Officer

Yes, and that's why I made the point that it's not linear because it will -- it does take some time to get the costs out. If you look at what we said around Asia Retail, we said around roughly half the costs come out as we sell the business because they go directly and the others come out over time. So we won't get the timing perfectly right, but we certainly know what the gap is we need to solve for.

Shayne Cary Elliott
CEO & Executive Director

And I think the other -- I mean, at a very high level, the answer would be no because the -- if you're taking out significant revenue, let's take SRCB. I mean, there's no natural cost that comes out from that sale, but it's clearly -- takes out revenue. It's unlikely that in the same half where you can offset that with a cost. So you do -- it's going to need time. And secondly, there's 2 sides to that equation, the E and the S, and it depends on the S. And that's really what do we do with the capital. And we haven't made a decision on that at this point, but -- so there's -- that's something else we have to consider.

Brian D. Johnson
CLSA Limited, Research Division

And Shayne, as Panin and -- the stakes in Panin Bank and AmBank, so these are the 2 that the market value is substantially below the carrying value, where the return on invested capital, if you even do the equity-accounted earnings, is actually below the group level, whereas the other 2 were actually above. So selling those probably crystallizes a book value loss and pretty dilutes the EPS slightly more.

Shayne Cary Elliott
CEO & Executive Director

Well, AmBank's had a little bit of a run lately actually, and so it's above our book value. But, yes, yes.

Brian D. Johnson
CLSA Limited, Research Division

But generally, these are the -- these -- the number, those 2 aren't perhaps quite as investable as the other 2. Are they still for sale?

Shayne Cary Elliott
CEO & Executive Director

Well, they're different. Yes, yes, and we've said that. And that could there actually -- you're right. They're very different. First of all, so AmBank has improved quite considerably, I should say, quite a big run up in its share price. Secondly, Panin, as we know, it's not a liquid-traded stock, and there's real value in our strategic stake of almost 40%. So we're confident that, that's got real value over and above what the market share price is there.

Jill Campbell
Group General Manager of Investor Relations

We might go to -- we have a question on the phones. We might just do that and then come back to the room.

Operator

[Operator Instructions] Your first question comes from Matthew Wilson with JCP Investment Partners.

Matthew Wilson
JCP Investment Partners Limited

On Page 38 to 42 of the investor discussion slides, you provide some interesting color on the housing book. However, the most important metric with respect to assessing a mortgage loan is missing, the mortgage loan-to-income ratio. Given we all pay off our mortgages with income, could you talk to that metric and describe how the book is stratified by debt value and LTI?

Shayne Cary Elliott
CEO & Executive Director

Do you want to do -- you want to have a go?

Nigel Henry Murray Williams
Former Chief Risk Officer

I'm sorry to disgrace you, Matthew. I don't think that, that's the most important metric because I think the most important metric is actually income and expenses. And so when you think about that whole book, I don't think you can talk about income less expenses and so discretionary income as a portfolio of how you're really going to break it down right across the portfolio and right across the income bands. So I think that's a lot longer discussion.

Matthew Wilson
JCP Investment Partners Limited

Again, you don't give us any sort of insight into the LTI across your mortgage portfolio at all.

Nigel Henry Murray Williams
Former Chief Risk Officer

As I said, I don't think...

Shayne Cary Elliott
CEO & Executive Director

Nobody does.

Nigel Henry Murray Williams
Former Chief Risk Officer

I don't think it's meaningful at a portfolio level because it's got to be looked at in different bands. So no, we don't provide that.

Matthew Wilson
JCP Investment Partners Limited

Okay. With -- like the regulator in the U.K. thinks it's critical, and they've got a specific regulation on growing parts of your book at a specific LTI. Maybe that's something that could change here. But at the end of the day, that's how you pay off a mortgage.

Shayne Cary Elliott
CEO & Executive Director

We're not to say that we don't manage our business with that data point. Of course, that's something we consider. We're just saying, at a portfolio level, it's not terribly useful. But we absolutely run our business and think about our risk appetite based on loan to income.

Nigel Henry Murray Williams
Former Chief Risk Officer

And as income less expenses.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Nigel Henry Murray Williams
Former Chief Risk Officer

Which is the most important piece. And expenses actually adjust for income levels.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Nigel Henry Murray Williams
Former Chief Risk Officer

And so you see that -- you see different performance at different income levels.

Matthew Wilson
JCP Investment Partners Limited

Okay. Actually probably had a different view on expenses. Just one question on life. Six months ago was assessed as clean as a whistle. Would that still be a conclusion today given we're seeing rising claims and rising lapses?

Jill Campbell
Group General Manager of Investor Relations

What -- sorry, we missed the first part of that, Matthew?

Matthew Wilson
JCP Investment Partners Limited

With respect to the life business, 6 months ago, at your full year results, it was assessed as clean as a whistle. Is that still the case with rising claims and lapses?

Shayne Cary Elliott
CEO & Executive Director

So I'll get our Head of Australian Wealth to just comment on the state of the business.

Alexis Ann George
Deputy CEO & Group Executive of Wealth Australia

I think in terms of the insurance book, I mean, clearly, the market's going some -- through some difficulties in income protection particularly. I think our book is -- still remains very strong. We've had some experienced losses in the first half of this year, but it's not at odds with the market. And we still believe that book is very strong book. In terms of lapses, we're still betting the top 5 players in the market. We've been working on that for a number of years, so I don't see any issues there.

Shayne Cary Elliott
CEO & Executive Director

Thanks.

Jill Campbell
Group General Manager of Investor Relations

Any more on the phones at this stage?

Operator

Your next question comes from Azib Khan with Morgans.

Azib Khan
Morgans Financial Limited, Research Division

A couple of questions on the margin and one cost if that's okay. So just on margins, can we expect your LCR to reduce back towards 125%? And can we expect the NIM tailwind from that? Secondly, on margins, if I take a look at Institutional NIMs by geography on Slide 47 of your pack, there was a pretty dramatic improvement in the international Institutional NIM. This is excluding markets from first half '16 to second half '16, but it's reduced by 9 basis points subsequently. And interestingly, the Australian NIM decreased by 18 bps from first half '16 to second half '16, and that's improved by 60%. Can you please explain some of these movements? And last question on costs. So with your focus on reducing the absolute level of cost and with the Agile program that you've announced, to what extent can we expect restructuring charges to feature in the next 12 months?

Shayne Cary Elliott
CEO & Executive Director

So I'll answer the cost and restructuring charge and then hand over to Michelle on the rest of the question. We are still at the very early stages of planning for this, so we don't -- we are not implementing Agile to deliver a cost outcome. We are implementing Agile to be more a responsive bank and a better bank in terms of our customers. It may well mean that there are -- and it will mean, I'm sure, that there are some cost benefits, but we don't have a target in mind. And at this stage, we, therefore, are not expecting to have a restructuring charge. I can't rule it out because we haven't finished the work, but that is not -- it's not in our forecast, and it's not our plans at this point. And if and when -- we are planning for implementing takes place over the coming months, and we'll be in a good position probably at the next update to -- if we -- if our position on that changes, to let you know.

Michelle Nicole Jablko
Chief Financial Officer

In terms of margins, so firstly, the point on the LCR. Big driver of that was a reduction in CLF, and I wouldn't think that would be a tailwind into the future. I think that's going -- that is what it is, and actually, as we did it during the period, that probably impacts more in the second half than the first half. In terms of the geographic margins in Asia and Australia, I think what we saw -- you're right, and what we've done actually in part of our margin outcome in Institutional was reallocating some business from Asia to Australia. So that's improved -- that's had an impact on overall Institutional margins. I think -- I'll hand over to Mark in a moment. But I think what it was happening last year was there was probably -- other people were reducing assets in Asia at the same time as we were, and so margins were holding up. There's been a bit more competition since then, and the Australian environment's been different to that.

Unknown Executive

Yes. I think with -- particularly with the international market, what we saw last year, you saw an improvement in our margins because we're still reshaping the books. So that's going to flow through. We're getting rid of low yielding, particularly some of the trade margin business that we had on. So we moved that out of the book, but at the same time, the market's not standing still. So in Asia, there's still very heavy competition for assets we're still competing for over there. So you're seeing a bit of a mix on that. So that's why you've seen it come off a little bit in the second half. And the Australian margins, if you look at it, it's again -- it's a bit of a mix story. We've been repricing part of the book as you're aware, but also, the competition on -- for business store remains relatively high. So there's both headwinds and tailwinds in that business. We've also been, as you would have seen, changing the mix of our business because, as we've been taking risk-weighted assets off across all geographies, we've also been ensuring that we're keeping our deposit base up to help fund other parts of the bank. So that plays out in a high denominator in the NIM calculation because we're getting obviously more growth, if you like, in the deposit book, while we're still getting some deterioration or falling in the risk-weighted assets in the loan book. So it's a combination of a number of those factors that are playing out in these.

Azib Khan
Morgans Financial Limited, Research Division

Mark, just to follow-up on that, so with competition reemerging in Asia, are you still comfortable with the 13% ROE ambition for the Institutional business?

Unknown Executive

Yes, yes, but give me 3 years.

Jill Campbell
Group General Manager of Investor Relations

Okay, we'll come back to the room. Scott?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. You've said today that the regulator's trying to slow down volume growth, and indeed, you said you're happy to grow [added] around system, which means kind of redeploying the capital that you're releasing into the domestic market is arguably less likely. If you look at your pro forma core Tier 1 ratio with all the divestments and the organic capital generation that kind of starts to push 11% by the end of the year versus peers, which I think most people probably had benchmarked close to 10%, that gives you somewhere between, pick a number, $3 billion and $5 billion of firepower for buyback. You then got the Wealth business on top of that. Can you talk through some of the things that you're talking through on market, off market, franking credits, dividend accretion, all of these factors in the capital management scenario? Because a lot of people are focused on the earnings coming out of the business and as you rightly pointed out, not necessarily focused on the positive of that, which is ultimately amending the share count at some point, which allows the EPS growth to drive forward.

Shayne Cary Elliott
CEO & Executive Director

So with respect to capital, our view is that we are unquestionably long capital. And we have been preparing ourselves for some time for lower-growth environment, and the benefit of being more focused and exiting non-core businesses has only strengthened that position. And as I said before, I think that's been the single biggest turnaround at ANZ. We haven't done that in order to return capital. As I said, that's not been the intention. But we are getting to a point, and once APRA clarifies its definition around unquestionably strong, which we understand is weeks and perhaps months away, we'll be in a much better position to go through what those options -- what's the right target and therefore, what options we have are in front of us in terms of dividend policy or capital returns if that's the case. So we thought through all of those scenarios. Our real focus though frankly has been on getting the business into the right balance, executing the right transactions, and now we have a good problem to solve. Did you want to add anything?

Michelle Nicole Jablko
Chief Financial Officer

Yes. The only thing I'd add is different trend. As we look at the divestments we're still working on, they have different tax implications and therefore, different implications for franking. And so we just need to work through those as well.

Jill Campbell
Group General Manager of Investor Relations

Okay. Richard?

Richard E. Wiles
Morgan Stanley, Research Division

Shayne, Richard Wiles, Morgan Stanley. I've got a couple of questions. Firstly, you're suggesting in a lot of instances that you're trying to be different from peers. You've also said today that more complex pricing is likely. That probably means more customers need brokers. You say more of your customers are using digital, and you're also talking absolute cost reduction. So can you give us some thoughts as to what that means for the branch network? Do you think the -- there's a chance of additional branch closures in the future or significant cost out from the branch network?

Shayne Cary Elliott
CEO & Executive Director

Sure. So you raised a really good point, Richard, and it's already evident. In fact, the most recent data, not just at ANZ but across the market, is that more people are choosing to go to brokers, and that's in response to complexity to exactly to your point. By having different pricing around owner occupied or P&I and interest only, et cetera, there's more and more incentive. It's complex that people go and ask for advice, and we've seen that tick up quite strongly actually right across the business. Brokers provide a valuable service, and people like the service that they get. So that is going to have implications. I don't know if that's long term, but I don't see that changing at the moment. Now I also happen to think that as a result of the [Cedric] review and other commentary in the market in terms of sales incentives and banks that it's likely, at some point, there will be further regulatory and political scrutiny around the mortgage broker industry as well in terms of their own structures and centers, et cetera. I don't know where that will go, but that may well also have an impact on the industry. So those are in the background. On the other side of the ledger, in terms of our own branch network, that has an impact. But there's also other things happening, and that is just digitization. Less and less people need to go to a branch, and our customers are voting already with their feet. And so there's just less need to go into a branch today than there was in the past. They still have a role because people still want to talk to somebody when they're making an important decision. But those -- the transactional nature of bank branches has changed dramatically. And what's interesting to see is even now ATM usage is falling. And that's a new shift as well. People don't need cash as much as they do anymore. So the branch will have a different role. So I think it's a safe bet to say there's going to be less branches, not more, because customers have already chosen. I happen to be in the camp that thinks that reduction will be quite significant in quite a material shift over time. And the reality is we have less branches today than we had a year ago and 2 years ago, and that'll continue to be the trend. And I think I don't see an end to that for some years. And the cost and benefits of that, actually, the branches don't cost that much to be honest. Most of them are in regional suburban locations. They're not high-rent locations. The number of staff in a branch today is much, much less than it used to be. So the cost of running a branch is not actually hugely material. And so yes, there will be cost savings from having a smaller footprint, but that's actually -- that is not the driving force of our decisions around branches. Our customers are the driving force. They are deciding, and they're voting with their feet.

Michelle Nicole Jablko
Chief Financial Officer

Much of the cost saving from sort of increased digital just comes from better processing, so you're much more straight through in how you respond to the needs of customers. And I think that's where the bigger dividend comes from.

Richard E. Wiles
Morgan Stanley, Research Division

My second question relates to credit quality. I'm sure there's some details in the pack. But could you comment on what trends you're seeing in consumer and secured? And also, what factors are driving Commercial credit quality, whether there's any sort of pockets of weakness within that segment?

Shayne Cary Elliott
CEO & Executive Director

Sure. I think it's best if I ask Nigel to give that detail.

Nigel Henry Murray Williams
Former Chief Risk Officer

I'll start with the Corporate and Commercial piece where, I think, there's been a lot of talk around Amazon's entry to the market. But if you actually think about, Amazon will be the outcome. And between them, there's a lot of price-led competition, and we're seeing price -- a lot of price competition in retail trade and price competition in wholesale trade. So you've actually seen some deterioration in performance of that customer group, and that tends to be more in the sub-$100 million market. If you look at the credit quality from last half, we actually only have 1 customer greater than $100 million in period -- in this half. Previously, that was 4, 5, 6 customers. And so it's all on that $10 million to $100 million type bracket led by price-led competition. In the unsecured consumer space, you are still seeing pressure. The pressure is different from what was sort of seen. The question about income, you've seen some pressure in middle to higher income groups, what I classify as the sort of 2 kids at private schools, 2 cars on car lease but on high incomes. You're sort of seeing income pressure in that group. But the books are actually performing quite well on a risk-adjusted basis, so quite happy.

Jill Campbell
Group General Manager of Investor Relations

Richard, could you pass to Brett, please?

Brett Le Mesurier

Brett Le Mesurier from Velocity Trade. Couple of questions. Firstly, on Wealth. Did the disability income business actually make a profit in the first half '17?

Shayne Cary Elliott
CEO & Executive Director

Yes.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Brett Le Mesurier

Can you comment on the reduction in profit on percentage terms or dollar number, if you care, from first half '16 to first half '17?

Shayne Cary Elliott
CEO & Executive Director

For disability, in particularly, do you want to [talk to that, Ann] ?

Alexis Ann George
Deputy CEO & Group Executive of Wealth Australia

I don't have the exact numbers off by hand, but there was a reduction in the disability profit. It's still making profit though, and it's still expected to make profit for the future.

Brett Le Mesurier

And secondly, on provisioning, when I look at the major metrics on the geographic disclosures in the pillar 3, if you compare Australia and the APEA business, both have similar characteristics with the small increases in impairments in past due loans, but the provisioning for the Australian geography went up. And I'm talking about specific and collective, and for APEA, it went down. Can you comment on the reasons why that happened?

Shayne Cary Elliott
CEO & Executive Director

Nigel, do you want to just...

Nigel Henry Murray Williams
Former Chief Risk Officer

With regards to those comments, I was just talking about it, about where the pressures are. So if you look at the impairments in Institutional Asia, they were down 80%, and impairment in Australia was also down. So -- but you're seeing it's in that sector, which is the -- where there's price-led competition and impact on EBITDA margins, et cetera.

Michelle Nicole Jablko
Chief Financial Officer

And Retail Asia was pretty steady.

Nigel Henry Murray Williams
Former Chief Risk Officer

Yes, retail Asia's pretty steady.

Jill Campbell
Group General Manager of Investor Relations

Okay, any more in the room? I'm now going back to Brian.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Michelle, the 25% housing risk weighting wasn't really 25%. They changed a number of things. Is it fair to say that absent any future changes, you've now fully captured that 1 July move? Is the model now fully accredited by APRA and the RBA? Or is it about another 10 bps to go?

Michelle Nicole Jablko
Chief Financial Officer

Do you want to?

Nigel Henry Murray Williams
Former Chief Risk Officer

So existing model fully captures that. However, with all our models, we're going through a process of upgrading all of our models, which will be submitted to APRA. So as you have new models submitted to APRA, you would expect them to focus on some of the areas which are popular in the media at the moment and are talking about some [base through only] loans.

Brian D. Johnson

CLSA Limited, Research Division

So even absent any regulatory intervention, there probably is a little bit more risk-weighted...

Michelle Nicole Jablko
Chief Financial Officer

Well, we said in August we thought it would go somewhere in the 25% to 30% range, and then the question is does APRA do anything else. We don't know.

Brian D. Johnson
CLSA Limited, Research Division

So we're still not got that first leg through?

Michelle Nicole Jablko
Chief Financial Officer

No.

Brian D. Johnson
CLSA Limited, Research Division

Okay. And so is it about -- is it still about an up 10 bps capital?

Nigel Henry Murray Williams
Former Chief Risk Officer

No, I wouldn't be drawing on those numbers. We've got our model approved at the moment. As we go to a new model, then I would expect the discussion on a new model to be around those segments of investor mortgages. We -- APRA wants to see it along that. I can't speak for APRA.

Brian D. Johnson
CLSA Limited, Research Division

The second one is that if you actually have a look at Page 99, the available-for-sale investments reserve has gone down from $149 million to $31 million. One of your peers has -- seems to have been quite active in liquidating bonds to generate gains going through the P&L. Can we confirm what's caused the delta? Has it been a P&L impact on that reduction in the available-for-sale investments reserve?

Shayne Cary Elliott
CEO & Executive Director

Do you want to answer that, Shane? Have you got a microphone? Is there...

Shane M. Buggle
Group General Manager of Internal Audit

[indiscernible]

Shayne Cary Elliott
CEO & Executive Director

Just...

Brian D. Johnson
CLSA Limited, Research Division

So it's just rising bond rates of lower devaluations?

Shane M. Buggle
Group General Manager of Internal Audit

Yes, it's valuation adjustments going through there, but there's been no P&L impact.

Brian D. Johnson
CLSA Limited, Research Division

Okay. And the final one is, yesterday, the Reserve Bank of New Zealand came out with their discussion paper, which is pretty complementary running through what they're going to look at when they look at New Zealand capital. Do you think it actually increases the level 1 capital requirement in New Zealand? And would that have an impact on ANZ's level 1 in Australia?

Shayne Cary Elliott
CEO & Executive Director

Do you want to answer that, Nigel, if -- did you -- I didn't see the report yet so...

Nigel Henry Murray Williams
Former Chief Risk Officer

Yes. So on New Zealand, it's impacted as it flows into Australia. Depends how APRA treats that. And so that's still outstanding.

Michelle Nicole Jablko
Chief Financial Officer

But we don't know what it will be.

Brian D. Johnson
CLSA Limited, Research Division

So it'll have no level 2 impact but presumably there would be an impact to the level 1 in Australia.

Nigel Henry Murray Williams
Former Chief Risk Officer

Until we actually -- until APRA starts commenting on that, I think it's too early to call.

Jill Campbell
Group General Manager of Investor Relations

Are there any more questions on the phone?

Operator

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

David Spotswood
Shaw and Partners Limited, Research Division

Just a couple of quick questions. The asset repricing, the loan repricing that you've already announced, I mean, what do you expect the impact of that to be in the second half? I mean, will your margins go back to where they were in the last 2 halves? That's first question. The second question, I think you said, Shayne, I'm not sure if I heard it properly, that you expect the bad and doubtful debt charge to fall over time. So could you just confirm that or not? And the third question, could you just remind us of what the profit you're going to lose from the announced asset sales so far?

Shayne Cary Elliott
CEO & Executive Director

So let me just answer. So in terms of the provisioning costs, what I said was that I'm confident that our strategy will derisk our business, and that will lead to lower loss rates over time. And so yes, that will happen. It won't be a straight line. As I mentioned, we still retain a reasonable exposure to the Corporate and Institutional business, and therefore, there's always an element of lumpiness from half to half. But the reality is we will have a lower-risk, better-balanced business. And one of the benefits of that is a lower loss rate in time. So yes, that is absolutely part of the design, if you will, around the rebalancing they're undertaking.

Michelle Nicole Jablko
Chief Financial Officer

If I go to the margin question first, I stepped through a number of things that impacted margins, so some were of our doing and some were the market. If I look at those, we've spoken about asset repricing, so that should be a positive. And we've spoken about deposit cost. That should be positive in Retail. In Institutional and Commercial, we have to wait and see. The thing that -- the other thing I spoke about, which was about half of the reduction in margin was the impact of the CLF and lower earnings on capital. The lower earnings on capital should abate a bit as we go forward because that just takes time to roll through. But I -- the CLF impact will continue. So you got to look at those things sort of weighing against each other.

David Spotswood
Shaw and Partners Limited, Research Division

So the margins could bounce back to where they were in the previous 2 halves, 2.05%, 2.07% [indiscernible]?

Michelle Nicole Jablko
Chief Financial Officer

Nice try.

David Spotswood
Shaw and Partners Limited, Research Division

And the asset sales you've announced, can you just kind of remind me on the dollar impact?

Michelle Nicole Jablko
Chief Financial Officer

So we've got a slide in the back of the pack, which has stepped that through. So Asia Retail made about $50 million of profit, but on top of that, we've spoken about the fact there's some costs that we have that support that business that will be left behind. And we spoke about that when we announced it. SRCB is, call it, about $250 million, UDC about $60 million of profit. And then you've got the offsetting capital impact of about 65 basis points on all of those.

Jill Campbell
Group General Manager of Investor Relations

There is a slide in the pack that talks to this, David, so after we finish this session, I will send that to you. Okay, I think with that, we're done. So thank you, everybody. Do want to make some closing remarks?

Shayne Cary Elliott
CEO & Executive Director
Yes, I'll just finish up. I just want to say I'm really pleased with the result, and we -- our revenue number was actually pretty good in the environment. Our expense result is really strong and will continue to be so. We've strengthened our capital base materially. We're in a far better position than we've ever been, and we've improved our ROE. So I'm very pleased with the progress we've made. I'm really excited about the opportunity we have ahead. We know we've got to do more, and I'm confident that we have the team to deliver that for you. So thank you very much for today, and we're done. Thank you.