Question and Answer

Jill Craig
Former Group General Manager, Investor Relations

Okay. Despite the fact that I know you're more than familiar with this, I'm going to bore you with it anyway. So microphone will come to you, if you could announce yourself so that people on the web and the phone can hear you. We'll go to the floor first and then go to the phone and so forth. And with that, if we go to Craig, please.

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi. The strength of your Australian Division has held you in good stead this year. Pre-provision profit growth was 12% year-on-year, but sort of slowed 2% half-on-half or 4% annualized. So how much of this slowdown is the market, slowing volumes, increased discounting, competition? How much is organizational as you implement such a large degree of restructuring and the dislocation that comes with this? And with respect to the New South Wales growth strategy for that business, it's an obvious one for the medium term given your size, but how attractive is this path in the near term as the 2 largest New South Wales banks have gotten more aggressive as competitors?

Shayne Cary Elliott
CEO & Executive Director

So I'll get Fred to answer that in a second. But just in terms of where the growth's come from, it's a good observation. I mean, I don't believe that any of the slowdown in the second half is due to any of the organizational changes that we've made per se. I believe it's really -- we have changed our risk appetite. We've accepted that this is a time to be more cautious about growth from a risk perspective. And so we've seen some pretty aggressive pricing out in the marketplace and we have taken a view, and we've been really clear with Fred and the team that it's okay to just step back a little bit from aggressive growth for now. So I think mostly it's to do with that rather than the outcome of any particular change we've made organizationally. But Fred, do you want to talk about the New South Wales strategy because we're still very committed to growth here but...

Fred Ohlsson
Former Group Executive of Australia

Yes, yes, absolutely, so -- and there's a couple of things I'll point to. In this year, we have refurbished the most branches of -- in any state we've done in New South Wales and we've opened more new branches, more than 25 in total. We've also put on roughly more than 200 staff, predominantly frontline bankers here in New South Wales. And what we're seeing as a consequence is that we are growing above the national average in New South Wales across all our product lines and all our segments. And we expect that to continue in FY '17, too.

Michelle Nicole Jablko
Chief Financial Officer

It's worth adding also that the organizational changes in Australia were in the sort of middle, back office. They weren't in the frontline at all.

Jill Craig
Former Group General Manager, Investor Relations

Craig, if you can just pass it to Jon.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. About a month ago, you were down in Canberra in front of the parliamentary inquiry and credit cards were a big issue there. And you said that you had capacity to lower credit card interest rates. And then you were asked and you said you'd take leadership on this. So I wanted to get some numbers around this. If you look at the Australia net interest income for the year, $8.2 billion. How much do you expect that to be impacted over the next 12 months as you take leadership on credit card interest rates?

Shayne Cary Elliott
CEO & Executive Director

So what we're going to do on credit -- it's a good question and I did say those things. What we're going to do on cards, first of all, is remind our customers and the marketplace that we actually already offer low rate cards. In fact, I don't think we've done a very good job of really making it clear. We have low-fee cards, we have low-rate cards and then we have a high-rate cards that come with all sorts of benefits in terms of insurance and air miles in particular. And they've -- so we've got to make that very clear. If people want a low rate, it's available actually and they are rates in the low teens, so that's one. Two, we have looked with Fred and team at whether some of the rates that we are charging on some of those products are appropriate. In particular, there was concern around the rate that was charged on cash advances, so that's under review right now. And we expect to be making some changes and announcements about our card business and our market offering towards the end of this year. In terms of the actual impact, the total cards portfolio revenues -- total revenues is more in the circa of $1 billion, so any decisions there would be relatively minor in the scheme of things, Jonathan.

Jill Craig
Former Group General Manager, Investor Relations

Jon, if you pass to Victor, so we can just keep going around in a circle.

Victor German
Macquarie Research

So I was hoping to ask 2 questions, one on cost and one on credit quality. On costs, you've given -- Michelle, you've provided some numbers around the expectations for FY '17. And from what I understand, you're sort of saying the restructuring charge should be around $200 million of incremental cost saves. Earlier -- or last week, we heard NAB looking to deliver around $200 million of cost saves without actually taking new restructuring charges. So it'd be interested in your observations to kind of -- I understand that those restructuring charge is going to lead to that $200 million of cost saves. Maybe if you can talk, what do you plan to do in excess of that because presumably, $200 million is not probably enough? And then the second point on BDDs. We've obviously this year, been impacted by legal settlements with -- you talked about that Institutional Banking BDD is actually trending sort of to a more normal level. I understand there are some concerns around other parts of the portfolio but the flat BDD charge in FY '17 seems like a pretty high number. So it that just your view on the economy here? Do you expect things to deteriorate? Or do you still see that there's some differences with ANZ's credit quality relative to peers? Because I would've thought if Institutional is improving, you should actually at least, relative to peers, start to see convergence in that charge.

Shayne Cary Elliott
CEO & Executive Director

So why don't -- I'll start on the cost one and then I can get Michelle to answer some more questions on that. So we're not going to give you a target number for kind of cost savings that are not relating to the restructuring charges. You're right, not all savings that we look at in terms of cost have to have a charge associated with them. It's largely to do with when we're drawing down people, unfortunately. But you're right. I mean, part of the dividend and part of the streamline, the whole purpose of restructuring the organization and rethinking it and simplifying what we do and when we do it is to just to naturally drive out a lot of cost. And so we have seen -- I mean, it's important to note that about half of the FTE reduction came from just managing attrition, so it didn't come at any cost. We would expect more of that. We would expect more management of our discretionary costs. A more streamlined organization doing less things in less places naturally costs whether it's about the marketing spend we have, whether it's around travel cost, whether -- any of those things will be removed. And then the -- but the big opportunity for us is really about process improvement. We talk about digitization and what's that? That's just about streamlining processes and making them simpler and cheaper to do. They don't come at a restructuring cost. There might be cost in investing in technology but we think that we can absorb that cost within our current envelope of about that $1 billion that we spend on new projects every year. We're just going to put more and more of that towards taking out cost. And in terms of the -- do you want to add anything on the cost...

Michelle Nicole Jablko
Chief Financial Officer

The only other thing I'd add, so if you go to the fact that about half of the FTE that came out was restructuring in '16 and half was attrition. Of the half that was attrition, some of that was actually managing roles out of the organization as well. So some of that -- some of the attrition roles will come back but others are out for good. And on top of that, you have other natural attrition as well. Offsetting that, as I said in my remarks, there is some natural inflation that happens in the business as well. So you've got to take all of those factors into account. And just...

Victor German
Macquarie Research

So with 7% reduction in headcount, what proportion is relating to restructuring?

Michelle Nicole Jablko
Chief Financial Officer

It's around a half. So half, yes.

Shayne Cary Elliott
CEO & Executive Director

Yes. About half.

Victor German
Macquarie Research

So the other half have is not included...

Shayne Cary Elliott
CEO & Executive Director

Yes, you've got to be a little bit careful here without -- not all FTE are -- they're not all equal, right, in terms of some are very senior, some are very junior, they have different costs, right? So the natural attrition generally comes in the lower cost people, right, because that's generally where we have high turnover anyway, and the restructuring is generally targeted towards the more senior and more expensive people, so it's not totally 1:1. In terms of your credit cards, look, I think it's a fair observation. I guess what we're signaling here is more that when we look in -- and most of it's to do in Australia and New Zealand but even in Asia. What we're saying is we see the credit environment is being reasonably stable. There's a little bit of stress in places. We see that from -- in Australia, in terms of underemployment, so not so much unemployment but people -- household incomes stagnating and falling. That's putting people under a little bit of stress. That's feeding through into the small business, that's feeding through into the corporate sector. So there's some signals out there are that these things are going to be perhaps, a little bit worse so we should be cautious. But having said that, you're also right to say that as we restructure Institutional, in theory, we are reducing the inventory, if you will, of our potential credit problems in Institutional that's also true. We'll just saying that over next year, we're taking a conservative view that says we would expect the loss rate to be in those low 30 basis points, right?

Michelle Nicole Jablko
Chief Financial Officer

Yes. The only thing I just might add on that is the sale of Retail Asia doesn't start to complete until the second half of the year. And so the provisions associated with that probably more of those go in 2018 than 2017.

Shayne Cary Elliott
CEO & Executive Director

And the reason to be -- there's some reason to be, I guess, optimistic on the actual charge and that is as we shrink the balance sheet, and that is obviously what's happening, if you apply that loss rate in the low 30s, the actual number, there's a possibility that the actual provision number will be lower. But the purpose of us saying that we think it will be broadly the same is that's how we're running the company. We're running the company not assuming we're going to get a free kick on the provisions line. We're running it cautiously.

Victor German
Macquarie Research

So will it be fair to assume that the relativity within you and peers should shrink?

Shayne Cary Elliott
CEO & Executive Director

It should. I mean, part of the benefit of -- if you go back to our strategy of simplifying the business and rebalancing, it's a recognition that we at some -- we've kind of over-weight Institutional, if you will. And with it comes risk and volatility. And part of the benefit of the rebalancing is to be more in line -- well, one of the outcomes we will look more in line with our peers. It's not our intention necessarily to look more like peers but that will be an outcome, yes.

Jill Craig
Former Group General Manager, Investor Relations

Jarrod.

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. Shayne, we've heard consistently over the last 5 years that the partnerships in noncore, we're selling them. I think we have sold PT Panin half a dozen times at least in that period of time. We've heard it again today but it sounds that there's a bit more motivation from yourself. We've observed that in the last 6 months, you've managed to actually divest the Asian Retail & Wealth business which is a blue brand, effectively. So it appears that it's much easier to divest something that is fully your own than a partnership. And then implication is that to get rid of the partnerships, do you actually have to take a material write-down? And how close we are to any of those in the next 6 months?

Shayne Cary Elliott
CEO & Executive Director

So the core [ph] of those observations are fair. Clearly, it's easier to sell something that you're in full control of. And the nature of partnerships is that we have partners and we -- all 4 of those banks, the 4 states that we're talking about, operate in tough regulatory environments where there's a lot of political issues to deal with in terms of ultimately, getting a sale approved. Our intention hasn't changed. I don't think it's gotten more intense or more -- we're more keen to sell. We've always been keen to do that, they're just complex. I think it's not about price, actually, Jarrod. It's not that we're not willing to take losses and that's why we're reluctant. We don't need to take losses. I think with the exception of AmBank which we have impaired and clearly got some issues on that one, the others are -- well, even AmBank, they are attractive propositions for the right buyers. It's not about a lack of buying, it's not about price, it is just complex situations in getting through the approvals of both our partners have to improve who's buying and obviously, government and regulators in each of those markets. It's unfortunate but that's the way it is.

Jill Craig
Former Group General Manager, Investor Relations

Andrew?

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman Sachs. Just a question on your ROE. A big part of the portfolio rebalancing you're undertaking is about improving the returns to the business. You've done about $20 billion of runoff in the Institutional businesses this year, reasonably evenly balanced in the first and the second half, that's expected to slow going forward. I'm just wondering, are you disappointed with the ROE outcomes you've seen to date, just at a group level to the extent that if we look at the half-on-half ROE that's sort of been stuck at around sort of in the low 12's? Can you just maybe talk about some of the timing issues around when we should see ROE start to improve?

Shayne Cary Elliott
CEO & Executive Director

That's a really good question. And again, it is the purpose of doing this. It is. We want to increase our allocation to our Retail and Commercial business while sort of maintaining their returns. And we want to shrink our allocation in Institutional while improving the returns on Institutional. The returns on Institutional are improving and are coming through. What you're seeing at a group level is we had a coincidence of time here. The same time we're able to reduce Institutional pretty materially, we had to increase the risk weighting in our mortgage book in Australia because of the new risk floor. So the good news is we're able to absorb all of that. So that's acted as a drag on returns at the same time we're getting the benefits in Institutional. I'm really confident that the returns will improve from the rebalancing. The total extra amount of regulatory cap that we got from the risk weighting in Australian Retail is about the same. It's actually more than the CRWA reduction we had in Institutional, it's in the mid-20s.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

In the group level, that capital was already held in the business form last year?

Shayne Cary Elliott
CEO & Executive Director

True, true. But understand, so look, am I disappointed? No. We're doing the right thing. I'm really -- I'm actually really pleased with the progress we've made in Institutional. It's not easy to reduce at that pace and do it responsibly and still -- and I think the outcome on -- look at margins, look at the revenue reduction, it's pretty good. We will get the ROE benefit in time. I'm confident of that.

Jill Craig
Former Group General Manager, Investor Relations

Richard and then we'll go to Andrew Triggs.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. I have a couple of questions. One relates to cost and the other relates to capital. On the cost, your pro forma results look really good, up 1% year-on-year and 0.5% half-on-half but obviously, they exclude the specified items. The amortization cost net seems to be up $190 million. The restructuring was up to $80 million. I understand from your comments today that they will be included in normal operating cost next year. And then within your pro forma cost licensing and outsourcing, it was up $150 million in the year, professional fees are up $100 million. So if we take all those together, there's $600 million of additional cost that you've baked into the business this year. Can you give us some indication of whether that restructuring charge goes to 0 next year, given that you've still got $112 million in in the kitty to use? Does that net amortization impact start to fade in future years?

And is the uplift in outsourcing and professional fees, is that one-off, because you've been restructuring this year or is that going to stay at that elevated level?

Michelle Nicole Jablko
Chief Financial Officer

So why don't I take some of those. So just to go through them again, so on the restructuring charge. So that -- while that -- I'm just trying to make sure I've got your question right, Richard.

Richard E. Wiles
Morgan Stanley, Research Division

Well, the restructuring charge was $280 million this year. You said next year, it might be a specified item, so there's going to be some changes in there. Does that come back towards 0 or...

Shayne Cary Elliott
CEO & Executive Director

So look, what we're seeing there is that we're going to continue to restructure of the business. We're going to continue to streamline and make it simpler. That will mean that there will be some cost associated with it. It won't be $280 million, right? I don't think it's going to be in that ballpark. But it's still going to be a reasonable amount. The real question and I think it -- in many ways if we could spend the $280 million, that might be a good thing. It's really are we getting sufficient benefit from it. And what Michelle showed you, I think, on average, the sort of benefit we're getting from the restructuring charges, they're paying for themselves in the year they're taken and we're kind of getting a double -- a 2x payback permanently. But I don't think they're going to be of that magnitude going forward and they will be in our normal business. The other thing to note in there was that when you talk about professional fees and the consulting fees, the outsourcing, et cetera, some of those are actually the sorts of things that actually would have been capitalized in the past, right? So one of the other things we changed in the software, we also changed what we capitalized. So we've changed not just the threshold, we're being much tougher on what we allow to be capitalized. So it's really, really now about the software, not just all the professional fees that go with it, so we take it in the OpEx line.

Michelle Nicole Jablko
Chief Financial Officer

Yes. So I might talk about what's happening in the technology cost because it is a bit -- to follow it through, given some of the changes we made requires a bit of explanation. So when we changed the software policy, the bulk of that cost was really felt in TSR, in the technology part of the business. If I look at what did we actually spend on technology this year in real dollars, we had -- there's investments and there's BAU technology. Of our investments, we invested about the same, a little bit less than the year before. And the reason it was a little bit less was we got a bit more efficient in our project delivery, but roughly around same. In terms of BAU, the cost on a BAU sense was up only about $15 million. So we took some people out, we did variable-ize the workforce a bit, so some of that was replaced with outsourcing. But in the net sense, it was up around $15 million. Some of that $15 million probably, there were a couple of one-off savings we got, small in the context of things. So that number might go up a little bit next year, but that's how I sort of think about technology. And then in terms of the software, the $190 million, if I look at what we're investing this coming year in '17 relative to '16, we're talking pretty similar numbers.

Richard E. Wiles
Morgan Stanley, Research Division

Can I ask on capital? There's been a lot of focus on mortgages but the Basel proposals which hopefully, will be finalized in coming months, suggest that the risk weighting on specialized lending should be 120%. The risk weighting on corporate exposure should be 60% and the banks shouldn't be allowed to use internal models. Now, in coming up with your 14%, 14.5% international ratio, you're -- it looks like you're using risk weightings of about 80% on specialized lending and about 35% or 40% on corporate loans. So if those proposals come in and they're not watered down, you're going to have a very big increase in your risk weightings on 2 quite large categories. Do you expect it to be watered down? Or do you think that there's a risk that your capital requirements for specialized lending and corporate loans go up quite materially?

Shayne Cary Elliott
CEO & Executive Director

So I'm not sure whether, Nigel, you want to -- in terms of the views on that one. That's a -- I mean, it's kind of a work in progress here. It's a tough one to know.

Nigel Henry Murray Williams
Former Chief Risk Officer

Yes, I think it's a work in progress. There's a lot of speculation as to what it may or may not be. Clearly, there will be changes in the corporate loans and you would expect also the corporate loan pricing to adjust accordingly as well because I don't see that capital is going to be deployed -- additional capital is going to be deployed into those areas. I think the indications are that it will be watered down but I think the speculation is -- I think it's too dangerous to speculate on just how much of that will occur. We have to wait and see. We're expecting the result on past practice, probably December 24 if they release it. So let's review it in January and see...

Shayne Cary Elliott
CEO & Executive Director

I think the point is that -- so don't debate that there's going to be probably more capital allocated to that business. That just kind of reinforces part of our rationale for shrinking our allocation of capital to the business, and making sure that we are deploying our balance sheet really, really wisely to those customers who are prepared to pay for it. And we've done a really good job. And I think Mark and the team deserves a lot of credit for getting started fast, but there's still a lot more to do on that. We don't doubt that for a second.

Jill Craig
Former Group General Manager, Investor Relations

So, Andrew Triggs.

Andrew Triggs
Deutsche Bank AG, Research Division

Look, just a couple of questions, please. Firstly, on the markets business. We talked in the past about the reliance or overreliance or abnormally high reliance on the balance sheet side of things which is probably the lowest quality of those 3 drivers. It looked like in the second half is back to sort of old style levels, sort of reliance seem to be similar to what it has been in the past. Should we look at then in the second half '15 and first half '16 as just being sort of onetime sort of weak numbers? Or -- and did you do anything differently to achieve that or was that literally just a result of...

Shayne Cary Elliott
CEO & Executive Director

So no, we didn't do anything differently to achieve it. I think the way we run the business is not to assume that we are going to generate those sorts of revenues, right? So I think when we set our resource allocations in terms of targets and returns, we have to assume a much, much lower number from the balance sheet. And if we happen to do better, that's great and it's a kind of an added benefit but it's -- you don't run the business targeting that kind of 250 a half. That would -- I think that would be irresponsible and push unreasonable risk-taking. We talked to Sydney last year about by the fact that we had thought that there was going to be a permanent reduction in the revenues coming from balance sheet for a couple of reasons. One, just because of the interest rate cycle that we were in. Well, that's proved to continue a little bit further than we thought. And two, partly because of the, I guess, some of the behaviors in the market due to a bit more scrutiny from regulators and different expectations around that business. We thought there might be more likely to be like the first half in those kind of mid-100. So I just look at the second half as being a kind of a pleasant surprise, a good thing. We don't count on it going forward. And Michelle's comments when were -- when we think about markets, it's been a good business for us. We do really -- I'm not talking about the balance sheet, we do really well. We are a leader in corporate foreign exchange. We've got a good -- this change in the CBA puts us -- the pricing derivatives right up here with the very best global counterparties. So we've got a great business. Sales has held up incredibly well, but we think the business is about right with that $2 billion of revenue. We don't want to push it to be the driver of growth for the Institutional or for the group.

Andrew Triggs
Deutsche Bank AG, Research Division

And the second question on the customer deposit side of things. Deposits in total grew just 1% on last year and obviously, with the Insto runoff, that gave you good runway to pull deposit rates right down. We've seen that in at least, Australian term deposit pricing. As the Insto runoffs start to slow a little bit, do you think there's a little bit of a headwind from having to get a little bit closer to the pack on what you're offering in terms of...

Shayne Cary Elliott
CEO & Executive Director

Yes. I think that's a potential here, absolutely. I mean, one of the things that we don't talk about it here I guess, enough but part of the restructuring and rebalancing of the business is to shift our focus much more to be a deposit-gathering machine. I mean, I think we have been too reliant on the asset side for growth and the income scrambled around to fund it and et cetera, and that's worked well. I mean, we've done well at it, but it's not sustainable. And part of the refocus of Institutional is really to build this cash management business. And again, we didn't talk about it in here but the cash management business has done remarkably well. I mean, we have managed margins up in that business incredibly well in an environment where interest rates have been falling. And that's so -- we've got a much better platform in cash management today. We're not exactly where we need to be on that but yes, we need to change it. Part of the repositioning is to build Institutional in particular into more of a corporate cash management machine and the same in the Australia division. We had said that we lag our peers a little bit on that. Part of it's historical, there's business mix. We don't have, for example, we -- the government businesses and public sectors generally don't advise [ph] 2 banks and we don't have part of that to our benefit and there's a lot of cash in that. But we've got some really interesting plants about how to build our cash gathering capability in Australia. And it's going to be really key, but it's not going to happen overnight.

Jill Craig
Former Group General Manager, Investor Relations

We'll go to Brian and then Brett and then we have some questions on the phone.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Congratulations, Michelle. Anyone that can get their head around how a bank works so quickly is quite impressive. That said, a few questions.

Michelle Nicole Jablko
Chief Financial Officer

I knew that will be...

Shayne Cary Elliott
CEO & Executive Director

It's a major uplift on the last as well. That's what we know.

Brian D. Johnson
CLSA Limited, Research Division

There's a long of track record of not answering the questions, Michelle, but let's see what we got. Michelle, the first one is, in the past, you've detailed that you're well-placed to meet the future in stable funding ratio but you've avoided actually saying what the ratio is. You've just basically sold a very deposit-rich business and we tend to see all the numbers on a group basis. First question, can you confirm that you are greater than 100% right now? The second one is that we actually -- so I'd be interested in what you think the vulnerability on the NSFR means to future deposit pricing because it's clear that ANZ's term deposit pricing is actually going up again in the market right now. Second leg of that question is next year's budget for access to the CLF goes down. Can you get a feeling on what those 2 dynamics basically do to the margin? And then after you answer those ones, I've got a question for Nigel.

Michelle Nicole Jablko
Chief Financial Officer

Okay. So I'll take NSFR first. I think we do say at the back of the pack somewhere that we're above 105%.

Brian D. Johnson
CLSA Limited, Research Division

Yes.

Michelle Nicole Jablko
Chief Financial Officer

And the sale of Retail Asia doesn't change that. In terms of vulnerability to future pricing, I mean, deposit pricing, there has been some competition in deposit pricing. The fact that the rest of the system feels okay on NSFR helps a bit but it's still -- I think there will still be continued pressure in deposit pricing. In terms of the CLF now, I forgot what your question was...

Brian D. Johnson
CLSA Limited, Research Division

It goes down [indiscernible] next year it goes down which means you got to hold those bonds which means your margins go down, or we thought. Could you quantify it for us, Michelle, maybe Rick could give us basis points?

Michelle Nicole Jablko
Chief Financial Officer

I'll ask Rick to quantify it.

Richard Marc Moscati
Former Group Treasurer

So our CLF will go down. It's been going done, by the way, since day 1, right? It's been going down by about 10% a year and I think this is broadly similar. So it'll have a minor impact but it won't be large.

Brian D. Johnson
CLSA Limited, Research Division

Is it a greater than 1 basis point on the margin?

Richard Marc Moscati
Former Group Treasurer

It wouldn't even be that large.

Brian D. Johnson
CLSA Limited, Research Division

Okay. Nigel, slide -- I'm well. Nigel, Slide 72, 6 months ago, the exposure with default in Asia was $88 billion from memory and we've heard a lot of stuff today about the rundown, disciplined rundown. I see it's now gone, I think, from $88 billion to $83 billion. But when you actually have a look in at things like energy is still sitting at 4%. And if you actually go -- and I know that some of these things would be scarless [ph] but if you go to some of the debt aggregators, ANZ does pop up with quite a few of the single names. Now I won't detail some of the single names but it is -- could you just run us through where the risks are in that slide? Where are you seeing pressure?

Nigel Henry Murray Williams
Former Chief Risk Officer

I thought -- that makes a change, I thought you were going to ask me about the dairy overlay. The...

Brian D. Johnson
CLSA Limited, Research Division

Well, that's obvious you need one. Everyone in the room knows that.

Nigel Henry Murray Williams
Former Chief Risk Officer

We know dairy's up 65%. Look, on the energy one, clearly some of the big names in energy actually are based either in Asia or in Europe and America, so those names end up being Asia domiciled for what are some of the Australian energy projects as well. So it makes sense. If you look at the large importers of energy, you've got China, Korea, Japan, all large importers. So it makes sense that they are some of the exposures that we have. Look, a lot of them are actually short term so they are trade-related exposures as well. I'm actually very comfortable with the energy portfolio there. In the mining piece, we've now had coal prices up 100% since the March 31 date, and I think some of the risks around that are reducing. Those coal prices aren't factored into our provisioning levels in the second half. That's still based on prices front back from since June, July. So that really big ramp-up has occurred since then. So I'm actually a little bit more optimistic on a lot of that energy outlook in the second half.

Jill Craig
Former Group General Manager, Investor Relations

Brett Le Mesurier.

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

Brett Le Mesurier from Velocity Trade. A question on the APEA Institutional business. Your geographic disclosures say that the ROE in that business in the second half was in the range of 2% to 3% which was down from 2015 and down from the first half of '16 as well. What level do you think you can get that ROE up to, and how long will it take? And also, given that in the announcement last week, you said that 55% of the expense is in the Retail business related to cost allocations. Can you comment on the cost allocations in that business as well?

Shayne Cary Elliott
CEO & Executive Director

Sure. So we don't consider APEA as a business and we don't run a business called APEA. Some revenue and cost happen to sit there and when you add them up, they produce an ROE. So it's not saying that we manage it. We manage Global institutional bank and we manage our Retail and Commercial businesses. So I think that while the geographic disclosures that are meant to be helpful, I'm not sure that they are, to be honest, because actually, as I said, we don't run the business on that basis. What we are looking at is improving return on equity of the Global Institutional bank. And that, as we talked about before, is heading in the right direction. It's heading in the right direction because we are reducing, a, the capital and we're going to get more benefit from that, and we're reducing cost at the same time. And we've been able to do that with a fairly small reduction in revenue. And so the return on equity, that is why we're restructuring that business and that's what will happen. So again, we don't really look at the APEA piece. In terms of the Retail & Wealth business, you're right. We mentioned that the business that we're selling has 55% or whatever the number was that's sort of allocated. Some of the allocation is -- I know this -- some of the allocation's kind of direct in nature, it's -- you might be operations in Bangalore or Manila that's directly for that business but it comes through as an allocation. And so that's reasonably easy to identify and remove at the right time. And some of it relates to corporate overhead. And we have country structures, we have chief risk officers, chief executives, we have people on countries, HR teams and systems that get allocated a little bit to Retail. Because the Retail business isn't there, those costs don't naturally fall away from banks. So we have to work hard to streamline middle and back office functions, particularly the middle part, to take those costs out. That is absolutely a big task and that's what we're focused on doing.

Michelle Nicole Jablko
Chief Financial Officer

I might add to that just a little bit. So in terms of the business we've sold, the operations people that work directly in that business, a large part of them actually go with the sale as well. It's probably -- and I can't remember the number off the top of my head, but it'd be north of 70%, I think, of the operations piece. The other categories of cost, there's property. So there's property in Asia that's shared between the Institutional business and the Retail business. I think over the next couple of years, we see opportunities to actually get that footprint right. And then the other 2 buckets are really technology and shared technology. So there's growth but there's also just Asian technology that's shared between the Institutional business and the Retail business and then, just as Shayne said, the group overheads. So that's why a large part of it, we think we can work to get out over the next couple of years. And then there is a remainder that we'll have to think about in the context of the overall simplification of the bank.

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

So it sounds like the Asian Institutional head office allocation is similar to the Retail business. Is that fair from what you've been saying?

Michelle Nicole Jablko
Chief Financial Officer

It depends which of those allocations you're talking about but -- are you talking terms of absolute -- not in absolute number but in terms of percentages? I mean, it's different for different line items but broadly.

Jill Craig
Former Group General Manager, Investor Relations

We have some questions on the phone so we might move to those please.

Operator

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

Matthew Wilson
JCP Investment Partners Limited

Divesting or downsizing life risk has proven to be a very expensive exercise for shareholders recently. One just has to look NAB and E&P north of $1 billion. How comfortable are you with your best estimate assumptions that underpin that EV of $5 billion? Given the industry structural issue, what level of investing is required to separate the business? And have you attempted to de-risk in the meantime via reinsurance arrangements?

Michelle Nicole Jablko
Chief Financial Officer

Okay, I'll take those. So in terms of our EV and the assumptions, our EV actually went up about $0.5 billion this year, and our experience relative to our assumptions was pretty good, it was pretty close to spot on, actually. So in terms of things that are happening in the industry, I think they're pretty well incorporated into our EV assumptions. In terms of separation cost, it's probably a bit early to talk about those. That's something we talk about when we know what we're doing with the business. And sorry, I've forgotten the third of the questions.

Matthew Wilson
JCP Investment Partners Limited

Have you looked at reinsurance in the meantime?

Michelle Nicole Jablko
Chief Financial Officer

Oh reinsurance. So in terms of reinsurance, we actually are relatively well reinsured in that business. So potentially, a little bit but nothing material.

Operator

The next question comes from Andrew Hill from Merrill Lynch.

Andrew Hill
BofA Merrill Lynch, Research Division

Two questions, if that's okay. First one just around Institutional. If we look at Transaction Banking, as the risk-weighted assets have come down, the ratio of revenue to risk-weighted assets has rebounded substantially and it's now sort of above historical peaks. I just wondered is this sustainable? And can you deliver similar outcomes in the other Institutional segments, loans and markets? And the second question was, given it looks like we're pretty close to a Fed rate hike and your balance sheet has changed quite a lot in composition, can you just remind us of the P&L sensitivity to a 25 basis point move in the -- by the Fed?

Shayne Cary Elliott
CEO & Executive Director

So the reason that the Transaction Banking margins, if you will, the returns have improved so dramatically is really there's really 2 aspects there. One is that we have reduced our assets in the trade finance business. And trade finance typically, as an average, is a lower-return asset than most others. And so by just being more selective about that and you saw the particularly in the first half, that will improve the average margin in the business. And secondly, Cash Management is in that business. And the Cash Management is largely -- has very little kind of risk-weighted assets associated. It's mostly operating risk rather than anything else. That's a terrific return business and so, the more that the weighting shifts towards Cash Management as opposed to Trade, you also get that. We've seen both and we would expect -- the trade business is unlikely to shrink anymore, we wouldn't want it. Trade's a great business, it's great lead product for our customers. It's something we're very, very good at, so we'll manage it responsibly but we are not asking it to shrink materially from here. But we are absolutely investing for the Cash Management to grow substantially. So I think, if anything, the returns in that business can actually improve from that reweighing in there. In terms of the -- again, I'm looking at...

Michelle Nicole Jablko
Chief Financial Officer

It's about -- 1% is about $100 million, roughly.

Shayne Cary Elliott
CEO & Executive Director

For the Fed, right?

Michelle Nicole Jablko
Chief Financial Officer

Yes. Yes.

Shayne Cary Elliott

CEO & Executive Director

Right, okay. So 25 points, about 25?

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Andrew Hill
BofA Merrill Lynch, Research Division

Just to go back to that Transaction Banking commentary. I appreciate you may not get similar performance out of loans and markets, but can you start to see the ratio turn up...

Shayne Cary Elliott
CEO & Executive Director

Yes, yes. Sorry, yes, I forgot that part, but good question. So I mean, part of -- again, let's go back to where we started. Why are we rebalancing our business in Institutional? It is about returns and part of that is the recognition that too much of our loan business is at extremely low return where we're not getting sufficient cross -- where our customers are not paying for our balance sheet and we're not getting sufficient cross-sell or other product revenues to generate a reasonable relationship return. And so yes, as we reposition, so we're shrinking those low-return Institutional loans, the loan book and we're adding higher return Institutional loans, so we are getting paid for it. So absolutely, we expect the returns in that business to improve, that is essentially why we're doing it. Similarly in markets, markets is a little bit more complicated because the RWA is not quite as simple in terms of calculation there. But as we grow businesses like foreign exchange which is core to us, core to our offering, core to our strategic positioning in the marketplace, you should also seeing returns in that business improve. Probably not to the same extent or the same materiality you've seen in Transaction Banking. That's always going to be, in many ways, not easy but that's going to have the most dramatic turn because of the impact of that Cash Management business on the whole.

Operator

The next question comes from Scott Manning from JPMorgan.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

I have 2 questions, please. Firstly, on New Zealand, two parts to that question. The margin's down from 2.55% to 2.35% over the last 18 months. Just some thoughts around the drivers of that, whether it be high deposit composition with some funding changes there and what the outlook is given the repricing that's taking place through the industry. And secondly, on the impairment charges up in the second half, what's the outlook looking like in terms of how the dairy coverage is looking and the general kind of economic positioning for the provisioning into next year, please?

Shayne Cary Elliott
CEO & Executive Director

Okay. So in terms of the margins, yes, you're right. The margins in New Zealand have come down a little bit or actually a reasonable amount over that period. Some of that's to do because there was some -- so some of it has to do with the fact that there's been a mix change, again increasingly mixed towards fixed rate mortgages. What we just -- that actually -- I think, the number went from about 70% to about 74%, 75% were fixed. And the fixed rate mortgages are lower margin so that mix change has had quite a material impact on it. And secondly, you're quite right about the deposit competition in that market is -- I mean, we've talked about it before in many ways, New Zealand is even more competitive than Australia in some areas and that certainly comes through as well.

Michelle Nicole Jablko
Chief Financial Officer

So I'd also add there's been competition on the asset side as well. And in addition just in terms of funding costs in New Zealand, we did a Tier 1 issue out of New Zealand this year as well which increased funding costs in that business.

Shayne Cary Elliott
CEO & Executive Director

And then in terms of the dairy, do want to talk about that, Nigel?

Nigel Henry Murray Williams
Former Chief Risk Officer

Yes, on the impairment, two parts for the impairments. One, we're coming off very low impairment levels in New Zealand so we will see some announcement of Commercial Institutional book be at a more normal level of impairment. In terms of dairy, we're very positive on the outlook on our dairy portfolio. Dairy prices now up from the first half, 65%. Clearly, that was now starting to flow through to farmers for their payout. We would estimate that over 90% of our farmers would be cash flow positive at the second half prices. And since there's been momentum even over the last few months, those prices have continued to rise, that's going to be a positive for that portfolio. We have not been factoring those higher prices into our provisioning. So you'll see in the slides we've shown the PD on our dairy portfolio. So you can see that we've continued to factor in what have been sort of last year's dairy prices into our provisioning there. So 2017 should be a positive outlook for that.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And the second question is actually on capital. So assuming Nigel's assumption of global rules being watered down a little bit are correct, you've got 9.6% core Tier 1 today, you've got another 20 points from Asia, you've got no more wealth de-gearing to go, I think you've already rebased the dividend. So really, it tees up at a reasonable start starting point. If you then look from that, you've got $4 billion tied up in Asian partnerships. Assuming that those sales do get completed, how is the thinking on capital initiatives in terms of an adrenaline hit of a buyback versus a [indiscernible] feed of DRP neutralization and deploying it into the business to support growth?

Michelle Nicole Jablko
Chief Financial Officer

I think we'd love to be having that...

Shayne Cary Elliott
CEO & Executive Director

Yes, so I think we feel -- look, I think that has been what has been driving a lot of our decisions, right? We recognize the fact that our business model got us in a position where we weren't generating enough capital organically, so putting aside the noncore asset sales. That's been a big chunk of the focus and we showed you that today that that's changed. It hasn't changed enough, so we're sitting here today with a much stronger capital position than I can recall certainly relative to our peers. I don't want to get too far ahead of ourselves and start spending the money. But if we are successful, and we will be, and we get those things done, we will have a lot more options available for us than, a, we've had in the past and, b, I think in all of our peer group. That will be a good position to be in, but we're not focused on what we're going to do then. We're just focused on getting those things done.

Jill Craig
Former Group General Manager, Investor Relations

I think we have one more on the phone.

Shayne Cary Elliott
CEO & Executive Director

Well, I should add -- sorry, I should add one thing. Sorry, Scott, you had a piece here. By the way, the restructuring we're going through at the moment it's easy to focus on shrinking and selling and cutting back here. Ultimately, we have -- we want to unleash the growth that's inherent in our business. We have a great growing business in Australia. We have a great growing business in the best parts of Institutional. And those businesses will come through to the form, we will have growth. But the whole point of the restructuring is to make sure that it is a low-capital consuming growth. So no, it will not be we're going to release all this capital, sell some things and then plow it all back to the good old days of just growing the Institutional balance sheet or, et cetera, et cetera, no. That's what I mentioned in that phase of kind of trying to learn new habits in the organization about being really capital efficient and ensuring. That is not the intention to plow it back to sort of some -- to go back to those old balance sheet driven days.

Operator

The next question comes from David Spotswood from Shaw and Partners.

David Spotswood
Shaw and Partners Limited, Research Division

Yes, I mean obviously, capital's a big issue. I'd just be interested in, as we sit here today, your insights in terms of Basel IV and APRA in terms of whether you're expecting some big impasses to come in FY '17. I know it's not clear but I'd just be interested in your thinking.

Shayne Cary Elliott
CEO & Executive Director

Well, look, we don't sit here expect some big impasse. We know that the trend is that we will be asked to hold high levels of capital, and that's part of -- again, part of the reason we've been restructuring is to get fit for that and get ready for that, be in a position where we have options. I think that's really important that we do have those options, we do have those levers available. And I think I feel really good about the fact we're sitting here today in a much stronger position with more options and still got options available that we haven't used yet. So I think look, we can't -- we don't know where that's going to be. All we know is we are well prepared, we're sitting in a really good position here and we still have a lot of options ahead of us. So I'm not going to comment on what we think the impasse would be from Basel because frankly, we don't know.

Jill Craig
Former Group General Manager, Investor Relations

Okay. I think -- all right, one last one, Brian. She says with due trepidation.

Brian D. Johnson
CLSA Limited, Research Division

Michelle, and all the banks do this, Page 99. Tax provision's no longer required. $43 million in the second half. $28 million in the first half to be $71 million. Income tax over provided year -- from the prior year $23 million, that's close enough to $100 million which is a reasonable number. Can we just get a feeling, is there -- how big are these unrecognized deferred tax assets? How long should we think that these things keep on happening? And then the subset of the question which is totally unrelated and another way of asking another one, Shayne, how much of a problem is it that in New Zealand, the regulatory capital requirements seems to be going up. So it doesn't impact your level 2 but it does impact the level 1 in Australia. Could you just run us through that?

Shayne Cary Elliott
CEO & Executive Director

So I'm going to do what good chief executives do and delegate. I'm going to -- so I think, Shane, I don't know if you want to answer the deferred tax question. And Rick, in terms of the reg capital.

Michelle Nicole Jablko
Chief Financial Officer

[indiscernible] You go first, yes.

Richard Marc Moscati
Former Group Treasurer

Look, I don't think New Zealand's any different from anywhere else. So the capital requirement continues to go up there as it has been everywhere else. I mean, right now, we're able to manage our level 1 which I don't think anyone's ever asked about before, but good question. We're able to actually manage our level 1 the same rate as level 2, and that's obviously controlling the dividend flow we have up from all of our subsidiaries. So as we stand here and going forward, I think we can continue to manage our level 1 consistent with level 2.

Shane M. Buggle
Group General Manager of Internal Audit

Thanks, Brian. Just in terms of the tax provisions, I think we've -- probably, we've derisked our tax strategy. And we've recently got 100 out of 100 on the Dow Jones Sustainability Index for our tax strategy. So we've seen some releases. I don't think you'll see this quantum going forward.

Jill Craig
Former Group General Manager, Investor Relations

Okay. With that, I think we'll end the Q&A. Thank you, everybody. And it goes without saying, if you've got questions through the afternoon, the IR team is standing by to answer those. Thank you.

Shayne Cary Elliott
CEO & Executive Director

Thank you.

Michelle Nicole Jablko
Chief Financial Officer
Thank you.