Question and Answer

Jill Campbell
Group General Manager of Investor Relations

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

Andrew Lyons
Goldman Sachs Group Inc., Research Division

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

Michelle Nicole Jablko
Chief Financial Officer

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

Jill Campbell
Group General Manager of Investor Relations

We'll go to Jon.

Jonathan Mott
UBS Investment Bank, Research Division

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

Shayne Cary Elliott
CEO & Executive Director

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

Fred Ohlsson
Former Group Executive of Australia

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

Shayne Cary Elliott
CEO & Executive Director

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

Fred Ohlsson
Former Group Executive of Australia

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

Shayne Cary Elliott
CEO & Executive Director

Yes. Do you just want to talk about digital thinking?

Maile Carnegie
Former Group Executive of Digital Banking

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

Jill Campbell
Group General Manager of Investor Relations

Thanks, Maile. Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

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

Shayne Cary Elliott
CEO & Executive Director

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

Michelle Nicole Jablko
Chief Financial Officer

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

Jill Campbell
Group General Manager of Investor Relations

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

Victor German
Macquarie Research

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

Michelle Nicole Jablko
Chief Financial Officer

Do you want to do that one first? Or do you want me to go?

Shayne Cary Elliott
CEO & Executive Director

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

Michelle Nicole Jablko
Chief Financial Officer

And proportionately more in a smaller business if that makes sense because...

Shayne Cary Elliott
CEO & Executive Director

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

Victor German
Macquarie Research

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

Shayne Cary Elliott

CEO & Executive Director

Yes.

Victor German
Macquarie Research

On the medium-term outlook?

Shayne Cary Elliott
CEO & Executive Director

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

Michelle Nicole Jablko
Chief Financial Officer

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

Shayne Cary Elliott
CEO & Executive Director

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

Jill Campbell
Group General Manager of Investor Relations

Brian and then Richard.

Brian D. Johnson
CLSA Limited, Research Division

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

Michelle Nicole Jablko

Chief Financial Officer

So in terms of the investment in our business et cetera.

Brian D. Johnson
CLSA Limited, Research Division

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

Shayne Cary Elliott
CEO & Executive Director

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

Brian D. Johnson
CLSA Limited, Research Division

So there's no exploration or any other ways of handling that.

Shayne Cary Elliott
CEO & Executive Director

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

Brian D. Johnson
CLSA Limited, Research Division

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

Michelle Nicole Jablko
Chief Financial Officer

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

Brian D. Johnson
CLSA Limited, Research Division

You're there.

Michelle Nicole Jablko

Chief Financial Officer

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

Brian D. Johnson
CLSA Limited, Research Division

But is the 16.3% vulnerable?

Michelle Nicole Jablko
Chief Financial Officer

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

Jill Campbell
Group General Manager of Investor Relations

Richard?

Richard E. Wiles
Morgan Stanley, Research Division

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

Shayne Cary Elliott
CEO & Executive Director

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

Richard E. Wiles
Morgan Stanley, Research Division

So it's just credit cards. It's not mortgages or...

Shayne Cary Elliott
CEO & Executive Director

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

Richard E. Wiles
Morgan Stanley, Research Division

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

Shayne Cary Elliott
CEO & Executive Director

Yes.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Richard E. Wiles
Morgan Stanley, Research Division

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

Shayne Cary Elliott
CEO & Executive Director

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

Mark Whelan
Group Executive of Institutional

First time you said to say both in a while. Look, I would say that we're seeing very good opportunities in both. I'm not sure where the question came from.

Shayne Cary Elliott
CEO & Executive Director

It's Richard.

Mark Whelan
Group Executive of Institutional

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

Shayne Cary Elliott
CEO & Executive Director

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

Michelle Nicole Jablko
Chief Financial Officer

And things like trade have picked up.

Shayne Cary Elliott
CEO & Executive Director

True.

Mark Whelan
Group Executive of Institutional

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

Jill Campbell
Group General Manager of Investor Relations

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

Brett Le Mesurier
Shaw and Partners Limited, Research Division

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

Shayne Cary Elliott
CEO & Executive Director

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

Michelle Nicole Jablko
Chief Financial Officer

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

Jill Campbell
Group General Manager of Investor Relations

So we'll go to the phone, please.

Operator

[Operator Instructions] Your first question comes from Frank Podrug, Merrill Lynch.

Frank Podrug
BofA Merrill Lynch, Research Division

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

Shayne Cary Elliott
CEO & Executive Director

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

Alexis Ann George
Deputy CEO & Group Executive of Wealth Australia

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

Operator

Your next question comes from Andrew Triggs from JPMorgan.

Andrew Triggs
JP Morgan Chase & Co, Research Division

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

Shayne Cary Elliott
CEO & Executive Director

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

Michelle Nicole Jablko
Chief Financial Officer

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

Shayne Cary Elliott
CEO & Executive Director

Rick, did you want to...

Richard Marc Moscati
Former Group Treasurer

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

Jill Campbell
Group General Manager of Investor Relations

We'll go to Brendan, please.

Brendan Sproules
Citigroup Inc, Research Division

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

Shayne Cary Elliott
CEO & Executive Director

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

Jill Campbell
Group General Manager of Investor Relations

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

Operator

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

Jill Campbell
Group General Manager of Investor Relations

Okay. Anthony. Thank you.

Anthony Hoo
Deutsche Bank AG, Research Division

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

Shayne Cary Elliott
CEO & Executive Director

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

Michelle Nicole Jablko
Chief Financial Officer

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

Shayne Cary Elliott
CEO & Executive Director

It's also true, yes.

Jill Campbell
Group General Manager of Investor Relations

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

Brian D. Johnson
CLSA Limited, Research Division

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

Mark Whelan
Group Executive of Institutional

Do you want me to take that one first?

Shayne Cary Elliott
CEO & Executive Director

Yes, you can take that one.

Mark Whelan
Group Executive of Institutional

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

Brian D. Johnson
CLSA Limited, Research Division

So that means APEA is going down.

Mark Whelan
Group Executive of Institutional

No, it doesn't mean APEA is going down actually because last year, we won 54 new cross-regional Transaction Banking mandates in APEA, but it's going to take some time to get it to where we would like it to be in the international business. So we're on that journey. That is going to take us a period of time because previously, as you well know, what we did there is we went very heavy on loans. So we've been pulling that back. There's still more to do, I think both on the cost side, another question came from here before. There's more to do on the cost side. There's more to do on getting some low-yielding risk-weighted assets, particularly loans, out of international and more to do with getting more Transaction

Banking mandates. But we've invested heavily in a system there which we think is world-class. So it's being deployed, but it will take time to get where we want it to be. It won't get to -- by the way, the international business, it won't get to the same level as what we have in New Zealand, but it's going to get a lot closer than it is today.

Shayne Cary Elliott
CEO & Executive Director

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

Kevin Paul Corbally
Chief Risk Officer

Brian, on the write-back, look, as the level of losses reduces, then obviously, the level of write-backs will also follow with it. But what we have seen is over the last couple of years, and we expect to continue for a little period, is that a consistent level of write-backs given some of the larger deals that have been written in the past that were actually coming back now.

Shayne Cary Elliott
CEO & Executive Director

Thank you.

Jill Campbell
Group General Manager of Investor Relations

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

Shayne Cary Elliott
CEO & Executive Director
Thank you.