Question and Answer

Jill Craig
Former Group General Manager, Investor Relations

[Operator Instructions]

James Freeman
Deutsche Bank AG, Research Division

It's James Freeman from Deutsche Bank. Mike, just actually on that technology, just an indication as to the cost of that and more sort of holistic across the bank. I'm just wondering when do we actually get to a situation where the investors get to enjoy the benefits of the stronger growth in revenue and the slower cost growth? So I think that the jaw is really opening up and the Super Regional strategy delivering a different profit before provision number in terms of your growth aspect than what the actual peers in Australia are delivering.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, I mean to your first question, I mean, our total spend on IT at the moment is about $1.7 billion, which I think is about right in terms of as the percentage to total overhead. It's in line with global banks or our global peer group. And I think as I probably said to you before, the issue was that we were spending it very much on the silo basis, and I think we were spending a lot of money for dubious return and getting a more holistic approach, I think, we'll make a significant improvement. The second part is really how do we really make, get the value from our hubs, from that back office and Center of Excellence approach that we have embarked upon. And I think we are 3 years into this -- well, we're actually probably 5 years into it, but 3 years in terms of a major investment. And I think we still got a further 3 years before we'll really see the benefits come through. But in 3 years' time, I hope to be in a position to really see the difference.

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Credit Suisse. A question for you, Mike, maybe if you could comment as well just on the Australia division. Just regarding what looks like an apparent slowing in the balance sheet and I mentioned on the lending side, particularly in the latter part of the first half. If you go back 12 months ago, some of the processes were fixed in mortgages and that resulted in consistent market share gains out of the last of 12 months. If you look at the last set of upper steps and its first months in the last 12, that there has been a material sort of drop in market share versus peers, and then if you look at business lending as well, notwithstanding that there's been a $10 million -- a $10 billion runoff in acceptances, there appears to be a slowing in balance sheet momentum within Australia. I wonder if this is tactical, if it's to do with managing the margin, is it the competition? And just what was going on there and what you're trying to actually achieve?

Michael Roger Pearson Smith
Former Non-Executive Advisor

I mean, we've been fairly consistent in what we've been trying to achieve in terms of the quality, to mention the quality of the book. I mean I think that, that has been the most important thing. We have tried to establish -- we've tried to maintain the system growth during this period. And in fact, for the half, we're actually above system, about 1.2x system. But you're right, in the last couple of months, there has been a reduction in terms of the amount of new origination. And I think that was more down to competitive issues, particularly in one of our former friends. And I think that we are actually now seeing that turn again and the latest information is that it's now picking up again. And so, again, I would like to see us maintain system growth in this area. The system growth is going to be lower than it was for prior to the crises, and I think we have to accept that as normal. But Phil, do you want to...

Philip Wayne Chronican

Former Chief Executive Officer of Australia

Yes. I just wanted to add, I guess, a couple of points to that. One is that wasn't intentional, but, obviously, the impacts of the competitive moves over in February has started to impact us and, obviously, we'll need to deal with that. There is a kind of a minor issue behind it all, too, which is the accrual legislation that came in January, so we were a bit slow at getting some service levels fixed off of the back of that. But that would only be a small part of it. In terms of the business component, most of the business lending has been in pretty good shape, but there is a significant impact from the Rural sector coming through. The rural sectors been quite diversed this year, as you'll appreciate with some of the severity, but even those sectors that have done well have done so well that they're extraordinarily catched up. And we're seeing significant growth in deposits and you would have seen in the Commercial deposit growth that's shown through as well. So our business banking and small business have continued to grow pretty much line with the market or slightly better, but we have seen the rural sector had a significant and quite measurable run down in outstanding balances.

Jonathan Mott
UBS Investment Bank, Research Division

John Mott form UBS. The question on capital position and now with the super Regional Strategy coming along, but also with a bit more clarity coming through on Basel III.

Michael Roger Pearson Smith
Former Non-Executive Advisor

I'm glad you think it's clear.

Jonathan Mott
UBS Investment Bank, Research Division

Maybe, not necessarily, but gladly it's going to get a bit more clear. So as to harmonize this, I think that's what, hopefully, everyone's moving towards so they can compare it on an apples-to-apples basis. But if you look at Asia, a lot of your Asian peers are now seeing 10% as the baseline. Europe is pretty similar. America's doing their own thing. Where do you see or would you like to see your position -- especially versus your Australian peers where the Australian peers might be a little bit below where you are at the moment, how would you differentiate yourself from that capital position? And where would you lock that to go to given the Super Regional strategy.

Michael Roger Pearson Smith
Former Non-Executive Advisor

John, I've been fairly consistent in my view that it's better to hold a little bit more capital than too little. Over the past couple of years, 2, 3 years because of the uncertainty, not only in the market but of also the regulatory uncertainty, I still don't really believe that we have regulatory certainty. And I feel that last Basel III has now -- in post capital, so-called capital ratios, which everybody is supposed to have agreed, the definition of risk assets seems to be different in every country. So you would say, well, where's the consistency? As you say, the U.S. don't seem to be paying very much heed to Basel III and seem to be doing their own thing anyway. And my conversations with the U.S. recently have been to the effect that they may impose even stricter requirements within Basel III has. And I think Basel III has been very much driven by the Europeans because a lot of the European banks are seriously undercapitalized in terms of relativity to this part of the world. So I think we've got some way to go. And do I know what the right number is? No, I don't. I guess that the good thing is, that if you look at the OECD banks and if OECD banks have to raise capital, we'd almost be the last person or the last organization that would have to raise. But I think it's still too early to call, frankly.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, Brian.

Brian D. Johnson

CLSA Limited, Research Division

Just along the similar lines perhaps a question for Pete on this. Pete, if have to look at Slide 78 and we take into account the fact that every comment that I've heard made is basically bugging you guys we're going with what we do. And we're going with a very conservative approach, and you can see your APRA core equity Tier 1 Basel III is probably sitting around 7%, which is the bare minimum before you start to impose any requirement for systemically important bank, before you put anything in for a countercyclical capital buffer, before you put in any Pillar II deductions, which no one ever talks about. Peter, at this stage, what do you reckon that 7% number should be for someone like ANZ?

Peter Ralph Marriott
Former Chief Financial Officer

I think the level is, and may I refer to Mike's comments, we don't know at this point. In terms of that 7%, Brian, one, remember, that was 6.7% last time. So the number is trending upwards. And I would acknowledge all your comments about the Basel -- sorry, that APRA looking to be conservative and like some of their conservative treatments, but I sincerely don't believe it will be the 7%. I don't that's the way the measure will end up. But clearly, the trend in our capital ratios is up.

Brian D. Johnson
CLSA Limited, Research Division

Do you think it will be higher than 7% APEA? That's the question.

Peter Ralph Marriott
Former Chief Financial Officer

We're several bubbles behind....

Brian D. Johnson
CLSA Limited, Research Division

The APRA. If we take the APRA harmonized core equity Tier 1 sitting at 7%, a lot of people quote 7% as being the acceptable level. Whereas more than likely, that is the absolute bare minimum because it doesn't it put anything away for systemically important tests, which is increasing anything to be countercyclical capital buffer, anything for your own Pillar II buffer and then any buffer that you guys put out and above it. So what I'm interested is where do you think the 7% number will really settle in a practical sense?

Peter Ralph Marriott
Former Chief Financial Officer

Well, Brian, I think that's going to depend upon where that settles and how they're going to get a measure of our capital components. So it talks about the ratio, but we don't have clarity around definition of how they got a measure of the components. And I think it's a recognition but count to all of those, those sectors you supplied bluntly, the 7% level will actually result in the level of capital for these trying banks that was -- and far too high. If you would measure that at the 7% level, you didn't have to happen to top up. But so until we have some clarity around this, we don't know. But in the meantime, our basic approach is to continue just to retain capital to this number up, and then we'll have to respond as it becomes clearer. It hasn't been any clearer since you last asked the question, frankly.

Brian D. Johnson
CLSA Limited, Research Division

What is clearer? Is it in the most recent quarter, the numbers up from 6.7% to 7%, which we don't really understand why it's up in the quarter. But also once again, we see a 1.5% discount on the Dividend Reinvestment Plan, and these vague assertions to capital adequacy. I mean, why are you raising capital at a discount through the Dividend Reinvestment Plant if you're so well capitalized?

Peter Ralph Marriott
Former Chief Financial Officer

Yes, we think that the discount on the DRP, the DRP is very convenient and very efficient way of raising additional capital. And do you think if capital requirements are going to get less than were now than more from here and, obviously, the balance is a lot than our capital levels will be higher from here than lower. So it's appropriate to be gently drifting this number up until we have credit clarity.

Michael Roger Pearson Smith
Former Non-Executive Advisor

I think, Brian, I mean I would say that certainly, the feeling is that capital levels are going to be higher rather than lower. I think we've got to be realistic to that. But let's also remember there will be a transition period. This will take several years, particularly for the European banks because I mean if you look at where they are in comparison, it's going to take them many years to actually raise that amount of money. So I feel that we're doing it the right way, and it's a sort of a steady-as-you-go approach, and hope that APRA aren't going to be too macho here and hold out for something which is going to make us globally uncompetitive.

Victor German
Nomura Securities Co. Ltd., Research Division

Victor German from Nomura. Just maybe first the point of clarification in relation to technology spend that, Mike, you alluded to earlier, is it fair to assume that from now on was all of the expenses will be above the line and we're not going to see more sort of restructuring below the line expense items?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, I never say never, but at the moment, yes, most of the cost of our tiers outside is already covered -- is very much in the actual existing run rate. So, hopefully, we won't see anything below the line. But as I say, there may be a need to do something.

Victor German
Nomura Securities Co. Ltd., Research Division

Great. And secondly, just on the institutional margins. In the quarter, the update, I think, the comment was they're modestly down. In here, we see that they're actually down by 9 basis points. So have the trend increased in terms of the reduction margins in the second quarter? And what's the outlook for the next half?

Michael Roger Pearson Smith
Former Non-Executive Advisor

I mean, if you remember in the first quarter, we showed a margin increase over all of about 3 basis points and, if including markets, reduction of 3 basis points, and it's exactly the same for the full quarter. So that means the second quarter has actually stabilized. But I would actually say that we are seeing quite a bit of -- we're seeing a significant amount of market pressure now in the institutional book. We are seeing a tightening in margin from our competitors. Firmly enough, we're actually seeing an improvement in margin in Asia, which I wouldn't have expected. But we are seeing a slight improvement there and, basically, as a result of liquidity squeeze, particularly in U.S. dollars. So that is almost counterintuitive. You wouldn't have thought that would have happened. But there is no doubt that margins, it's going -- for the whole market will continue to come under pressure.

Peter Ralph Marriott
Former Chief Financial Officer

In the outlook. Not that we expect to see margins trend down gently in the institutional book because there's a lot our competition out there. And also, Asian credits, we really enjoy Asian credits, they tend to be a better-than-average risk profile and so it seems to be a slightly lower margin and the consequence as well. So you've got not just look at the margin isolation. You also have to look at it with the volume. And then remember at the end of the day, the strategy of keeping Institutional is to keep the lending to the minimum than if you're doing the cross-sell and margins are only one part of the overall story.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, the volume will be increasing there. So the actual NII will be increased.

Ben Koo
Goldman Sachs JBWere Pty Ltd, Research Division

It's Ben Koo from Goldman Sachs. Just a question, in particular, on the institutional business. But just wanted to get a feel for the jaws in that business and making it above the half and clearing the markets business in Australia was one area of weakness. So I just wanted to get a sense of is that a business where -- or is it more of what was the reason for the weakness in the markets business? And with the margin outlook, as it is right now, are you comfortable with just the general trajectory of revenue growth versus cost growth? And with the business spend that Michael had talked about whether or not that can be absorbed?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, I mean the investment that we've made in Institutional, I think, has been clearly highlighted to you and is continuing. I mean we have spent a fair amount of money on improving the markets, the Global Markets business and certainly the platforms involved. We have put a significant amount of money into the cash management and trade business, and that will continue. Where the weakness has been in the Australian markets business has been on the rates side, much like your own house. Domestic rates has been tough. The problem is there hasn't been much movement. Now you require volatility in the rates business, and of course, the large domestic banks have the biggest book in terms of the balance sheet. So it has been that balance sheet management which has been -- has not been as profitable as it has been the previous 3 years. That's where the drag has been. The good thing is, is that the customer flow business has actually increased, which I think is encouraging and, particularly, in APEA, where we've had an extremely good half. But Shayne, would like to comment more?

Shayne Cary Elliott
CEO & Executive Director

Just to correct on it, actually our markets in the half was very good. So the market result was actually at 12% same half on half. The issue around the jaws is really a timing one, which is we were investing according to a plan to grow and we had actually planned and hoped that markets would grow even faster and then in fact we've continued to invest on that basis. So the spend, the expenses were up the 8% number there. But because the Australian markets position didn't perform, it performed well, but not as well as we had planned because of the precise reasons that Mike talked about. We ended up with this negative jaws for the half. So I look at that as a timing issue, and we are continuing to invest. The investments we're making are paying off, in general. I mean, we're investing in around 2 areas. One is building our offshore businesses at the APEA markets businesses, the primary investment area. And second, in products that's around building at our foreign exchange. What has always been our strategy is in a sense, de-risk the business, de-focus the business from a strong Australian rates dependency that we've had in the past.

Peter Ralph Marriott
Former Chief Financial Officer

I'd like to comment to that as well. What Shayne has said is that the areas where we have invested and they have been performing well. And with a lot of investment that are hedged and commodities, et cetera, and they have actually performed well and there were some on the sell side and as a traditional balance sheet management in progress here in Australia just didn't perform as well.

Jill Craig
Former Group General Manager, Investor Relations

We'll take a question now from the phones.

Operator

The first question comes from the line of Michael Meckler[ph] of Whyala [ph].

Unknown Analyst

Just on the actual strategy. In the slide you described what the fact in that the $300 million with increment to your year-end tail. I just wondered what provisioning has occurred for that exposure.

Michael Roger Pearson Smith
Former Non-Executive Advisor

There's been no provisioning on that exposure. We believe we have sufficient security to cover our exposure to that. I would say this is another one of those legacy issues that we've been having to manage for the last 3 years. I think we're in a better situation right now than we were in, but it's messy and we continued to -- the issue continues to be before the court's concern.

Operator

Next question comes from the line of Matthew Davison of Merrill Lynch.

Matthew Davison
BofA Merrill Lynch, Research Division

My question was on New Zealand. You produced a pretty strong half on half underlying result with the costs coming down. I suspect that the revenue outlook is not too high growth, so I'm just interested in your view, Mike, on how much more you can take out of dollar costs in New Zealand, particularly with the significant consolidation project that you have upcoming.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, I think there's quite a substantial opportunity there. I think that the simplification is going to lead to considerable cost saving in terms of across the board. And I also, actually, think it will create revenue opportunity as well. And I think there's been a fair amount of confusion as to what our strategy was in New Zealand. I mean I think the overall economy in New Zealand is still pretty quiet. I mean it was getting back. It was beginning to improve, and I think that the Christchurch earthquake really did knock it about. They've had a few issues there. But I think if you can look through that and if you look towards the stimulus that will be created by the reconstruction of Christchurch, hopefully -- and of course, the World Cup, so as long as they win it, I think we can look forward to a little bit of an improved situation in New Zealand.

Operator

The next question comes from the line of Andrew Live of RBS.

Andrew Lyons
RBS Strategy

Just an alternative question on regulation. Slide 8 highlights, you've done a pretty significant amount of work and/or heavy lifting on improving the funding composition of the bank. Just in light of the regulatory environment, are you comfortable with where you now see it or do you still think there's more to be done on this fund?

Michael Roger Pearson Smith
Former Non-Executive Advisor

I think we will continue efforts to reduce our reliance on wholesale deposits. I mean, I think that, that is just sensible. I'm sure that the regulatory costs involved of the additional liquidity requirements are going to be onerous, and you've really got to put the balance sheet in as in as good a position as you can. So we will continue along that path.

Jill Craig
Former Group General Manager, Investor Relations

Brett?

Brett Le Mesurier
Axiome Equities

Brett Le Mesurier from KBWI. Could you tell us what happened to the Asian deposit growth story?

Michael Roger Pearson Smith
Former Non-Executive Advisor

That continues.

Shayne Cary Elliott
CEO & Executive Director

We didn't have any growth in deposits from the second half to the first half.

Michael Roger Pearson Smith
Former Non-Executive Advisor

We didn't need -- basically, we had a problem with the Commercial surplus, which we would then have to place. So it was basically just expanding our balance sheet for no reason. But that's the sort of thing which we are able to turn on and off. So that's part of the Alcoa process. I mean I think the issue there was that there was a surprising increase in domestic deposits, really, as the result of the deleveraging that's gone on within the local market, and therefore, we were actually getting cheaper funding here and, therefore, didn't need to rely on those Asian deposits. That's not to say that the domestic deposits have gone down. It's purely -- in fact, they have increased during the period. It's the institutional deposits that we've been managing.

Brett Le Mesurier
Axiome Equities

And on the jaws, Shayne said that he's going to get...

Shayne Cary Elliott
CEO & Executive Director

That's the last question I've heard. However, I'm not sure what you're saying that deposits have not grown in Asia. They didn't use all the terms. They're at 23% half on half.

Brett Le Mesurier
Axiome Equities

I'm looking at the average.

Shayne Cary Elliott
CEO & Executive Director

On Page 61, what you might be -- again, you might be mixed up with exchange rates, if you're looking at the Australian dollar figures, then, obviously, they'll be impacted by the exchange rate movement.

Brett Le Mesurier
Axiome Equities

Well, it can't can be impacted that much. The time deposits were, this is for APEA, were $47 billion in second half '10 and $46 billion in first half '11 savings deposits so...

Shayne Cary Elliott
CEO & Executive Director

[indiscernible] But the mix change is around. So if you look at the end of period numbers, as I said they're on Page 61, and there's a 23% growth in the Asian deposits.

Brett Le Mesurier
Axiome Equities

Isn't the average during the period more relevant than just the spot number at the end?

Shayne Cary Elliott
CEO & Executive Director

No, I was thinking in terms of the trend. The average deposit trend will be similar and the average balance sheet as well. So you must be dealing with the mixed question there regarding what type of deposit cycle is closing or difference in average, which I have to look at. But the Asian deposits have grown fairly consistently across the half, so it wasn't a case of mad spike at year end, there maybe a little bit, but looks it's -- there've consistent growth in deposits. So certainly, I will not say that the Asian deposits story is gone. As Mike said, you will, nonetheless, you'd fine-tune it from time to time during the half depending on the level of differentials in costs, but it's still is Australia that is very much alive and well.

Brett Le Mesurier
Axiome Equities

So can you give me the latest on reconciliation between the spot and the average, how did you get such a big difference?

Shayne Cary Elliott
CEO & Executive Director

Compare the end of periods to the average and the average rises with the...

Michael Roger Pearson Smith
Former Non-Executive Advisor

We will come back to you.

Brett Le Mesurier
Axiome Equities

Can I ask you for a one follow-up? If Shayne's pretty stand up for positive jaws in the second half, which could be first and it sounded like New Zealand would have the same thing. Does that mean that Phil has got license to spend more in Australia?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, thank you.

Jill Craig
Former Group General Manager, Investor Relations

Phil just laughed. So I'll take that's not. Scott?

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. Just on the markets income products put on Slide 74, just between the different parts and products behind that. You've got -- you've been at recently consistent levels there for the last 3 halves. I'm just trying to get a sense of when the market looks at net interest income versus trading income, ones kind of perceivably high APEA, this is lower APEA given the certainty of it. So can you just talk to us around the confidence that you have that the current level of markets revenues are indeed the minimum base going forward, if you like. If you're trying to push towards a greater proportion of noninterest income through the P&L, just to provide some degree of certainty that, that is at least a recurring nature and what you're doing to sustain that in terms of the risk profile with the book?

Michael Roger Pearson Smith
Former Non-Executive Advisor

I mean, I think it's been very clear that what we've tried to do is move to more customer flow-based income and away from pure trading income. I think we've made steady progress there, and we'll continue along that track. And if you want to add more to that, Shayne?

Shayne Cary Elliott
CEO & Executive Director

Sure. So on the broader question of increasing the noninterest income, I mean, it's not just about markets. Our transaction banking business is also heavily fee-reliant, so that fee that you've seen about revenue and cash management that fee is fee-based. We think it is outside and there was a procedure to make sure the cash management business, which is our number one priority in terms of long-term investment, so it's got a long way to grow. So that's a big part of it same for trade. Within the markets face, you'll note that the fastest-growing here has been foreign exchange and commodities, particularly for that reason because we trying to grow the customer flow business, and again, I think what bodes well for this business, if you look at -- you're quite right over the last 3 halves have been consistent. But if you look at global markets, the industry, compared to this part here in Australia and elsewhere, have been suffering pretty heavily in this business and seeing an 18%, 20% fall in revenue. So we're pretty comfortable that we've been able to maintain revenue that level and so I think it's a pretty good baseline for growth in the future.

Operator

The next question comes from the line of Craig Williams from Citigroup.

Craig Anthony Williams
Citigroup Inc, Research Division

If I refer to Page 62, the release of the depreciation was around 55% as well, it's the APEA disclosures, your Asia Pacific net interest margin is lower at about 1.6% because of your markets business, you only have about $28 billion of lending against $54 billion of deposits, and you earned a pretty low yield in the regional securities so how much opportunity and how quickly can you convert these deposits into lending as opposed to how in the balance was in insecurities? And can you talk about the outlook for spreads on the securities component in the event of rising rates in Asia over the medium term?

Peter Ralph Marriott
Former Chief Financial Officer

Well, there's a couple of components to that. You rightly point out. There's not much for yield on liquid assets, so as you're holding liquid assets in the trading securities within markets, you get a relatively low yield. And then more looking to the mark-to-market rather than the carrying yields that's what forced the margin down. In terms of the regulatory constraints. Yes, there are some countries where you're not allowed to repatriate all the deposits you have, and so you do end up lending it to the central bank, who will put it in some form of liquid assets. And that's basically done within the markets business because the markets business manages the balance sheet for the Asian region. So you will always have some amount of your Asian deposits, which is high up in that way and that's one of the factors why there's a difference between what you get for the margin, including markets, and the margin excluding markets.

Craig Anthony Williams
Citigroup Inc, Research Division

So what proportion of your deposits, I suppose, overtime can be funded towards lending? I think, currently, it's broadly 50-50. Would you expect that component to steadily drift up?

Peter Ralph Marriott

Former Chief Financial Officer

Well, yes, I'll turn around here other way, actually, because the way we've always looked at this is, the Asian deposits will be able to grow sufficiently to fund all of our Asian growth, and there will still be our expectation. And to the extent that there is a surplus, then there's an opportunity to be able to repatriate some of that back into Australia and New Zealand, which is what we have done. I think it's best to look at it that way in terms of being able to fund the growth. We can fund the growth. We can fund the growth in Asia without having to rely upon Australia, and there will be some surpluses from time to time as we have at the moment. There are still surplus cash being provided to Australia. But the primary way we look at it is, we can fund our Asian growth without having to rely upon the rest of the group.

Michael Roger Pearson Smith
Former Non-Executive Advisor

I think Craig and I, we've always thought about Asian business having an ideal ratio of about 50%, and I'm happy to keep it at that in the foreseeable future.

Unknown Analyst

Chris Williams from UBS. I just want to ask a follow up on the repatriation of deposits. Presumably, most of those deposits are U.S. dollar denominated in Asia. I'm wondering the effect of currency when you repatriate those deposits to Australia.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, I mean that gets swapped out anyway. So...

Unknown Analyst

And with your wholesale fund you, obviously, got a fixed term that you can swap easily against, whereas, obviously, with deposits, you don't have any fixed duration on those deposits. I mean the cost is materially higher.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes. But I mean, you factor in that cost. I mean there's still a swap cost. But i mean deposits are not only in U.S. dollars, there's also Aussie dollar and New Zealand dollar deposits as well in this mix. And of course, the other thing is, that we use -- we have to fund our U.S. Dollar balance sheet as well.

Unknown Analyst

So can you just give us an idea of the actual quantum that's exported or repatriated at the moment and the mix of that between currencies?

Peter Ralph Marriott
Former Chief Financial Officer

I have a couple of angles. First of all, as Mike said, all the money which is repatriated to Australia is hedged. And at times people sort of think, how do look how low you go in the cost of funds in Asia, this must be an advantage. But no, in the end is it gets swapped back into Australian dollars, and so that arbitrage and benefit that might appear gets taken away. And so we look at the nature of the deposit portfolios, having regard to the stickiness and different amounts, some of that is going to be long term and some of that is going to be short-termed, depending on the underlying stickiness and the nature of those deposits. So there's -- I can't give you the split it's off my head as to how much is more turned out as to how much is in shorter-term. And then of course, the swap curve will then determine what the premium is attached to that swapping, whether it's short-term or a long-term. But at the end of the day, this becomes -- all the transfers that are done at market rates. So in that sense, the funds should which should pass down to Australia across the same is what would be for us to go and borrow our money for 90 days or for 2 years because everything is done at market rates because if we have to do for a text transfer pricing point of view.

Unknown Analyst

So it's the dollar that pause an advantage because it's not a funding, the cost advantage in terms of the repatriation?

Peter Ralph Marriott
Former Chief Financial Officer

To the extent that you seem to be able to raise deposits in Asia as a lower margin, i.e., you get some LIBOR or not much over LIBOR relative to the term deposits in Australia, where it fulfills to have us to pay 100 basis points over BBSW, there is an advantage. Remember I keep repeating, don't overplay the idea of repatriating money down from Asia. There is some, there is a benefit from that, but it’s not as if we're going to be able just to print money in Asia and keep on repatriating it down to Australia, it helps. But the prime thing is on funding what we do in Asia without any demand back on the mother ship.

Jill Craig
Former Group General Manager, Investor Relations

Brian?

Brian D. Johnson
CLSA Limited, Research Division

Just Chris asked to quantify if it was $30.5 billion at the last result, $12.5 billion at the last quarter, what's the figure now, Peter? And then I'll add my question as opposed to Chris' question.

Peter Ralph Marriott
Former Chief Financial Officer

One, that number does move around. The current number is $15 billion. But when we've met at the trading update, it's a little bit less than $12 billion. It just moves around depending on the very dynamics and Mike was saying before around relative cost of raising money in Asia versus other sources, what's happening with the supply within Australia. So the number will move up and down.

Michael Roger Pearson Smith
Former Non-Executive Advisor

The important thing is it gives us access to another funding source. That is the issue.

Brian D. Johnson
CLSA Limited, Research Division

Now this is my question. Mike, I'm going to ask you this one because I suspect this is just play to getting into the spreadsheets, which is all a dangerous thing. If I had a look on Page 24, it further tells me that the expected loss on the percentage of gross lending assets is 46 basis points. Now they said towards the quality of this stuff coming out of APEA here is actually higher than Australia, but in his spreadsheet, I see that he's using a much higher expected loss rate, which I assume is the mortgage mix. But when I have a look at the land losses charge in this result of 660, what is that of GLA data?

Peter Ralph Marriott
Former Chief Financial Officer

That's 31, 32 basis points.

Brian D. Johnson
CLSA Limited, Research Division

Why aren't you much more pessimistic on your outlook given that you're telling us that the land losses are running at basically 60% of what you personally expect the loss rate will actually be?

Peter Ralph Marriott
Former Chief Financial Officer

One, remember the Asia stand-alone loss rate is influenced by the credit card portfolios. So you get very high loss rate on the Indonesian and Taiwanese credit capital portfolios so that distorts the average. Over here you got an average in the middle. It doesn't mean anything. In terms of the expected loss numbers, remember that in a credit cycle sense, you tend to have, I would argue, 7 to 8 years where you're below average and 2 to 3 years where you’re above average. Most of the time the effect has below average, and you have these big spikes the drags the average up. So you have 46 and I think, frankly, this is a very conservative estimate of the expected loss cycles. And you'd expect at this point in time, actually, that your actual loss rate is less than average. But it's probably more around what the median is because the average gets skewed by those spikes you have every 10 years or whatever.

Brian D. Johnson
CLSA Limited, Research Division

When we look at that same slide, we see that the risk in Australia is actually going up, and you'd be calling that the risk is going down.

Peter Ralph Marriott
Former Chief Financial Officer

And the risk in Australia is a trade-off between 2 factors. One, the institutional portfolio risk is going down, but the increase in arrears -- these models are very sensitive to arrears. So with arrears increasing, it affects the credit cards, it affects loss rates, expect the other loss rates, now retail portfolio and it also affects the loss rate on the mortgages portfolio. So institutional down, retail goes up because it's very dynamic. This is a spot measure. So it picks up all of the effects of the higher arrears in Australia book.

Jill Craig
Former Group General Manager, Investor Relations

TS.

T.S. Lim
Southern Cross Equities Limited, Research Division

It's TS Lim from Southern Cross. Just a left-field question. Events in Pakistan in the last 24 hours possibly could make the world a more dangerous place. And based on your experience, in terms of living dangerously, is that good for business? Is that good for business for ANZ?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, I hope he wasn't a customer of ours. Look, is this the end of a story? No, it's a closing of a chapter, I guess. But the book continues. And I guess that the world is going to be a little bit unstable going forward. What is going to be the impact of that is hard to tell, but let's see what happens and certainly an interesting development.

Jill Craig
Former Group General Manager, Investor Relations

Any last words from you, Mike?

Michael Roger Pearson Smith
Former Non-Executive Advisor

No, no. Thank you for your questions and thank you for attending. Many thanks, indeed.

Jill Craig
Former Group General Manager, Investor Relations
Thanks, everyone.