Question and Answer

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. You've mentioned about the cost-to-income ratio coming down a couple of percentage points. I just wanted clarity on the benchmark. Is that -- the benchmark that we should be looking at, is that an FY '12 cost-to-income ratio or our second half '12 cost-to-income ratio from where you're starting point is? And then second question on capital, one of your peers that have already reported their FY '12 results came out with some broad sort of target ranges or above levels. I wondered what your view was in terms of where you saw capital in Core Equity Tier 1 noticing that you have removed your DRP discount now?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Got it. Yes, okay. Well, let me talk about the capital first, because whilst we have reduced the discount or we've removed the discount on the DRP, we still got the DRP in place. So there will be still takeup on that. But we've really reached a stage where I think our capital is sufficient and the -- with the operating environment that we're in at the moment. Where will regulation go from here? I'm hoping, and this is probably naïve of me, I'm hoping that this is -- we're about where we should be. I mean, I cannot ever see regulators telling us we've got too much capital. But I feel that we do have to put a little bit of stress on ourselves in this because we've got to manage capital much more effectively. And I think Shayne went through that in some detail. It is important that we manage capital much more efficiently than we have in the past couple. No bank in the world has managed capital very well for the precrisis, for the 20 years precrisis because they didn't need to. Top line growth was so significant that it gets covered up, and you were able to raise a sufficient capital quite easily. And the crisis I think has highlighted that. So we've really got to do a much better job at that.

Shayne Cary Elliott
CEO & Executive Director

So in terms of the cost-to-income ratio and to the 2% target, look, we stated that the trading update for the third quarter. I mean, logically what we've done is that was really in response to our first half results. So I think you'd take that as a starting point. I think it's more then, though, than just the maths around it. It's really a statement of intent here to say we get the point that it's about growth and productivity. That doesn't mean it stops there. So we see big opportunities on that front.

Ben Koo
Goldman Sachs Group Inc., Research Division

It's Ben Koo from Goldman Sachs. Just a question on the Institutional business. I just wanted to get a sense, we're looking at the Return on Regulatory Capital over the half, the deteriorating part of that is seasonal and also some of the mix effects that is going on in that business. But I just also wanted to get a sense of what's the impact the competitions have on that and how permanent these changes in...

Michael Roger Pearson Smith
Former Non-Executive Advisor

On the margin?

Ben Koo
Goldman Sachs Group Inc., Research Division

On the returns overall for the business. And the bad debt charge also was one feature that came back in for Transaction Banking, so I'm more thinking about the pre-provision component of the returns?

Michael Roger Pearson Smith

Former Non-Executive Advisor

Yes. Well, in terms of the provision, there are basically a couple of names that have been long-standing issues that we already had under earmarked in the collective. But then we have to release collective and raise individual. In terms of the return overall, I think there are 2 issues here. One is the margin contraction, and that has had a lot to do with competition, somewhat irrational competition at times, I would say, and pricing has come in. But it's also been very much a part of a deliberate strategy of moving the book much more to trade business, and this is particularly true in Asia where you would expect a lower margin on that business. But it's much safer business in the short term, self-liquidating. So that was a strategic decision that we made. And I think it was the right one in the current environment. Will there be continued margin pressure? No, look, I think that we are beginning to see an improvement there, but there is no doubt that it is very competitive. And I should have also mentioned that the deposits were also very, very competitive. But I think we'll start to see that improve a little bit off the back of wholesale markets actually. We're going through a period where it's a bit easier. It's not going to last, but we just have to make hay while the sun shines. Do you want to say something, Alex, on that?

Alexander Vincent Thursby
Former CEO of International & Institutional Banking and Member of Management Board

Direct answer to your question, margin compression has been the major driver of erosion of ROE. The strategy we have is very clear to become less reliant on long-term lending and become more reliant on foreign exchange, trade, cash, et cetera. It is my view in the long term that, that will actually improve ROE as we take a different balance sheet position. And, look, the margin side I think has got a little bit more pressure in it but not on the liability side. In fact, if you see half-to-half, we've actually slowed the margin compression then, but that is being caused predominantly on the liability side. As Mike said, the pressure is on the asset side, predominantly in Australia, and secondly, by switching the book into a trade book as a greater portion.

James Freeman
Deutsche Bank AG, Research Division

James Freeman from Deutsche Bank. Just a question on costs, very good cost performance for ANZ, and historically has been a weaker part of the ANZ results. I'm just wondering how, you mentioned desire a few times.

Michael Roger Pearson Smith
Former Non-Executive Advisor

I don't think it's weak, James. It was basically that we were growing the business and now we're expanding the business. And I think now we're expanding and contracting other bits.

James Freeman
Deutsche Bank AG, Research Division

Okay. Well, very much clear now, yes. I guess I'm just wondering just on the momentum of the costs, just if can get an idea as to sort of how it was running throughout the second half and into '13 and just where that most of the cost initiatives were coming from?

Shayne Cary Elliott
CEO & Executive Director

Yes, so I think there's 2 things going on here. One is recognizing the environment side. And I've obviously mentioned that response is we have to work harder on productivity. So it was just -- there was a lot of focus on that really from late last year. And you saw some of the actions in the first half and then we had some restructuring securing charges relating to Australia and other parts, it was acted early and now we're getting the benefits of that. The second thing I think is probably a little bit more subtle, which is the recognition that, to Mike's point, we have been building actually 4 or 5 years. At some point, you get to the scale where you start to the benefits of that and you start to be able to say, "Actually, now we've built this thing, we've got these hubs, we have streamlined process, we've invested in technology." You start to get the benefits of that and that's really -- this is the story I was telling around, the transaction prices cost was really to highlight that. And we've now got sufficient scale to get that through, and that's starting to really drive benefit to the business and I think Australia is a good example.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Phil, so do you want to talk about that?

Philip Wayne Chronican
Former Chief Executive Officer of Australia

Yes, I might.

Shayne Cary Elliott
CEO & Executive Director

The other reason I mentioned that is these are real productivity gains. So in terms of what happened during the half, it was kind of a steady gain through that period of time and that's why we expect that general trend to continue.

Philip Wayne Chronican
Former Chief Executive Officer of Australia

Yes, the use of the hubs has been, I guess this year has been a real turning point for us. We've been building up the hubs' capability over time and working with getting the service delivery up to the standard that we wanted. In the year, we've just that -- I think we've had about 14% lift in our activity levels across the board for our operations group and our nominal costs were down year-on-year. So that gives you a sense of the productivity gain that we're getting. More importantly, a lot of that productivity gain is coming from automation and productivity improvements within the hubs, so they're creating new capacity as they streamline processes that we've moved up there. And that's giving us the dual benefit of improving the quality, reducing error rates and lowering costs. So I think the point Shayne makes about leveraging the benefit of the investment, over several years is quite correct. We are now seeing that we're in this virtuous cycle where the hubs are making fewer errors, getting better customer results, complaints are down and we're able to absorb more and more work without adding to the headcounts in the hubs. So we feel that we've got some real momentum on that piece of this. In fact, I think Mike, you and I have made the comment that the only problems with this is that's much of our cost during that back half. And we need to find a way of getting more of the activity covered by that type of productivity improvement. So we've had that and I guess in the balance of it, obviously, there's the full year effect of the FTE reductions that we have had. The only count of that of course is we always have our 1 October pay increases that we need to absorb. But looking at all those together, I think that we're looking to those to continue the same sort of momentum that we've had.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Mike, if you look at some of the things you've been most proud over the last couple of years, the years of management experience that you've got and the strongest level of provisioning amongst your peers have been the 2 things you've been very proud of. When you look at these results, you're seeing a pretty material reduction in the collective provision, especially there's this credit risk-weighted assets and you're now sort of back within the pack of your peers and the level of provisioning that you have got. And you sort of put that up with the softening economy that you've mentioned. Is now the right time to be releasing collective provisions? You've guided towards higher [indiscernible] next year, is that basically saying well, we're just not going to release the same thing any further?

Michael Roger Pearson Smith
Former Non-Executive Advisor

No, I mean we've got still a very significant amount of management overlay. And there's a fair amount of pressure to release this stuff from our external accountants who are represented here. This is not something that we do lightly. It's -- they can only exist if there is a real reason to have them. And if there is not, you have to release them. Now the release that we have used them for this time has been against identified accounts that we have had. So we've released that CP and then we have raised individual provisions. And that's what it's there for. That's the whole idea of it. So provision management is part of what we do and I'm comfortable with where we sit. I think that, that coverage, 108% is still good. And in light of where we are with our overall capital position, I'm still very comfortable. Do you want to say anymore on that?

Shayne Cary Elliott
CEO & Executive Director

No.

Richard E. Wiles
Morgan Stanley, Research Division

It's Richard Wiles from Morgan Stanley. On the recent Asian service, very little reference to credit quality, and yet in this result, the IIB line losses are up 45% for the full year. They're also up 45% in the half. I wonder if you could explain the reason for that, particularly in the context of the level of provision -- collective provision releases in that division? I think it was something like $200 million. You've also got a reduction in new impaired assets in this division. And as you've been mentioning, you're trying to raise the book by doing shorter duration less risky lending. So in the context of those 3 facts, could you explain why the line loss is up so much in IIB this year?

Michael Roger Pearson Smith
Former Non-Executive Advisor

I think the important thing to note is that the loan losses have not anything to do with Asia. These are, as I say previously, identified long-term issues which were earmarked against collective provision. We've released that collective provision and created the impaired, the specific provision, what do we call it now, individual provision.

Jonathan Mott
UBS Investment Bank, Research Division

So the net effect of the collective provision releases in raising the IP should be 0 and yet the loan loss charge is up 45% in the division?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Because of the individual provision.

Richard E. Wiles
Morgan Stanley, Research Division

Perhaps, Shayne or Alex could explain why the...

Michael Roger Pearson Smith
Former Non-Executive Advisor

Sorry, I don't really...

Jonathan Mott
UBS Investment Bank, Research Division

Explain why the total loan loss charges is up so much in that division. If the collective provision release was sufficient to offset the individual provision charges on those large legacy ones.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Do you want to do it? Nigel.

Nigel Henry Murray Williams
Former Chief Risk Officer

So the provision release is against several accounts, but clearly, there's also some other accounts that actually have gone bad in that time for what we have created individual provisions. They're aren't in Asia. They're largely in the Australian business.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Alex, do you want to add anything or...

Alexander Vincent Thursby
Former CEO of International & Institutional Banking and Member of Management Board

No, I think Nigel just covered it. It's -- the Asia businesses in fact have gone the other way slightly, so the credit book is holding up very well as quality of credit remains at the top end and we've moved into more, more trade. And I think it's the 241.

Victor German
Nomura Securities Co. Ltd., Research Division

It's Victor German from Nomura. 2 questions, somewhat interrelated on margins. One is, you've highlighted the impact of lower rates and rates have continued to decline and the expectations are that they will continue to decline further. Are you able to give us a little bit of a, perhaps, guide in terms of what margin pressure that might result in Australia business? I notice you're shaking your head, I was hoping that's not going to be the case. But -- and also secondly, on Asia, as you're moving away from sort of more balance sheet intensive business into shorter duration business, is that mixed impact going to continue into the next period, and also what impact does it have on your ROE? Because presumably, that business should have different capital requirements as well.

Shayne Cary Elliott
CEO & Executive Director

Yes, so it's a good question. So in terms of the asset side, absolutely -- I mean I think it's prudent. Alex has been really strong on this in terms of the IIB business in particular, that we emphasize shorter duration, trade base leaning idle long term. That comes at the expensive margin. But on a risk-adjusted basis, that's a better business for us to be and it's more aligned with our strategy. So it will mean that margins come in and we expect that mix -- I mean, Alex, you might call it, but I'd say, we'd expect that shift in the balance sheet to continue because it's the right thing to do and it's aligned with our strategy. So the mix will shift over time. In terms of the deposit -- look, lower interest rates clearly have an impact, so if you're got a non-interest-bearing deposit, rates come down 25 points, your margins come down 25 points. What you're really asking here is what's the mix between our non-interest-bearing and interest-bearing stuff and the other point of that is that shifts well because customers' behavior changes depending on where rates are. So it's not quite this simple, just to kind of mathematically roll it out and say -- just as the ratio have an impact, but it will have an impact. I think it's fair to say -- I think it's fair to say though that over time, the ratio of non-interest-bearing deposits in the business has reduced over time just in the industry because people are more sensitive and obviously, banks compete heavily. What's been a really good performance in Australia division, in particular, over this year where we saw the deposit growth. A lot of that wasn't at, I'd call, end of the market, so it wasn't the kind of expensive TD [ph] end of the business. And volume growth is ultimately where you're offsetting in that margin and that's why we are pleased with the performance.

Michael Roger Pearson Smith
Former Non-Executive Advisor

But I think to also take the point that was made a little bit earlier, the competitive pressures in the deposit side, particularly in the Institutional, are likely to come off a little bit. So I don't expect there to be that continuing margin compression on deposits.

Gregory John Clark
Former Director

You wanted me to just add a little bit? With regards to return on an economic basis, return of trade assets is very good on a regulatory basis, in Australia only, APRA, that return doesn't come through loud and clear because of the way that they rate trade assets. We're working with APRA to try and get those rules changed.

Victor German
Nomura Securities Co. Ltd., Research Division

Are you able to give us sort of an idea what ROE on an active basis?

Shayne Cary Elliott
CEO & Executive Director

So I can tell you that in broad terms, what's been a terrific transformation in trade over the last 3 years is this is now a business where -- it used to be a single-digit ROE on a stand-alone basis just looking at trade assets. Today, it's mid teens, and that's been tremendous, partly because we're getting benefits of scale. So what's happened is the business is growing, revenue is growing and costs have actually been held flat, and that's just -- so that's a terrific turn around in the trade business stand-alone, with our cross-sell. So it's a mid-teen kind of business. I think that's pretty decent for that business. The other thing that -- to Alex's point, the other benefit that you don't see there is the cross-sell from a trade starting relationship is much better than in a traditional kind of long-term lending business. So there are other benefits of being focused on trade.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes. Again, if you think about the trade line, you're bound to pick up the foreign exchange business off the back of it. That significantly improves your return. So if you're looking at it as an overall return, that knocks it up into the mid-20s.

Alexander Vincent Thursby
Former CEO of International & Institutional Banking and Member of Management Board

One other point, it's an asset that you can fund efficiently be in the Basel III. You don't need wholesale funding to fund it, you can use deposits of the clients because of the short tenure of the nature of the loan versus the deposit.

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi here. Acknowledging James' early observations about the group's cost growth in recent periods, you have better balance sheet position than your peers and access to Asia which the group has. Are you satisfied with the revenue performance this half, so the 1% growth, half-on-half, should we expect sort of greater revenue momentum than peers moving forward as you see it or is ANZ a bit more a story of catch-up on cost now as sort of seen this half?

Michael Roger Pearson Smith
Former Non-Executive Advisor

No, I don't think so. I think it's both cost management but also revenue growth. I mean, absolutely, it's both. And again, the regional strategy provides us with options and optionality that you wouldn't get from, I guess, the domestic-only strategy. So no, quite clearly, I still believe that there will be further growth there. I think the second half growth really, there was a huge amount to do with the volatility. It was a much more benign environment than the first half, so that had significant impact. But yes, I think the strategy is based on having that growth optionality, and that's what we will continue to drive.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Shayne, I just have 3 quick questions. Is a bit of what we're seeing in the loan loss charge, the collective versus the IIB explained by [indiscernible], [indiscernible], and basically, [indiscernible] is the first question, which I suspect were previously dealt with. The second one is, could you give as ARPU deposits that have streamed down into Australia? And then the third one is, the software write off -- the capital software write off of $220 million that everyone will forget at the end of today, the software amortization saving going on, was that reflected in this period or do we see an instantaneous improvement in the operating cost starting the first day of the next period from that $220 million being written off, which is about $70 million a year and that's where basically the 2% improvement in the cost comes through without doing anything?

Shayne Cary Elliott
CEO & Executive Director

Right. Good question. So obviously, they can’t comment on particular names with IP, but I think it's fair to say, given the size of the situation, they're reasonably well known. In terms of deposits, I don't have the actual number at the top of my head as of today. Isn't it...

Jill Craig
Former Group General Manager, Investor Relations

It was about $15 billion.

Shayne Cary Elliott
CEO & Executive Director

Yes, it's about $15 billion, I think. It's a little bit higher than it has been in the past, Brian, I'd just talk through why that is. Part of the, again, this flexibility and optionality that Mike talked about in our footprint, part of that comes from in terms of ability or choices that we have around funding as well. It just means that we have more choices available of where to access funding given pricing and other things. And at the moment, given the -- some of the pricing pressure on Australian deposits, it was better for us to go into the APEA markets and get a little bit of deposits there. It's cheaper and that's whole that reflects rather than I don't think that necessary signals have a long-term shift that we're going to keep seeing that number go up far, far, far from it. But it's around $15 billion today, a little bit up. In terms of the software impairment, software impairment was obviously taken in the second half. The operating expense benefit of that was pretty small in terms of the timing. Sorry?

Brian D. Johnson
CLSA Limited, Research Division

[indiscernible]

Shayne Cary Elliott
CEO & Executive Director

Yes, but just in terms of those impairments, the impact of those impairments themselves, do the businesses get a little bit of a benefit in the second half? Yes, but it was pretty tiny. The real benefit does come into next year. That alone won't explain a whole lot of an improvement in their CTI. And certainly, hand on my heart, when we set the 2% CTI target, it wasn't with a view that -- we've got some in the bag from software impairment.

Brian D. Johnson
CLSA Limited, Research Division

The $70 million account [indiscernible].

Shayne Cary Elliott
CEO & Executive Director

That's a little high.

Jill Craig
Former Group General Manager, Investor Relations

But good try, Brian.

Shayne Cary Elliott
CEO & Executive Director

And may I just remind, the intention of forgetting that at the end of the day, which should be a good idea, but did want to make a point in terms transparency around that because there was some commentary about that being below the line. Look, from a management performance perspective, in terms of compensation, we trade that above the line. So when we put our plans together and set our targets, clearly, it wasn't in the goals to have that charge below the line. So when I go to the board and make those recommendations in terms of financials, we add it back. So absolutely, it got taken into account in terms of performance for individuals and for the businesses.

Michael Wiblin
Macquarie Research

Mike Wiblin from Macquarie. Perhaps a question for Shayne. Just in terms of your comments around discipline to capital allocation, can you just go into a little bit more detail about what that actually means? I mean, is it a set of hurdle rates? Does that differ by geography? And then what does it mean for the dividend, potentially? I mean, if things become hyper competitive, could that start to go up in terms of the payout if you can't find, for instance, things that are meeting your hurdle rate?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, let me -- look, this is not an exact science, right, this is basically -- we are continuing to invest in terms of the growth potential in Asia Pacific and we will continue to do so. And some of those businesses will have lower ROE hurdles in some of our mature businesses in -- traditionally, in Australia or New Zealand. So there is a balancing act there. But we do have to -- it's a question of feeding the fat and starving the thin a little bit. You've got to put your money where you're going to get the best return for it. Now, obviously, if you got a lower return business that you can actually improve so that you get the uplift, then that's far better than having a high return business that is stable and you can't do anything with, yes, because you would keep that going. So it's that sort of discipline. And again, discipline is the right word. It's just to squeeze the businesses a little bit make sure that they really are returning something for us. And what was the second part of that? The dividend. Look, I'm very comfortable with the 65% payout ratio, I think that's about right. It's low by Australian standards, it's high by International standards. So I think it sort of works for our strategy right now. I'm comfortable where that is. If we were in the position of having too much capital, we would look to disperse that in a different way. I don't think it's sensible to increase dividend and then reduce it the next year or whatever. Or for example, you've got a problem in the credit cycle, you have to look for more capital. I become I don't see that that's very sensible. So I'd like to try and keep the dividend fairly consistent.

Michael Wiblin
Macquarie Research

Okay. So when you put the fat and the thin on the scale, where does the group come out in terms of that?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Sort of -- a bit like me, relatively portly, I hope.

Brett Le Mesurier

Asia Pacific Prudential Securities Pty Ltd., Research Division

Brett Le Mesurier of BBY. A question for Alex. The Transaction Banking business had income that deteriorated by 3% from the first half to the second half, while there are risk-weighted assets and therefore, the capital went up by about 7%. So if that would be about trade and the higher ROE, but trade sits within that, it looks like the ROE in that business is declining. Can you comment on the factors behind that?

Alexander Vincent Thursby
Former CEO of International & Institutional Banking and Member of Management Board

Yes, you're correct that the margin was -- that there was margin compression in the trade. But also, it's fair to say that on the transactional business side, which I think on the deposit side, was up 6% total deposits, half-on-half. The effect was there's margin compression there. As Shayne pointed out, when you have interest rates going down and you're at 0, it's a straight hit to the P&L. So a lot of the effect would actually come from the deposit cash management side, as well as more than the trade side.

Shayne Cary Elliott
CEO & Executive Director

So I think there's sort of 2 things going on. Alex, absolutely, you're right, there's 2 things going on. One, the margin compression on Transaction Banking on the cash deposits, which I talked about on my piece. And the second thing, mix issue within Transaction Banking because trade is a lower ROE business in cash management. So as trade grows really, really fast, which it is, just the mix within Transaction Banking shifts towards it when you get an averaging effect.

Jill Craig
Former Group General Manager, Investor Relations

We might take question from the phone, please?

Operator

[Operator Instructions] And the first question comes from the line of Matthew Davison coming from Merrill Lynch.

Matthew Davison
BofA Merrill Lynch, Research Division

A couple of questions on the Australia Division. Just looking at the margin improvement in the second half, it looks like it was really dominated by the Retail segment and the Commercial actually went backwards. So just interested in a bit more of the reasons behind that. Is it just STR or are we seeing more competition on the commercial deposit side? And secondly, just in terms of the new impaireds are up in Australia, just wondering if there's any trend that you'd call out by segments or industry, so whether it's just broad-based?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, I'll ask Phil to explain in a bit more detail, but yes, you are right. I mean I think the deposit environment in the Commercial business has got tighter and certainly, there has been much more competition. That's easing off a little bit now. It is improved slightly. In terms of -- what was the second part of that?

Matthew Davison
BofA Merrill Lynch, Research Division

The impaireds.

Michael Roger Pearson Smith
Former Non-Executive Advisor

The impaireds. Well, I think Shayne covered that quite well in his speech. The impaireds are in the rural book and the numbers are actually quite small, but there has been a little bit of stress in that area and probably quite understandable. But Phil?

Philip Wayne Chronican
Former Chief Executive Officer of Australia

Just only one thing I'd add to the comment about the impaireds in the rural book is that predominantly, the uplift in the IPs is driven by changes in the valuations of existing assets that are in the lending services group rather than new flow. So the increase in the impaired, and therefore, the provisions associated with it has lots to do with valuation effects, so we're seeing the tightness in the rural markets and that's probably the essence. Mike has covered the margin question.

Operator

And the next question comes from the line of Andrew Lyons calling from RBS.

Andrew Lyons
RBS Strategy

Just 2 questions on capital. Firstly, you continue to optimize capital by divesting some nonstrategic assets. Can you perhaps just speak about further options that exists, particularly with regards to some of the holdings in the Asian region? And then just secondly, a question on the capital intensity at the global Institutional business, but particularly focusing on global market. I just note that global market risk-weighted asset growth in the first half was broadly flat. It went up 17% in the second half. Just wondering if that's predominantly driven by regulatory requirements? And if so, what would say about the second half?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Okay, in terms of the minority interest that we hold in the Asian portfolio, the partnerships, obviously, under Basel III or under APRA's definition under Basel III, quite clearly, the capital intensity has increased in those businesses. And as you quite rightly pointed out, we have looked to divest a number of those assets that are not strategic, Sacombank, Visa and Origin. In terms of the businesses that we have left, most of those are strategic and form an important part of the strategy moving forward. But we evaluate these all the time. And quite clearly, this means that they're going to have to meet a slightly higher hurdle than they have had to in the past. But that doesn't really detract from the fact that many of these investments are for strategic -- are important strategic investments. And the overall dilution to capital is actually quite small. So will we be doing more of this type of investment? Quite clearly, not. The existing businesses right now, we're comfortable with.

Shayne Cary Elliott
CEO & Executive Director

In terms of the issue around institutional end markets, the increase is really driven by regulatory changes as you guessed. I think, what's -- and I tried to cover this a little bit in my comments, what's important there is within your regulatory environment, there is a differentiation happening with end markets in terms of capital treatment of various businesses. And so on a relative basis, something like foreign exchange, actually, in the new world will look a whole lot more attractive than say, in straight derivatives or some of the other businesses because of the nature of the business. So -- and quite clearly, a kind of customer sales driven business is a whole lot more attractive in any environment. So that is a benefit of the strategy that we have that really just pushes those business, so they're less capital intensive over time. But what you're seeing in the second half is a bit of a catch-up on the capital waitings.

Jill Craig
Former Group General Manager, Investor Relations

We've got a question on the web, Mike, that says, "Will the investment in Asia be greater in the year 2013?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, we continue to invest in Asia. I mean, that's an ongoing part of our strategy, so we will continue to invest. And if we can find good assets to buy, then we will. Right now, assets are still quite pricey. It's hard to shake them out at the moment. But we continue to look.

Jill Craig
Former Group General Manager, Investor Relations

Alex, yes?

Alexander Vincent Thursby
Former CEO of International & Institutional Banking and Member of Management Board

I think we said at the last roadshow that we replaced that investment around neutral positive jaws...

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. Just firstly, one of -- a bit of housekeeping. Just the reasoning behind the $30 billion upward restatement of interest-earning assets and the extra 1,000 people [indiscernible] after headcount from last half. And secondly, just with the transparency of the growth in the Asian business. If you're pushing more towards these shorter duration type of businesses because they have higher ROE, how are you managing the potential volatility to revenues against this scale that you've got with servicing around the cost side? And does that potentially introduce more volatility to the Asian operations in the future in terms of earnings?

Michael Roger Pearson Smith
Former Non-Executive Advisor

No. The Asian businesses are very balanced. The business mix is very balanced. It's just that we are looking to skew the balance sheet a little bit more to trade and the ancillary business that comes off that. But of course, you still have to provide working capital and other support for your customers. We're a relationship-driven bank. So to us, we've been talking about that specific book. I mean, it's still a universal banking model. What was the first questions? I didn't understand that?

Shayne Cary Elliott
CEO & Executive Director

The housekeeping ones, I think I have to get back to you on that, if there's any deliberate restatement or anything, so I'll take that offline. And going to the second question, I mean, quite clearly, the growth in Asia or any of our business has to be built on some shared platform. So part of the strategy is actually to create scale by expanding the businesses, not by adding new businesses with new operational requirements. And I guess it's what I was trying to talk about, that we're starting to see the benefits of that come through. I mean, it's fair to say that through the GFC, with the expansion that we had in Asia, a lot of that was opportunistic to get out there while competitors were trading to acquire some good assets. And now there's been a bit of a clean out in terms of the process, to really just stream on and push it all through the same factory and it's part of reason we're get productivity gain.

Jill Craig
Former Group General Manager, Investor Relations

And we might just go back to Brian, and then I think we're just about done.

Brian D. Johnson
CLSA Limited, Research Division

Shayne, you've got a lot of questions about asset quality today, and you should always expect that when the CP comes down. I suppose what I'd be interested to get is we know that ANZ has got the smallest [indiscernible] business than the other banks. But we also know also ANZ has got a big mining exposure than the other banks. And as an excellent of history, you've probably got a bigger equipment financing book than your other banks. Can you just run us through why we're seeing such precious comes through on the resources sector, particularly in Mining Services, can you reconcile that basically to the reduction and the overlay? And perhaps, can you provide us a little bit more granularity on the exact mechanics of what's left in the overlay?

Shayne Cary Elliott
CEO & Executive Director

Okay. So dealing with the mining one first. I think it's a good observation, and we do have a large exposure to the resources sector. We're proud of that exposure, it's part of our strategy and strength, actually. I think you really need to look into the mix of that business. So in terms of its focus, it's towards topping the town. We don't have a strategy folks on junior miners, et cetera. It's very much the very big end of town. I mean, you look at the mix of business that we have there, this is again, is a business focused on providing trade, working capital, foreign exchange. This isn’t equipment leasing. And actually, the level of lending in terms of that business is pretty small in the scheme of things. So just you look at just the weighting that we have with our loan exposure, it was actually pretty tiny. In fact, I think it's probably still the case that we have more deposits from that sector that we do out the door, in Australia, yes.

Jill Craig
Former Group General Manager, Investor Relations

Less than 2% of the book.

Shayne Cary Elliott
CEO & Executive Director

Yes. So it's a small book. The equipment leasing, yes, again, that's part of our strategy. We like that business. We're conscious of the fact that clearly, it is -- those assets only have value as long as the miners and sellers are doing well on this demand for those assets. But we feel there's much better way on the risk-adjusted basis to play that sector than just plain lending to the sector. In terms of Mining Services, same thing. Yes, we have exposure there. And then just so we understand, the exposure is not that particularly large. It's well diversified geographically and well diversified in terms of actual underlying mining projects as well. It's an area that we are conscious of in terms of our exposure, and so it gets a lot of due diligence and a lot of focus from risk in the business, but we're comfortable with that.

Brian D. Johnson
CLSA Limited, Research Division

[indiscernible]

Alexander Vincent Thursby
Former CEO of International & Institutional Banking and Member of Management Board

Brian, it is a Natural Resources franchise, and we actually have a big natural oil and gas to the global 5 players, as well as the mining sector here in Australia and obviously, Indonesia. So when you look at natural resources, always keep in mind, an increasingly bigger oil and gas exposure to a number of the major players.

Michael Roger Pearson Smith
Former Non-Executive Advisor

The other point to make there is the CP in terms of the model has not been reducing. The model is the model. It's the overlay that's been reducing. And that, as I say, you can't keep that forever.

Shayne Cary Elliott
CEO & Executive Director

Yes, I didn't talk about that. So the second part of the question, in terms of the overlay. So I mean I think over the last few years, we're been very focused in talking about the overlays that we generated as part of the movement of the GFC. So whether it was concentration overlays or economic cycle and that's really what's gotten a lot of the attention. But to Mike's point, what's more important from our perspective is what is the total level of provisioning that we have. We can debate all day long of the makeup of it, but the 1.08%, we feel is appropriate given the risk and where we see the cycle. But as I said, it's not totally -- this is not totally a judgment number. It has to be based on some effects and quality of our book, and we think the management overlay at around 600, the total is broadly the right number.

Jill Craig
Former Group General Manager, Investor Relations

Okay. I think with that -- sorry, Craig. I'm determined to deprive you. I can only apologize. One last question.

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi again. Capital software in the period was about $460 million in the half, which seems quite a strong level of run rate. So can you talk about expectations in terms of level of spend moving forward around that and what the money has been spent on broadly?

Shayne Cary Elliott
CEO & Executive Director

Sure. So clearly, part of the strategy is around growth. It's about geographic expansion. It's about product expansion, and I also talked about the fact that there's underlying need to invest in technology, particularly in gathering deposits, that is -- big chunks of that investment are software. And so that's inherent in our strategy and you've seen that through -- evolve through the years. That puts a burden on us in terms of the amortization of that. We're very conscious on that in terms of the drag it requires -- it imposes on us in terms of expense. In a lower growth outlook, we have to really look at the rate of that spend, and so we're doing a couple of things around that. One, we are increasing the bench -- or the hurdle at which we capitalize items, so we're going to push more things to the OpEx rather than capitalize. We're taking a harder look at amortization periods to try and shorten them, so we -- and we're also -- the way we manage projects in terms of new investments is being some new kind of more robust way, shall we say, of looking at that and trying to get the timing right. I would expect, and again, it's hard to forecast exactly, but given our current slate of projects and the investment that we've done, I'm recognizing the fact that a lot of the stuff has been done. We've had to clean up a lot of prices, and investing in a lot of stuff like transact -- like some market resistance, like Internet banking, most of it is behind us. And I would expect the total level of software on the balance sheet is kind of peaked somewhere in '13, '14, and then we should get it into a steady state and hopefully -- not immediately, but hopefully start to see that those levels come down.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Again, I think the important point here, Craig, is that discipline with the overall cost to income ratio. But you have to accept that we have to play catch-up here. We were -- we had a very poor systems architecture. When I think what we put in, we've now got a proper, world-class cash management system, world-class trade system. We've got a global credit card system. We've got a global trading system. We've got the Asian core system in place now, the New Zealand simplification down to one system and the mobile banking, which I think is as good as it gets in Australia in particular. So there's been a lot of work done and we're now coming to the end of that. So as Shayne has been saying, we should try -- we should be seeing the benefits of that both in cost and in income of course, the income line.

Jill Craig
Former Group General Manager, Investor Relations

Okay. And with that, I think we're finished. Thank you, everybody.

Michael Roger Pearson Smith

Former Non-Executive Advisor
Okay. Many thanks.