Question and Answer

Jill Craig
Former Group General Manager, Investor Relations

Thanks, Mike. I'm sure everyone will be appropriately nice. So what we're going to do is start in the room And then we'll go to the phones. If there are any journalists listening today, welcome. But if you could hold your questions till the press conference a little later on. Let's start with Jon Mott.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Just a question on something you touched on earlier, which is the balance sheet in Asia-Pacific and the Institutional. I'm just looking at the detail of the presentation on Page 56. You can see that the net loans and advances in Asia-Pacific, Europe and America fell 4% in the half. In Aussie dollar terms in Asia, obviously, FX adjusted, it's close to the 10%. So I think you mentioned financial institutions is one area that's been reduced. Can you just give us an idea how much of that reduction in the balance sheet has been financial institutions, how much more there is to go as you reduce the low-yielding assets in this business, and what impact will be on the financials when you go through this process?

Shayne Cary Elliott
CEO & Executive Director

Yes. So in terms of the trade book in particular because that, to me, where most of it came. Is about $9 billion in total. About 40% of that was FI related and 60% was actually corporate. So it's a mixture. It's really just a focus on making sure we're managing the returns, Jonathan. I mean, it's more pronounced in trade. [indiscernible] has that same process around the Global Loans book as well. That takes a little longer to do because, obviously, the tenor is longer and, in a way, it's a more central part of the relationship with customers, but the focus remains on that as well.

Jonathan Mott
UBS Investment Bank, Research Division

And the impact on returns?

Shayne Cary Elliott
CEO & Executive Director

Oh, the impact returns is pretty positive because -- I mean, Andrew can answer in a bit more detail, but some of those trade returns are very low kind of mid-single-digit numbers. And so by removing that from the book in a reasonably material way, the total return of the trade book, for example, has actually improved pretty significantly.

Michael Roger Pearson Smith
Former Non-Executive Advisor

You want to add anything, Andrew?

Andrew Géczy
Former Chief Executive Officer of International and Institutional Banking

I guess the only thing I make sure I'd add is obviously trade is the core to our business. It's a fundamental. This was about removing the more dilutive part of that activity. And it's a key activity for our bank and we'll continue to grow our trade book. We'll just be focusing on those profitable trade relationships. The original focus, of course, has been in some of our Asian trade, where we see lower returns versus our Australian trade business that we've got or New Zealand trade, where the returns are slightly higher. And that's due to the makeup of the marketplaces itself. But we can continue to grow our trade book, but we just have to prune it a little bit before we could grow it back up.

Jill Craig
Former Group General Manager, Investor Relations

Jarrod and then Andrew.

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. I refer to the Slide 12 of the pack, the income drivers. And the Global Markets is $201 million, and your commentary that that's pretty much the last 6 weeks. So the question is, 6 weeks of the year ruins what could otherwise been a really good profit result. So the tail wagging the dog. So are you comfortable with the volatility that comes with the Global Markets business? And hopefully, you're not. And what are the things you can do to actually make that less volatile? Because you're not going to get any share price benefit if that was plus $200 million because everyone would be saying it's a one-off, et cetera. So are you willing to actually do something to make it a lower volatile business and not let the tail wag the dog?

Shayne Cary Elliott
CEO & Executive Director

Do you want me to answer it? So I don't know that it ruined the results. It's probably a little bit harsh. I mean, the business -- the Markets business remains a key to the franchise. Why? Because our fundamental business is about intermediating trading capital flows, one of the things we do, and that has helped people hedge their currency and rate exposure in doing so. So it's core to the customer, right? It's what the customer expects from us. I take your point that, of course, in 6 weeks, a lot can happen in that business, as we've seen. But as Mike mentioned, the business remains profitable. It was profitable in both of those months, so it's not like we were losing money in either month. It remains profitable. And it fundamentally remains high return. So you're right about of volatility. But remember, the business there is about 10% of our earnings, and it makes about $700 million out of that $7 billion. Over time, yes, we want to shrink the volatility or our dependency on that business. How do we do that? By growing out the businesses faster is essentially what we need to do. The other thing I would say there is that in terms of managing it and risk-taking it, and business remains remarkably conservative. The average value is just actually really, really quite low. I don't know if you...

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes. The only other thing I would say as well is that we have moved it from a fundamentally customer-driven model from a trading-driven model. And what happened here was a little bit strange because you have these events, and I know you had Glencore, you had the Volkswagen, you had the Fed not moving, you had the renminbi devaluation. And what happened, customer activity stopped, which is quite unusual. So yes, you're right. There's a volatility there. I accept that, but it was actually customer demand that suddenly went away.

Jill Craig
Former Group General Manager, Investor Relations

Andrew?

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman Sachs. Just two questions. Firstly, just on capital. You reported Core Tier 1 ratio of 9.6%. Also we've got 9.1% when you fully loaded for everything. It's probably about 25 to 30 basis points below where peers will settle out. Just wondering how comfortable are you with that gap? And can you maybe talk about some of the levers that you see that you can pull to close that gap? And then just secondly, just a very quick one, just the Retail Asia RFP [ph] charge. It was up about $60 million, obviously, off a very low base. But just maybe you can just talk about that.

Shayne Cary Elliott

CEO & Executive Director

Maybe I'll talk about that one first. So Retail Asia-Pacific, actually, so first of all, we think the second half is kind of normal, so that's a good base. And what we saw in the first half and actually predating that, we were still experiencing pretty significant write-backs from our RBS acquisition, and there was about $50 million of that change, so that's essentially what the half-on-half difference is. But if you want to think about the future, the second half is a pretty good indication of a kind of normal base. In terms of capital, clearly, we did a capital raising recently. The changes around the mortgage floor, about the Esanda sale and all those things were kind of known to us. If we felt that where we are today was insufficient, we would have raised more capital at the time. So I think we took it into account. We're also taking into account the optionality we have ahead of us. What do we have? Well, clearly, we are focused on the organic capital generation. And as you know, some of -- removing some of the distractions, as we've talked about, has the added benefit of releasing capital, whether those are partnerships or other businesses. And I'm not sure that once you look at the wealth deductions and once they work their way through some of their peers, I'm not sure they were that actually terribly different.

Jill Craig
Former Group General Manager, Investor Relations

We'll keep with Andrew for a theme, for a moment there. Andrew Triggs.

Andrew Triggs
Deutsche Bank AG, Research Division

Andrew Triggs from Deutsche Bank. Shayne, a lot of your commentary was related to sort of year-on-year trends in IP and C&CB, where there was a deterioration in the half in APRA [ph] and IIB in particular in the IP. Outside of Indonesia, was anything really driving that or anything you're worried about?

Shayne Cary Elliott
CEO & Executive Director

No. So I mean, as I mentioned, in terms of the total kind of provision charge there, the actual overall charge number, while it's big percentage-wise, the total charges is relatively small. Half -- most of it was explained by the retail piece that I just talked about, and the rest is relatively -- mostly related to that Indonesia situation.

Andrew Triggs
Deutsche Bank AG, Research Division

And just to clarify your comments around that 6 weeks of volatility we're seeing really the customer stopping, it was actually really the balance sheet component of that?

Shayne Cary Elliott
CEO & Executive Director

There's 2 pieces. It's 2 things. So customer volume dropped, and Mike, some of that corporate activity had an impact on our corporate credit spreads that impacts our mark to market and our balance sheet holding position. So it's a little bit of both. And I guess the point Mike is making, the bit that was surprising, if you will, on that was the slowdown in customer activity, yes.

Andrew Triggs
Deutsche Bank AG, Research Division

At the interims, you mentioned the VAR usage within that business. From an RWA perspective, even in the current halves earnings, from a balance sheet perspective, is it still definitely washing its face in terms of an ROE?

Shayne Cary Elliott
CEO & Executive Director

Yes, absolutely. Yes.

Jill Craig
Former Group General Manager, Investor Relations

Richard.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. Two questions. Firstly, on the new impaired assets. It went from $1.2 billion in the first half to $1.8 billion the second half. I know you mentioned Indonesian commodity exposure. How much of the $600 million increase related to Indonesia and what else drive the increase in half? Second question, you just said that the Asia Retail loan-loss charge was normal, more normal. That Asian Retail business basically didn't make any profit in the second half. So if that's a normal loan-loss charge and the normal level of profitability is close to 0, why do you still own an Asian Retail business?

Shayne Cary Elliott
CEO & Executive Director

Okay. So I'll start with the first one in terms of the new impaireds and IIB. If you don't mind, we'll kind of do a bit of waterfall here. So start with yes, you're right about the increase. 80% of that increase within the IIB relates to Institutional and about 20% is Retail Asia. Let's just deal with the Retail business first. So that's -- the Retail Asia is roughly, it's about -- 40% of that has to do with, well, put it another way, 75% of those has to do with our Cards businesses in Indonesia and Singapore, and that's kind of, as you would expect, those are big businesses and it's just kind of normal part of businesses. It's not -- it's about the growth in that business. Looking at the 80% that comes from Institutional, a good 2/3, 60%, 2/3 of that is in Asia. And of that Asia, 2/3 of that is Indonesia, and the others just kind of reflects stuff that happens around the place. So hopefully, you can figure out the maths, but that's where it is. Now second question. Yes, in terms of retail, you're right, I mean, in the sense that yes, we do think that credit losses are kind of more normal, as you would expect. What we need to do is have the returns in our revenue to be more normal, and that had to do with some of the scale that's in those businesses and we need to -- and we are absolutely focused -- and Andrew -- he runs that business on improving returns here. What's been good to see is actually the strong revenue growth in the business in Retail that helps enormously. We've actually done a pretty good job in terms of productivity, so we are kind of -- we are grinding our way to a better outcome. But it's a challenge, as we talked about before.

Jill Craig
Former Group General Manager, Investor Relations

Brian.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. First of all, congratulations on the disclosure in the result because everything is there. It's a pity some of the stuff you actually see. Could I turn to Slide 56? And something that always seems weird to me is one, when we have to look at the movement in the collective provision, we actually see the risk profile continually getting better and write-backs of the overlay. The risk profile gets worse and we write back the overlay. So that raises the question, how much of the overlay is left? And then, can we get some clarity of it, which I'm guessing is about $400 million or $500 million. I think it's pretty closer to $400 million. How much of that is truly discretionary? Because I'm guessing it must be about $25 million. And then I'd be interested if you have a little bit of the NAB result, yesterday quite judiciously, they started to increase their CP overlay for New Zealand dairy. But when I actually look at Slide 61, I can see that basically, the weighted average probability of the default in the New Zealand dairy book is actually increasing. And then, at the bottom, you note that's the model change, which increases it by 16 bps, which suggests that even excluding the model, it's increased quite dramatically. And then the final leg of this is if you have to look at the IMF Global Financial Stability review Report the other day, they spoke about a looming impaired assets cycle coming through in Asia from largely U.S. dollar unhedged borrowing in Asia. What happens is the currency basically moves. I'm just wondering, Shayne, at this point in the cycle with loan losses bumping along at the bottom, why wouldn't you be increasing your collective provision overlay? And then the final leg is you've sold Esanda but nowhere can I find the revenue or the earnings loss that's basically gone from them. So could we get some clarity on the collective provision overlay, the breakup of the overlay and the Esanda divested earnings?

Shayne Cary Elliott
CEO & Executive Director

So while I'm answering that, I'll get my -- Shane [ph], probably just get the numbers on the Esanda thing up. So look, how do we think of it. So in terms of collectives, so first of all, just reminding everybody how the process works. Why do we put overlays? So there's 2 types of overlays. There are the kind of the mechanical overlays that come -- to your point, perhaps call them nondiscretionary. These have to do with concentration risk or model risk essentially. Those are not, to some degree, judgmental. They're put in place. Those in total are bigger number than you indicated, Brian. But in terms of the overlays, where there is a clearly a bit more judgment. And the way those works is we essentially say that in terms of our modeling and the risk weighting of our exposures, those things take time to come through the system, so it's prudent for the management to sit back. And if we see risk looming, we make a judgment call. We put in place an overlay. And then as the reality of those risk weightings come through, we release the overlay. So it's perfectly normal to see, like in this situation, as the risk weighting has slightly deteriorated, and it sees a slight movement up in the collective provision balance, that at the time that we release, that's a very normal outcome that you would see. Sometimes it doesn't always work perfectly because there's multiple overlays and the timing of those changes. In terms of the amount of discretionary, that kind of overlay that's left, there's very little because as of today, we put a dairy overlay on in the past. We've seen those changes come through. We had a mining services overlay -- when was that? 2 years ago, 2013. As some of those losses came through we released. As I've talked about the Christchurch, one, I've talked about those. So right now, we don't have any kind of material judgmental overlays in place. You wouldn't be far wrong. And I'd say that the issue with NAB, with all due respect of them, we've kind of been there, done that. We've been through that cycle, seen those risks coming, and we feel pretty comfortable where we are. And I don't know if you actually want to add anything on that. And then what about the U.S. dollar loans in Asia?

Unknown Executive

In New Zealand, though, we've already done that. So there's a model change there. And also the profitability of the default is what you would expect to see given a reduction in the payout in New Zealand. So that's a factor of the payout and income flowing through to the model. And when you see that probably default going up, so hence you see the risk-weighted assets going up. We've already have the collective provision in place for dairy, so we've kept that in place. We're not planning to release that. And you'll recall on New Zealand dairy, we had several years ago, we made a conscious decision to reduce our exposures to the higher-risk portfolio there, so that flowed through. So where we sit today, we're quite comfortable with our New Zealand dairy portfolio. We would expect to see our risk weighted asset increase, but we don't expect to see material provisions.

Shayne Cary Elliott
CEO & Executive Director

In terms of Esanda, Brian, the revenue from the dealer finance business set disposed of was around $300 million.

Brian D. Johnson
CLSA Limited, Research Division

[indiscernible]

Shayne Cary Elliott
CEO & Executive Director

No, no. It is -- it absolutely is cost, yes. Although, it's fair to say -- and we'll get back to you on the detail. But if you will, the CTI of the disposed business, it had quite a marginal impact on, is in the teens. It's low, right? So another way to think about it, by disposing the business actually, the group's CTI after that will actually increase a little bit. It's not terribly material but it will increase a little bit.

Brian D. Johnson
CLSA Limited, Research Division

[indiscernible]

Shayne Cary Elliott
CEO & Executive Director

Yes.

Unknown Executive

So that's partly what you've seen in the Indonesian situation is partly that, where you've actually seen a massive depreciation of the currency. So you've seen some of those effects already starting to flow through on those portfolios.

Shayne Cary Elliott
CEO & Executive Director

But we don't see this as...

Unknown Executive

I don't see a deterioration. In the large borrowers, that's not the case. So it's more some of it.

Michael Roger Pearson Smith
Former Non-Executive Advisor

I think also it's the quality of the book in terms of the institutional.

Unknown Executive

Yes, and the investment-grade stuff, I think that's all pretty straight in terms of currency hedging.

Jill Craig
Former Group General Manager, Investor Relations

Scott. Do you have your hand up? No? Yes.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. With the increased focus on returns going forward, just talking through obviously the payout ratio across the industries being a key focus. So we've got high capital next year, which will provide a drag on the ROE, but we've got maybe a rebound in credit spreads will help markets, repricing investor [ph], repricing across the broader portfolio as well, still a little bit of growth in there. So generally speaking, how would you see the ROE sitting here year-on-year and can you sustain the upper end of about 65% to 70% payout ratio?

Shayne Cary Elliott
CEO & Executive Director

So look, why don't I give guidance on the ROE because I think, as just Mike mentioned, there's just too many moving parts. In terms of our payout ratio, I think we've been clear that our target is 65% to 70%. As of the right at the moment, it's probably just slightly north of that. But we believe the 65% to 70% is the right ratio -- right range for us going forward. Having said that, obviously, if there's a shock in terms of the provision cycle or anything else, we'd have to take that at the time. But 65% to 70% still seems appropriate for us going forward.

Michael Roger Pearson Smith

Former Non-Executive Advisor

What we know now.

Shayne Cary Elliott
CEO & Executive Director

From what we know now, yes.

Jill Craig
Former Group General Manager, Investor Relations

The known unknowns. Brett.

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

Brett Le Mesurier from APP. Shayne, the risk weighted assets in Australia have been growing twice the rate of loans in the past year. Do you know why that's the case?

Shayne Cary Elliott
CEO & Executive Director

Do you want to talk about the risk weighting?

Michael Roger Pearson Smith
Former Non-Executive Advisor

There's no one factor there. So there's a whole held range pieces there. There's a slight migration in terms of risk. So if you actually just read the newspaper in the financial results, you should actually see a deterioration there. Some extension in terms, extension on length as well as extension in terms of some of the terms. So there's a whole broad range of issues in there. Plus the business have seen some really good growth in credit cards, personal loans and [indiscernible].

Shayne Cary Elliott
CEO & Executive Director

And that's make [ph] sure, yes.

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

Second question. The ROE for the group was 14%. If you exclude the APEA business, you get 16%. Do you think reducing the scale of the APEA business is a good way to increase the ROE? And could you give us a guide? because you indicated you reduced the size of the APEA business slightly to increase the ROE in that. How much further reduction can you get in that business if you increase that ROE?

Shayne Cary Elliott
CEO & Executive Director

So I think a couple of comments. So we don't think about an APEA business. There's an APEA disclosure here which is geographic, which in many -- we just haven't checked because -- kind of in many ways, meaningless. Because it just sees all the stuff that's happened in that geography. That's not how we think about our business right. So we think of the Institutional businesses as a global business. And there's a lot of -- there's a need to think about it as the network just as we don't sit here and talk about Queensland as a business as part of Australia. It's part of a network effect. We haven't been targeting reduction in APEA as a business. What we've been targeting reduction in those low return, lower customer impact business, business that's not really of strategic value to us. It so happens, as Andrew, to pointed out, some of that and a reasonable chunk of that, today, happens to be is more likely to be in Asia because of the fundamentally lower return profile of some of the businesses that we -- that the industry returns that are there. But it's not about targeting shrinking that business. That's critically important to not just our customers in Asia, but actually customers here in Australia as well. So the maths, by the way, is not quite right. And with all -- you could probably -- you can't -- I say you can't figure it out from here. But we're not targeting further reduction in APEA. It's about just making sure ours is used efficiently to strengthen customer relationships and generate a decent return for shareholders.

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

Just back on that geographic disclosure. The results in the geographic disclosure for APEA are very close to those for APEA within IIB and that was the case last year. Is that just a coincidence?

Shayne Cary Elliott
CEO & Executive Director

Yes. Because the APEA geography, for example, includes the cost of a huge chunk of back-office for running Mark Whelan's business in Australia because it sits -- or in New Zealand business. It happens to sit over there. The cost sits in Bangalore. Whatever, there's 6,500, 7,000 people we have in Bangalore that we pay for and sitting there exclusively servicing the APEA revenues. And that's so yes, it's a coincidence rather than anything else.

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

But the revenues are also extremely close. It's not just the cost.

Shayne Cary Elliott
CEO & Executive Director

Yes, the revenues would more likely be close, that's true, right? Because it's going to be more coincidence of that than it will have the expense base. And I talked about that. That's why partly -- that's why we get that, Brett, we get difference of the FX translation impact. It's much more profound than expenses because of the mismatch than it is in revenue.

Jill Craig
Former Group General Manager, Investor Relations

We have 2 people on the phone I think. So if you'd like to put one of those through, that would be great.

Operator

The first phone question comes from Craig Williams from Citi.

Craig Anthony Williams
Citigroup Inc, Research Division

Today, you're emphasizing New South Wales as a growth opportunity. In the recent round of mortgage repricing, you passed on 18 basis points to customers that remained I think about 12 basis points below the Westpac brand as the largest sort of brand in the state. Is this 12 basis points gap considered adequate to shift sufficient mortgage volume your way or is the gradual inconsistent shift in mortgage market share that you've enjoyed the past sort of the 5 to 6 years more of the order of the day? And second question. Your impairment charge in Australian geographic business this half was about 24 basis points. By contrast, I think NAB is about 15. So does this gives rise to concern within the management team? What do you attribute the difference to? And does your net interest margin adequately reflect the relatively high risk of the portfolio that your credit cost suggests is the case?

Shayne Cary Elliott
CEO & Executive Director

So I'll answer the second part first and Mark can answer. So no, we're not concerned -- I mean, we're obviously always concerned about Westpac. No. That kind of comparison, Craig, doesn't concern us. We do think there's a significant difference in terms of our business mix. And yes, we do -- we obviously look at our risk-adjusted returns and we're comfortable with that in terms of the trends within that. Mark, do you just want to talk about our pricing strategy, particularly against Westpac here in New South Wales?

Mark Whelan
Group Executive of Institutional

I wouldn't position -- our pricing strategy is really against the market and where we want to be with regards to our owner-occupied flows, our investor flows and our position against all major competitors. And so the position we've been taking all the way along with regards to our Retail businesses is that we want to be providing a better customer service and proposition, which we continue to do. And at times, we will move our pricing based on where we'd like to shift flows, and certainly, that's been part of the strategy for New South Wales and will continue to be so. But we've only -- while we're enjoying being market leader at this point in time, that's not something that we've historically done. We're always led by customer proposition. That will continue, and that's actually providing us great dividends. But we will also -- we will just continue to look at where we sit relative to all market competitors, not just one.

Shayne Cary Elliott
CEO & Executive Director

I think it's just worth highlighting a few points about the New South Wales expansion. So a couple of points. Nearly all of our outperformance of, if you will, in New South Wales in terms of volume is coming on the owner-occupied, it's not on the investor side. If you look at our New South Wales business versus the rest of Australia, at origination, the loan-to-value is the same. The mix -- the amount of interest-only is the same. The amount that is originated through brokers is very, very marginally higher and which one you know like 1% to 2% higher in New South Wales, and that makes sense because we have the lowest physical footprint in New South Wales, and that's something we're addressing. The only differences you see when you put them side-by-side is the average size of the mortgages marginally higher. And that again makes sense because the average house price is marginally higher. But as -- in terms of the kind of risk profile, it's the same or better, the business that we're booking in New South Wales versus the rest. Do want to say something too?

Unknown Executive

Just on the Australia division impairment. I won't compare peer-to-peer because I don't know what their policies are, but our mortgage profile continues to perform very well. We do have a mix issue. Clearly, we have an auto loans portfolio. Not every bank has that. We have personal loans. We have credit cards. Those 3 portfolios are growing well and with good risk-adjusted returns. So as you actually get that growth, you'll get additional IP attached to that as well. And the other area is in small business as well, where the returns are very good but you actually do see some provisions there.

Jill Craig
Former Group General Manager, Investor Relations

We'll take one more from the phone.

Operator

The next phone question comes from Matthew Wilson from JCP Investment.

Matthew Wilson
JCP Investment Partners Limited

Two questions, if I may. Could you talk to the valuation of your stake in AMMB? It's traded below book since July this year. At 30 September, your reporting date, it was sort of $480 million below book. It's still 30% below book. If you think it's 30% cheap, why don't you buy more or why don't you choose to write it down?

Shayne Cary Elliott
CEO & Executive Director

I'll answer it.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, be careful.

Shayne Cary Elliott
CEO & Executive Director

No, no. Clearly, we go through -- in terms of valuation it sits on our balance sheet, Matthew, we go through pretty rigorous process in terms of value and use. That gets audited, so we're comfortable with the valuation. We're clearly suffering from some political issues in Malaysia. We believe that's short term. And so we're comfortable with the valuation that we have in the moment. Our stake, we have 23.6% of AMMB and we're comfortable with that holding at this point. And it would not be our intention to be acquiring more.

Matthew Wilson
JCP Investment Partners Limited

Okay. And then just on politics. Can banks get better at managing politics? Maybe the thought process was clearly poor. Today, in your presentation, you highlighted the very high return in Retail Banking, yet days ago, you pushed up mortgage rates. Surely, that's a red flag [ph] to the political animal?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Look, I think as I say, you have to balance the issue. If you are requested to hold more capital, somebody has to pay for it. And that somebody is either shareholders or customers. And what we have tried to do is to balance that. And indeed, to share the effects in the best way. I mean, you could say that with -- since the announcements of those capital raisings, share prices have come off, what, 20%. So you could say that shareholders have really taken a significant impact from that. And therefore, it is also right to also pass on some of that cost to customers. I mean, the effect of actually having a stronger banking system should be a benefit to customers. And that is how the Financial System Inquiry has positioned it. But as I've tried to explain on a number of occasions, and indeed, highlighted this last year, it doesn't come for free. Somebody has to pick up the cost.

Matthew Wilson
JCP Investment Partners Limited

But it looks as though mom and dad are paying more than Business Australia. Is the balance right?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, we believe we have the balance right and it depends on how mom and dad also have in the Superfund. And if you think about the weighting of the banks to the overall -- to the average Superfund, it's normally pretty high. So it's not just as straightforward. We have to balance this out, and we believe we've got the appropriate balance.

Operator

The next phone question comes from Andrew Hill from Merrill Lynch.

Andrew Hill
BofA Merrill Lynch, Research Division

Just a question in relation to capital allocation and returns in the business loans. If I look at IIB, Global Transaction Banking had a return on risk-weighted assets that's a little over 150 basis points this half. Global Loans and Advisory, the return on risk-weighted assets was less than half that amount, yet the risk weighted assets in the Transaction Banking business have fallen by $6 billion, while the risk weighted assets in the Loans business have increased by $7 billion. And you're actually increasing -- you're actually allocating more capital to those low-returning businesses. When is that trend going to change?

Shayne Cary Elliott
CEO & Executive Director

So you're right mathematically, but the difference here is that the reason that the Transaction Banking business returns are low is it is more related to the cost associated with the business, and that is because of the amortization drag sitting in that business because of the cost of essentially the Transactive platform. That's why the returns are low. Now one way -- so your math is right. However, in many ways -- that's a sunk cost.. That cost is gone. It just sits there, right? And so the right thing for us to do is to get benefit from that investment and drive more revenues through that business, and so we look at it on that basis, so kind of that marginal return rather than just looking at it on absolute terms from the returns.

Michael Roger Pearson Smith
Former Non-Executive Advisor

I didn't really understand --

Jill Craig
Former Group General Manager, Investor Relations

But do you want Andrew to talk about the Loans first?

Andrew Géczy
Former Chief Executive Officer of International and Institutional Banking

So I think the heart of your question was the allocation of capital into the Loans businesses, which seems to be returning less than what actually our Transaction Banking business is doing. And I think there, a couple of observations I would make would be, one is as Shayne has quite rightly mentioned, is that we have a greater returns focus, adjusting with our trade business and our trade portfolio and dealing with dilutive loans there. We can do that more quickly and we took action in the second half around that activity. Dealing with the lending book and what we do with the customers and lending them money and moving -- and changing that portfolio is a longer-term process, and we're in the process of looking at that and managing that going forward. I think that was really at the heart of your question was that allocation we made between Loans and Transaction Banking and the steps that we took in the second half.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, I think the point is that you've reduced your risk weightings and your Transaction Banking through trade, and that has increased the return. So that's really the...

Jill Craig
Former Group General Manager, Investor Relations

Maybe also, let me just say that there's action taking place in the Global Loans portfolio, but you're seeing that there's a lag here.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Andrew Hill
BofA Merrill Lynch, Research Division

[indiscernible]

Jill Craig
Former Group General Manager, Investor Relations

Sorry, Andrew. Your volume is terrible. I would ask you if you can repeat that, please?

Andrew Hill
BofA Merrill Lynch, Research Division

Do follow that up. Does that mean that we shouldn't expect the allocation of capital within IIB to change going forward or is it a processing change?

Shayne Cary Elliott
CEO & Executive Director

No, you would expect it to change, absolutely. I'm just suggest -- again, without belaboring the point. I mean, Transaction Banking is an amalgamation of essentially 2 businesses: a trade business, which is -- has a reasonably heavy risk weighting to do with it because it's asset-attentive, and a Cash business, which doesn't really have any risk weighting from an asset -- from a loans point of view but has this kind of cost drag. There's amortization drag that impacts returns, so. But absolutely, we would see -- you want to see more cash, more targeted trade. As Andrew said, it's critical of in the business. We just want to be more intelligent about the allocation in there. And loans is something that customers value. Let's not forget, customers value loans incredibly highly. It is absolutely the most important thing in terms of the relationship. When I think about who's their bank, it's the people who give them some balance sheet. So we're not the hedge fund. We can't just turn these things off and on. We have to make that balance. We need to get that balance right between -- and what we focus on is that customer relationship return rather than the individual product returns.

Jill Craig
Former Group General Manager, Investor Relations

One last question with Brian, and then it looks like we might be done.

Brian D. Johnson
CLSA Limited, Research Division

Mike, on Slide 7, you talked about managing for a challenging environment. And you've got this comment management FTE reduction. Now over the period in the second half, staff numbers are cut by 2%. Is this referring to what happened during the half, or are you flagging to us that there is an FTE reduction program that we're going to start to see coming through?

Michael Roger Pearson Smith
Former Non-Executive Advisor

No. I mean, the FTE reduction was actually in the IIB business. And that has been a reshaping of some of that business more than anything else. But we're always reshaping business. We're always looking at trying to get the most efficiency out of the business. And Shayne will be doing that going forward.

Brian D. Johnson
CLSA Limited, Research Division

But there's no formal cost-out program at the moment?

Michael Roger Pearson Smith
Former Non-Executive Advisor

No, no, no.

Jill Craig
Former Group General Manager, Investor Relations

Okay. Unless there's no more on the phone? No? It looks like nothing in the room. So with that, I'll hand back across to you, Mike, to sign off.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes?

Jill Craig
Former Group General Manager, Investor Relations

Yes, why not. The last one.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Okay. Well, many thanks for coming here today. I'll really miss this.

Jill Craig
Former Group General Manager, Investor Relations

And I'm immediately regretting the decision.

Michael Roger Pearson Smith
Former Non-Executive Advisor

No, really. It's been -- sometimes I have my disagreements with some of you. But you've always been extremely interested, and I'd like to thank you for your support. And it's been a great fun. And I wish Shayne the very best of luck going forward. Many thanks.

Shayne Cary Elliott
CEO & Executive Director

Thanks.

Michael Roger Pearson Smith
Former Non-Executive Advisor
Thanks a lot.