Question and Answer

Operator

[Operator Instructions] And our first question comes from Mike Wiblin with Macquarie.

Michael Wiblin
Macquarie Research

Just a quick question on margins and sort of swings and roundabouts. Then maybe, Shayne, you can talk about the outlook for margins this half? And then particularly margins in Asia, maybe what you're doing to sort of look at margins in Asia and maybe improving those a little bit?

Shayne Cary Elliott
CEO & Executive Director

Okay, I think, so when you add it up, I went through the balancing items here. Australia are up a little bit, institutional IIB down a little bit, New Zealand flat. On a net basis, it's probably broadly flat for the half. So no material change from here.

Michael Wiblin
Macquarie Research

Okay. And then in Asia, can you just sort of give us some color as to what's going on there in terms of margins and maybe some of the actions you're taking there?

Shayne Cary Elliott
CEO & Executive Director

So the issues in Asia are actually are broadly the same as they are here, obviously slightly different amounts. So we've seen increased competition, particularly on the trade businesses, which have brought margins and trade down a little bit. Lower interest rates, in general, also have an effect on, not all, but most countries in Asia. And therefore, that also has an impact on the value of those deposit bases we have. So again, there's a bit of margin pressure there. You have to remember our business in Asia is mostly margin driven. It's not a balance sheet business to say. I mean, it's obviously an element of it, but that's not the main driver. And our business in Asia is more heavily weighted to market sales and to other businesses that aren't necessarily dependent on it. So I don't know that Asia itself has a really big impact on NIM for the group.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, I would guess that we have -- over last year, we kept the book very short in Asia that have traditionally ran -- well, effectively ran trade finance. And what we will do is probably 10 of that adds a little bit. Give it a little bit more -- we'll give a bit more balance sheet availability in the longer dated loans. So that will help ease that pressure a little bit because we were firm we were sort of running to stand still a little bit as we have to keep replacing that short-term trade finance.

Shayne Cary Elliott
CEO & Executive Director

That's a good point, actually, Mike. And remember that at trade business, a lot of that growth that you're seeing in trade is coming out of Asia. And obviously, just from a scale point of view, it can't continue to grow at the same pace. So that net debt difference is having an impact on [indiscernible] over time.

Operator

The next question comes from Craig Williams with Citigroup.

Craig Anthony Williams

Citigroup Inc, Research Division

I've now -- upon having a look at your capital reconciliation better understand the dividend adjustment of 30 basis points that you're calling out because I initially looked at, of course, you Basel II capital, which of course already did have a dividend deduction. I was trying to look at why that should have made an impact? But I suppose it does suggest, given your port of capital ratio, that there's been no organic capital generation this period that you've gone back with the 30 basis points and that's related to the dividend? Can you talk about your organic capital generation, perhaps why it was not apparent this quarter?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, I think the issue there has been that we have grown assets probably a little bit stronger than our peers. There has been a reasonable growth in the balance sheet. So we are utilizing capital in that respect.

Craig Anthony Williams
Citigroup Inc, Research Division

And the market, risk-weighted asset level was up, I think, 30% quarter-on-quarter. What was the driver of that? And I presume that there's quite a significant pickup in market risk-weighted assets that will come in the March quarter as you transition to Basel III?

Michael Roger Pearson Smith
Former Non-Executive Advisor

[indiscernible]

Craig Anthony Williams
Citigroup Inc, Research Division

Sorry, I missed that.

Shayne Cary Elliott
CEO & Executive Director

Yes. There was a reduced diversification benefit on the streets to our calculations. That's what the market's change was. So it's not so much that the business we're doing changed fundamentally. It's just the underlying calculation.

Operator

The next question comes from James Freeman with Deutsche Bank.

James Freeman
Deutsche Bank AG, Research Division

I just [indiscernible] a question for you, answer, so I do apologize. But if I have a look at the other banks that have reported over this quarter, they've actually had expanded margins coming through. And even if I actually book-wise -- or sorry adjust the book mix, it still doesn't explain why yours seems to be so materially different from what the actual other peers are reporting. Just a bit of an idea, is there anything sort of head office side or the investment in treasury that we need to be aware of that perhaps is sort of impacting the margins? And secondly just to confirm, when you say flat margins, you're saying that effectively, the first half should be around 2.28%. Is that right?

Shayne Cary Elliott
CEO & Executive Director

So first of all, I would say, James, the -- I think when you talk about the mix, I actually think the mix does explain. And if you talk about why our change in margin is a little different than others, yes, I think mix actually -- we've kind of done our own calculations, and I think mix explains lots of it. So just to give you an example, and it's only an example, if you look in New Zealand, 90% of their GLA growth came out of mortgages, which is lower margin because -- and again, it's a preference of fixed rate. So that is lower margin as opposed to some of our competitors who've been increase their lending asset growth time in commercial agri sector, which is higher margin. So we've gone through and analyzed that and say, that's actually that's a very significant driver. The other thing is if you look out on the deposit side as well, that's also just the mix of deposit has been a big driver of differences in margin between the banks.

James Freeman
Deutsche Bank AG, Research Division

And just to confirm, 2.2 is what you're referring to when you say flat margin half-and-half in relation to Mike's question earlier?

Shayne Cary Elliott
CEO & Executive Director

Yes. The other thing is, the other one, the net -- our friend across the road here, they talked in terms of this new term customer margin, which I don’t think is comparable to what we disclosed.

James Freeman
Deutsche Bank AG, Research Division

Sure. And then going back to sort of Craig's question then on capital. If I look at it, there was no capital generation. However does it appear to be at other banks? So to the extent you're saying you're running good growth in low capital intensive businesses, such as New Zealand mortgages, I would have expected to have seen slightly stronger capital growth, organic capital growth coming out of that. Just sort of any further comments on the capital side just to give us a bit of comfort that we will see some organic capital generation as the other banks are showing?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, I think, we are investing in our strategy. I mean, you know quite clearly, we've been investing as heavily as we can afford, and have been doing that. We now believe that our capital level is about right. And therefore, we will be investing that, and as we see fit, which is a slightly different -- we have a different strategy to our peers.

Operator

The next question comes from Jon Mott with UBS.

Jonathan Mott
UBS Investment Bank, Research Division

ANZ always with the separation of strategies, you always offered stronger revenue growth but slightly higher cost growth than peers as you roll out the model. If you look at it now, it really offers some pretty good cost out, but the revenue growth compared to the rest of the domestic banks is probably a bit softer. And compared to a lot of the Asian banks, it's a bit softer as well. Do you see this is a temporary adjustment or is this just a reflection of the new normal?

Michael Roger Pearson Smith
Former Non-Executive Advisor

No, I think this is a point in time, as the business mix affects us. I mean, if you think about it last year, we had the benefit of a smaller mortgage book. This year, those banks were the larger mortgage book, are obviously benefiting more. But it's a temporary aberration, isn't it?

Jonathan Mott
UBS Investment Bank, Research Division

Okay. So [indiscernible]. If you didn't follow on to the comment you just made about capital, you said that you think your capital ratios are about right. If you compare them to a lot of the peers, they've got higher capital ratios than you do now. But domestically and up in Asia, is that -- are you also comfortable with that, that running lower capital ratios than some of your peers, especially when you work that?

Michael Roger Pearson Smith
Former Non-Executive Advisor

I don't think they are materially different. I think the issue around capital is that, we have been, for the last 5 years, building capital very substantially in anticipation of Basel III, which, of course, has been like moving in the dark because nobody was really clear as to how much was required or not. Now there is still a huge amount of uncertainty about that. And if you look at the European banks and the American banks, they still have an awful long way to go to reach our sort of levels. So I feel that where we are in the cycle right now is about right. And have we actually finished all this, I suspect not. But right now, I feel comfortable. We don't want to carry -- have too much capital. I am very conscious of the dilution to ROE, so we have to be a little careful.

Operator

The next question comes from Richard Wiles with Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

Shayne, you said you had good revenue growth. I assume that's in comparison to the first quarter of 2012. And that quarter had a pretty weak Australian result because of the margin pressure. You've also benefited more in this quarter from strong trading income. I think the December quarter last year had relatively weak trading income. I wonder if you could make a comment on the revenue trends relative to your second half run rate. And am I correct in capitalizing revenue has actually fallen more than the second half run rate?

Shayne Cary Elliott
CEO & Executive Director

Thereabouts this is the second half in terms of run rate. There were some noise in there as well. But I think the point is that revenue growth, you're right. The numbers that we referred to were compared to first quarter of '12. There is seasonality in our business, and we referred to that before so I think that is that right thing to compare it to. We had a good second half. But the first quarter, as you know, it's a tad down on that. If you just extrapolate it, then the second half, you sure you should be right on the cash basis, but it's not material. And we think the underlying trends -- and I actually go down to the next level of data and look at those underlying trends. The reason I said that the revenue growth was good is in change of quality as well. And I think there's a risk of overstating the balance sheet and trading revenues. It was good. Look -- and it was a good thing. And remember most of that trading revenue comes off the back of customer flow, so if you noticed part of our franchise. But that was not the dominant driver of the revenue growth in the quarter. We had good growth in our core businesses like our mortgage business and across the board.

Richard E. Wiles
Morgan Stanley, Research Division

And could I just clarify on IIB? You mentioned that margins declined by less than 10 basis points. Is that relative to the end of September or is that relative to the second-half margin?

Shayne Cary Elliott
CEO & Executive Director

It's relative to the end of September.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. And I assume the end of September was lower than the second-half margin?

Shayne Cary Elliott
CEO & Executive Director

Yes, a little bit, not materially.

Michael Roger Pearson Smith
Former Non-Executive Advisor

It could come back a bit by then.

Operator

The next question comes from Victor German with Nomura.

Victor German
Nomura Securities Co. Ltd., Research Division

Two questions for me. First one, just a point of clarification, I just wanted to make sure that I understood your comments, Shayne, correctly. So when you said that on like-for-like basis, cost this half should be lower. Were you talking about the cost base of 4 0 0 9 reported in the previous half on an underlying basis? Did I understand that correctly?

Shayne Cary Elliott
CEO & Executive Director

Just doing my math here. Yes, 4 0 0 9 was on the old underlying, right?

Victor German
Nomura Securities Co. Ltd., Research Division

Yes, yes.

Shayne Cary Elliott
CEO & Executive Director

Sorry, I've just got it in quarters here. It was 4 0 1 9, I think, the old underlying.

Victor German
Nomura Securities Co. Ltd., Research Division

Okay, right. And you're effectively saying that on that basis, you're expecting cost in this half to be lower?

Shayne Cary Elliott
CEO & Executive Director

What we -- we said flat. We said they'll be lower on a cash basis, on the cash generating basis. On the old underlying basis, the numbers you are talking about, they will be flat.

Victor German
Nomura Securities Co. Ltd., Research Division

Flat on -- okay, perfect. The second question, just I know that there was -- you didn't mention anything on liquidity. But just interested in your thoughts because I understand that regulators are increasingly thinking about going to change the way they look at liquidity on more regional basis, with making sure that liquidity coverages is adequate for Australia, Asia, New Zealand, et cetera. Given that you do have slightly more business overseas, are you able to give us an idea what sort of impact that may have on you guys, and what are the percentages of liquids that you hold domestically versus offshore?

Shayne Cary Elliott
CEO & Executive Director

Look, I think the trend is right. You're right about the regionalization of those ratios in management. But I mean, just whether the regulators look at it or not, I mean it's a prudent thing for us to do. So we look at that intensely every day. The business, as we talked about -- actually, the businesses offshore are highly liquid because they tend to be quite deposit-rich. Australia is actually the outlier as an economy in that state. So I don’t think that it impacts ANZ in any adverse way at all.

Michael Roger Pearson Smith
Former Non-Executive Advisor

And I'd also say that, I mean your point that we're slightly bigger overseas is actually not right. We're significantly bigger overseas. I think that the other issue is that the whole liquidity issue on the Basel III is still very much up in the air. And quite clearly, you've seen regulators in Europe and the U.S. pull back from the ideas that they had previously. Now that's not to say that Asia and Australia will not implement sooner than anyone else. But we're very comfortable with our liquidity position. We're running -- we're probably as liquid as the balance sheet has ever been in our history. So I think we're well-placed.

Shayne Cary Elliott
CEO & Executive Director

And I just want to make a comment. I just want to clarify something before when we were talking. I think it was Richard's question around the revenue trends. Remember, on a cash basis, the -- what I said there it was down slightly on a cash basis. But remember, the cash basis in the second half had the visa sale revenue sitting in as well. So if you -- again, if we've kind of backed that out and looked on an underlying basis, and just excluding Visa, revenue and the business is absolutely up on the second half. I should have remembered that.

Operator

The next question comes from Brian Johnson with CLSA.

Brian D. Johnson
CLSA Limited, Research Division

Shayne, as much as I love to bag banks when they all these abnormal license, are you starting to identify the fact that what drives the market is the underlying, not the cash? I mean, every one of these results briefings going forward we're going to be spending so much time going back taking this out and that out. Can I just suggest, and I think this all move towards cash reporting. I mean, I'll still sit out there and bag you when you do abnormal charges, but we're going to be spending every briefing going through this incredibly complicated process that really is quite unnecessary. But that being said, Shayne, can I just confirm something? Your competitors are telling me that in New Zealand, in order to maintain market share as you rationalize the branches, that you're giving quite substantial cash backs to home loan customers. In the announcement, you referred to a tactical initiative. Can you just explain exactly what you're doing and run through the accounting for it because some of the numbers that I've heard from your competitors, but more importantly from third parties, are actually quite terrifying for cash backs for new home loan borrowers. So could we get your explanation on what is happening and how they're accounted for?

Shayne Cary Elliott
CEO & Executive Director

So at the time -- at the end of last year, the timer around the brand announcement, the current side, there was an offer in New Zealand for new customers. There was a small -- and I can't remember the amount of money, whether it was a few thousand dollars. It was effectively a cash offer. There was an ability to use that many to go and buy furniture for your new house. It was a marketing campaign around the same time. The accounting for that gets reflected in the margin. So it gets accounted for just like as an acquisition cost. And it was a successful campaign in the tenures to build share.

Brian D. Johnson
CLSA Limited, Research Division

Amortized over the life or it's expensed up front.

Shayne Cary Elliott
CEO & Executive Director

It's amortized.

Brian D. Johnson
CLSA Limited, Research Division

Are these -- if you're saying most of these loans are fixed rate loans that only go for 1 year, what's the life that it's amortized over?

Shayne Cary Elliott
CEO & Executive Director

It's a good question, I'll have to -- they over expected life. I don’t know what the uses on expected life on the mortgage book on fixed rate mortgages in New Zealand. So we can come back to you on that.

Brian D. Johnson
CLSA Limited, Research Division

Okay. So -- and the second one is, that if you have a look in New Zealand, we had a dramatic expansion in higher margins. And when I look at it, it seems to be reversing quite quickly overall from a cyclical perspective. I'm just interested how can you be so confident that your New Zealand margin will be flat going forward? Given that if you ever look to the housing margin, it expanded dramatically. It now seems to be reversing. Why won't we just say the New Zealand margin continue to fall quite dramatically?

Shayne Cary Elliott
CEO & Executive Director

Look, it's a good question. And obviously, we can never have any total confidence on margins because there's a competitive market out there. We're just giving you our view based on what we see heading in the market and what we see competitive pressures being. So look, I understand there's no perfect foresight on it.

Michael Roger Pearson Smith
Former Non-Executive Advisor

And recent behavior.

Shayne Cary Elliott
CEO & Executive Director

Yes, our view is what's happening in that marketplace was when we announced our brand change, we were an obvious target for competition. How the competitors, when you're -- we're the biggest bank in the market. How do you compete? You compete on price. And so they pushed pricing levers, they did things that impacted the market, no doubt about it. We had seen that activity slow materially and we've got -- we're actually seeing in the early part of this year some margin expansion in New Zealand. So again, it's early days, but that's what we've seen in the first 6 weeks of the year. And so based on that, and based on our views of marketplace, we believe margins will hold. And obviously, we have actions available to us over the balance of the year.

Brian D. Johnson
CLSA Limited, Research Division

Okay. And Shayne, just a final one. I'm a little bit confused on the commentary here. At the front, it says about Asia's fantastic for the volume growth. And on the back, we talk about how in IIB, we are actually seeing the margin falling. Can you just give us a feeling quarter-on-quarter in APEA? What's happening to the profits? Has it gone up or has it come back a little?

Shayne Cary Elliott
CEO & Executive Director

I'll have a look at it.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, they continue to go up. When we talk about volume, we're talking about loan and deposit volume. Then we talk about margin, it's always the income. Now...

Brian D. Johnson
CLSA Limited, Research Division

Is the cash earnings out of it? Is it up or down the first quarter basically '13 versus fourth quarter '12.

Michael Roger Pearson Smith
Former Non-Executive Advisor

It's still growing. It hasn't grown as fast as it would have done had there not been increased competition and a slight margin contraction. But it's still growing.

Brian D. Johnson
CLSA Limited, Research Division

Okay. So the volume is offset, the margin protection is offset by basically the loan volume and cash earnings are up quarter-on-quarter?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes. The other point, Brian, whilst we're on it, or just to discuss the issue of moving to a cash earnings basis. The reason we did that is that our investors were asking 5 years ago, during the crisis, what is -- we want to know what your underlying profit is. We now got to a stage where everybody's asking, what's your cash profit? So the reason we do this is to reflect the requirements and the request of our investors. Now as you know, we provide a huge raft of every number you can possibly think of in our order to the camps when we release those twice a year. And of course, you can count and dice the numbers as you like. But that's the rationale. It's a request from our investors.

Brian D. Johnson
CLSA Limited, Research Division

Yes. And the reality is there will be always be one-offs, whether they're above the line, below the line or whatever that we have to explain.

Shayne Cary Elliott
CEO & Executive Director

Yes. I think we're going to have to spend a lot of time on those briefings talking about all these adjustments and thinking about it 12 different ways. But it's what the market is interested in is the future of the underlying.

Jill Craig
Former Group General Manager, Investor Relations

No, Brian. Actually, what the market has been saying is reducing the amount of profits you report, so we now report stat and cash. And every analyst in the market has been very, very firm in their request to have us support on the same basis as peers. And to get further to Mike's comments, that's what we're doing.

Operator

The next question comes from Brett Le Mesurier with BBY Limited.

Brett Le Mesurier

Asia Pacific Prudential Securities Pty Ltd., Research Division

A couple of questions. Firstly, I gather from what you're saying on a cash basis, the revenue for the quarter is up relative to the second half '12, and that's substantially due to the market income. That's the correct interpretation?

Shayne Cary Elliott
CEO & Executive Director

No. So the first quarter revenue is up on a -- versus the first quarter of '12. The first quarter revenue on a cash basis is down slightly on the second half of '12. But that is because in the second half of '12, we had a significant revenue gain which was the sale of Visa shares that go into Brian's rich point, obviously a one-off. And so, if we backed that out, if we just said, look, that was a one-off in the core business that we run, excluding that Visa sale benefit, revenue was absolutely up in the first quarter versus the second half. Why? Two things, $2 drivers. Australia retail and mortgage and deposit business here in Australia. Retail was up strongly. And yes, you're right, significant contributions from markets, which primarily around sales.

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

Which was the dominant contribution was it market income or as trading retail?

Michael Roger Pearson Smith
Former Non-Executive Advisor

It was both.

Shayne Cary Elliott
CEO & Executive Director

They were both, and I don't know that there was much in it, to be honest.

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

Okay. Now this -- what's happening with trading securities and your sovereign exposures? When I look at the Pillar 3, the sovereign exposures increased significantly from September to December on a spot basis and I know there'll be volatility as a result of a spot basis. On an average basis, they're also going up at a significant rate. We saw that there's increased risk concentration in your market, risk-weighted assets. So it seems that you're intensifying the areas where you're taking sovereign risk and growing the amount of that risk. It also, when I look at trading securities, the spot balances from September to December are falling while the cash and liquids are going up. Can you help me understand how all that fits together? I'm particularly interested in what your strategy is for taking sovereign risk, and broadly where you're focusing on taking that risk.

Michael Roger Pearson Smith
Former Non-Executive Advisor

I'm actually going to ask Mike. I'm sitting here with the chief financial officer. He's going to answer the question on the sovereign base.

Michael Roger Pearson Smith
Former Non-Executive Advisor

So the increase in sovereign risk exposure was largely with central bank exposure over year-end. So deposit balances that were placed with us, we have to lay those off. So the majority were with European Central Bank, U.K. and FedEx[ph], et cetera. And equally, there's an equal amount of increase in exposure to those central banks with liquid assets, which I think makes sense. Your comment about market risk, credit risk-weighted assets. It's really reduction. Last year, over the last period, we had a benefit from diversification and this risk value, risk calculation. And as you're aware, we've got to run those on various scenarios. One of the particular scenarios from 2008, we had a large benefit last period, which has been reversed this period. But the overall amount to that is not a big amount of risk-weighted assets.

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

No, I know, but it was more what it sets out, the way you're focusing your fighting activities in the risks that you're taking so presumably, they're in the areas that you just talked about, you're focusing right now?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes.

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

And why did the trading securities, the spot balances go down and cash and liquids go up? Is there some transfer that's going on between those?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Not that I'm aware of. No, but I mean if you want to come -- these sort of detailed questions. I mean, let's come back here and do one-on-one because I'd rather get to keep on the strategic issues.

Operator

The next question comes from T.S. Lim with Bell Potter.

T.S. Lim
Bell Potter Securities Limited, Research Division

You mentioned softer business conditions in Australia. Does it cover every banking? Or what sectors do you see that's being soft. And also the other one is how do you see Queensland coming out from all the recent floods?

Michael Roger Pearson Smith
Former Non-Executive Advisor

But we're seeing, I mean to answer the second part first, we're seeing no major issues. I mean, there are some hardship issues, obviously, that have arisen from individual customers and in Queensland, which we're dealing with. But in terms of their being an effect to the portfolio, it's negligible. And indeed, there has been no need to create an overlay or a special provision. In terms of the question that the Australian economy is softer, it's slower growth across all sectors. And that's really what that's reflecting, that [indiscernible] is reflecting.

Operator

The next question comes from Matthew Davison with Merrill Lynch.

Matthew Davison
BofA Merrill Lynch, Research Division

First question just on capital allocation. We're seeing excellent ROEs in Australian mortgages and retail, and I guess not as strong in International & Institutional. I guess I was just interested in your comment earlier, Mike, that you view this is as somewhat cyclical. And I guess as a follow-on, we won't see any sort of technical change in how you're going to allocate capital between the 2 businesses. And within that, I guess particularly, the trade finance I'm interested. Then just as a second question on your provisioning outlook. If we go back to the full-year result, obviously you put the guidance out there for this year, and you saw it at the SME sector. I'm just interested if that's playing out better or worse than you thought 3 months ago in terms of -- as you form that view for FY '13?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes. Well, again to answer that piece, the second part first, I think we are -- we have not seen a significant uptick or increase in that sector. Having said that, receiverships are probably at an all-time high in Australia, but of course, that is a part of the portfolio which is traditionally quite well-secured. I think we can expect, as we said before, a similar sort of charge that we made last year. We've got no reason to think that it's going to be materially worse than that or materially less than that at the moment. So we keep that guidance in place. In terms of the capital allocation, I'm afraid that one's out of my hands. I would actually have a different capital allocation to what the regulators suggest, but that's not in our purview, unfortunately. So we have to go with obviously with what our regulators around the world require us in terms of what capital we hold against what asset. I do think though that having a mix of business is a good thing. And having a concentration risk in one particular type of asset is not necessarily a good thing. It can -- obviously, it gives you short-term benefit. But over the cycle, diversification is quite important. And I think that was reflected in the next column in the FTE today. I mean, it was quite an interesting comment.

Shayne Cary Elliott
CEO & Executive Director

I'll just add a comment that I mean I think our focus here is, we can create value in 2 ways. We can do it through growth with -- in businesses that has ROE [indiscernible] cost of capital. And then we can get do it by improving our ROE. And we want to -- and our story is about both in getting the balance right. And different parts of our business offer different styles of trading value. We use -- we want to allocate more capital to Australia Retail business. That's why we have this banking on Australia program. That's why we're pleased with the progress that they had made in terms of volume growth in a reasonably subdued environment. So we're picking up share. We like that. We want to pick up share in New Zealand Mortgage business. That's why we've been focused on that. We want to continue to get growth out of our strong businesses in Asia. And just you know, you can't ignore trade. Trade is a positive returning decent ROE business for us that offers a good ROE and a great growth profile. So we want to get that mix right, and that's our job in management to [indiscernible]...

Michael Roger Pearson Smith
Former Non-Executive Advisor

And lower risk.

Shayne Cary Elliott
CEO & Executive Director

And lower risk, yes.

Operator

The next question comes from Michael Plaff [ph] with Challenger [ph].

Unknown Analyst

Just a decision not to call the upper Tier 2 [indiscernible], is that one of pure economics?

Shayne Cary Elliott
CEO & Executive Director

I'll have to get back -- not even really aware on that to be honest.

Unknown Analyst

There's an announcement to the New Zealand stock exchange this morning.

Shayne Cary Elliott
CEO & Executive Director

Yes, sorry, yes. That's just to clarify. What we wanted to do there is there's a market assumption about whether that was going to get called or not. And we felt at the New Zealand board that it would responsible for us to clarify and to remove any uncertainty and make very clear our intentions. That's all. There was no change in our assumptions there or what we intended to do -- or our intentions, but we just want to clarify to the market. That was all.

Unknown Analyst

Right. So should there be any rate [indiscernible] or call policy elsewhere?

Shayne Cary Elliott
CEO & Executive Director

No.

Michael Roger Pearson Smith
Former Non-Executive Advisor

No.

Operator

The next question comes from Ben Koo with Goldman Sachs.

Ben Koo
Goldman Sachs Group Inc., Research Division

Can I just clarify, Mike, on the comment made about just the Asia trading term yet of the lending there. Can you just clarify that as the first question? And then the second question is, we've just seen a few other competitors in the region talk about an increasing competition. We also heard about BNP last night talking about increasing their assets in the region by 50% over 4 years. Maybe can you just talk about how you're seeing the relative competitive dynamics in the region, if that's intensifying? And if you're seeing the Europeans, particularly BNP coming back in again?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes. The competition pickup which has, as you're seeing, has resulted in a slightly lower margin. But what we were very careful about last year was to really concentrate on building the trade finance book. Basically, as the liquidity -- as much around liquidity as about anything else because we wanted to keep a short book really in terms of ensuring that there was funding. If you remember last year, U.S. dollar availability in Asia got really squeezed. Now that seems to have moved on and there seems to be plenty of U.S. dollar liquidity. And now that we are in a position to see the way that the market is moving forward, we feel that it's probably right to just extend the tenure of some of those assets. It just gives us a bit more annuity flow rather than, as I say, running to stand still. So it's just a question of adjusting the business mix a little.

Shayne Cary Elliott
CEO & Executive Director

And then into that, Ben, I don't think -- we're certainly not signaling the any kind of radical shift to risk appetite or anything. What we're saying is...

Michael Roger Pearson Smith
Former Non-Executive Advisor

And to good credits, to key relationships.

Shayne Cary Elliott

CEO & Executive Director

And a lot of that extension will just come about by slowing the growth in the trade assets just by doing a little bit less on that front, which you'll get a natural extension of portfolio. So that's what we're talking about.

Operator

The next question comes from Scott Manning with JPMorgan.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

I just have 3 questions. Firstly, just a clarification point on the margin. I just wanted to check the commentary was around being flat relative to the end of September. But the margin was down half-on-half, first half versus second half. So that would imply the exit rate would be lower than the average? So just to confirm you are actually referring to 2.28 as a flattish number for this half.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Okay. Secondly, talking about the capital deployment and areas to deploy capital. You said you're a lot more comfortable with where total capital levels at NAS you're looking to use a lot more capital. Just some thoughts around your comfort levels around retaining the 65% payout ratio relative to peers given that there does seem to be a focus on dividend. And what kind of hurdles are you looking at when you are deploying that marginal dollar, obviously hoping that you go up for appropriate profit uplift on that deployment?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes. I mean, the 65% payout ratio, I'm still very comfortable with. I feel that we are a growth story and a growth strategy. We do need to continue to invest in the business. And I'm comfortable with the level that we've got. By global standards, 65% is actually very high.

Shayne Cary Elliott
CEO & Executive Director

And in terms of the deployment, I mean I think we look at a couple of benchmarks. We expect all of our businesses to be great businesses, that we expect them to compete and produce in time. And that there's a big question about at what time, that in time to be able to produce best-in-class returns relative to the local competitors. So you have that. And secondly, we expect all of our businesses to, on a portfolio basis, contribute obviously to good group returns. So we don't have a specific number in mind. We don't sit there and say, we're all going to achieve 15, 12, 18 or whatever the number is.

Michael Roger Pearson Smith
Former Non-Executive Advisor

It's a mix.

Shayne Cary Elliott
CEO & Executive Director

It's a mix and it's a balance and it takes into account the maturity of those businesses in the operating environment. But we do have the targets for them, and there is greater clarity for them in terms of if they want -- if you're running a business today and you want more capital, we have given pretty clear guidance about what that requires from them in terms of what they would have to do to win that capital.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And just thirdly, just noticing that there's been quite a big expansion in non-bank lending in China recently and early discussions are in with PBSE tightens. Just any thoughts around whether you see that as an opportunity or any potential adverse impacts given the focus up there at the moment?

Michael Roger Pearson Smith
Former Non-Executive Advisor

No. Look, our strategy in China is very focused. It's doing extremely well. As I said earlier, greater China is now our third largest profit contributor. So I'm very comfortable with what we're doing there. There are always -- the competitive environment in Chinese is always changing, but you just have to adapt with it. But as I said, there's nothing to suggest that we've got our strategy wrong there. And in fact, quite the opposite. So I'm very comfortable.

Operator

At this time, we're showing no further questions. I will now hand back to Ms. Craig for closing remarks.

Jill Craig
Former Group General Manager, Investor Relations
Thanks, Nikki, and thanks everybody for calling in today. If you've got any more questions during the day, you can call in to the Investor Relations team and we can help you with that. Thank you, and good morning.