Question and Answer

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi. I think we -- now we've described this result as perhaps one way the market will like the result more than the analysts, but I'm not sure you'll be losing too much sleep over that.

Michael Roger Pearson Smith
Former Non-Executive Advisor

You'll never know. I might have changed, Craig.

Craig Anthony Williams
Citigroup Inc, Research Division

I'm not betting on it. Core Equity Tier 1 capital of 8.33% sits at about 7, 8 basis points lower than at full year. Your dividend was 4% above consensus, placing this ratio perhaps under a bit further pressure now. So I mean, a bank with a 15.5% return on equity has seemed to sustain a payout ratio of 70% or net 50% with risk-weighted asset growth of 12% over the year. So a 2-part question. How do you address the risk-weighted asset intensity of the growth you're driving? And are asset divestments seen as a key part of the equation to get an assumed Core Equity Tier 1 capital level of 9% post D-SIB world?

Shayne Cary Elliott
CEO & Executive Director

So I guess I'll answer that one. As I tried to cover in my talk, the RWA growth in the year was perhaps a little extraordinary and was impacted by some one-off changes in terms of our regulation and model changes and which is broadly about half of that growth relates to that. So that we don't -- that's obviously not going to continue. If you strip that out, Craig, I think the RWA growth we have was a little bit higher than normal but it's certainly sustainable for us, and we're able to keep the capital ratios in that kind of 8.5% towards 9% as you mentioned. In terms of the dividend, sorry your second question is really about the dividend. I think, absolutely, the dividend's sustainable. We've seen our payout ratio between 65 and 70, currently at the higher end of that. We see that's sustainable with the RWA growth that we forecast.

Jill Craig
Former Group General Manager, Investor Relations

Anyone from the -- do you have a follow-up or anyone else from the room? We might cross to you in Sydney, Graham, please.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

Okay. Thank you, Jill. We've got a -- just perhaps if you look at the camera, so that I can see you and also just introduce yourselves as you go.

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Credit Suisse. A question for China and perhaps, Andrew, could comment on it. On Slide 88, just in relation to Institutional and International margins, NIM ex-markets has come down 16 basis points in this half to 2.49%. That's similar to what it was in the previous half. I just wanted to get comments about the rate of margin decline there, how much is mix, how much is competition and maybe some outlook statements because we've been waiting for many halves for that rate of decline to actually begin to ameliorate.

Shayne Cary Elliott
CEO & Executive Director

Yes. Maybe I'll start and then I think Andrew can probably give you more flavor about the trends, I see sitting right in front of you there. I think the first point to make is that, actually, the nature of the business today is we're much less reliant on Institutional margins than ever before. So as a source of income for the group, it's quite -- it's relatively small. If you think about $18-odd billion in revenue, the total revenue from lending and Institutional is kind of 1.5-ish. So it's not a material driver of the group result. But the reality is, yes, over time, we've seen competitive pressure on those margins. And as you point out, and Andrew can you give you some flavor as to what's happening there in the short and medium term.

Andrew Géczy
Former CEO of International & Institutional Banking and Member of Management Board

I think we're going to continue to see this margin piece flattening. I think that the reality is that there's a lot of appetite for the good-quality credits that we bank. So there's going to be continued -- that margin pressure.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. A kind of a follow-on question from that, and you've seen this across a lot of the banks that are reporting up in Asia, is that the returns have come under quite a lot of pressure over the last little while, because they have a lot of excess liquidity in Asia and also very low rates in the U.S. I just want to get a feel for what leverage you actually would anticipate to see and potentially some of the spreads going back the other direction. If we do see further ending or further tapering, QE coming to an end. And eventually, over the next couple of years, U.S. rates starting to go back up. Should that lead [ph] and have you got any numbers on the leverage that you should get to improve returns out of the Asian business above the cost of capital?

Shayne Cary Elliott
CEO & Executive Director

I think probably Andrew's best placed to talk about those market trends, and I can comment on the returns.

Andrew Géczy
Former CEO of International & Institutional Banking and Member of Management Board

Well, I think, once again, I would reiterate changed point around the fact of our dependency upon lending and margins is going down just how the business is continuing to develop. We're more dependent upon our foreign exchange businesses. Our other operating income is helping to drive that. As it relates to the future, I think you're generally correct. I think we're going to continue to see a lot of liquidity in the marketplace, particularly for our target market segment, which are the higher-quality credits. And we're going to continue to focus on those credits. So we will continue to build our business around the less capital-intensive aspects of our customer set. And then I think the only other point I would emphasize about our ability as an institution that's perhaps different from our competitors is this fact that we're connecting our customers across the region. And it's our ability to connect our customers across the region which is our unique selling point. And that allows us to achieve certain better returns than others can achieve. Do you have any?

Shayne Cary Elliott
CEO & Executive Director

I will just add to that, Jonathan, I think the broader point is that as -- to your point, if liquidity in the region does diminish and therefore, we see rates rise, that's ultimately a good thing for our business. Because the reality is the business in Asia, in particular, that you're talking about is not terribly reliant on balance sheet. And it's got very, very strong deposit levels and therefore, higher rates will trend. We will get, in a sense, an operating leverage benefit out of that. That positions us pretty well, so be better return. Your question about returns, returns would absolutely improve in that environment. The other thing I would note is that I think we've shown really good discipline in the trade business in Asia. As you know, it's relatively short term. We have managed margins well. We haven't seen margins deteriorate in that business unlike some of our regional competitors, and we continue to be able to grow, albeit at a slower rate than we used to, but it's still a great business for us.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Jonathan, I'd also like to add to that. In the bigger picture, if you think about where U.S. tapering is going and frankly, it's all about U.S. tapering now, it is going to be how that is managed going forward. When will the increase in U.S. dollar interest rates happen? I think, it's still a long way away. But it is a medium-term reality. It will happen. And when it does, of course, the cash management business that we have been building up in Asia Pacific, well and also here, is going to significantly benefit from those increasing rates. So the annuity flow that will come through the business at that time will be significant.

Michael Wiblin
Macquarie Research

It is Mike Wiblin from Macquarie here. My questions will be more macro. I know you're eventually going to benefit from rising U.S. rates. But in the medium term, as those capital flows out of Asia and you see China continue to slow, what risk does that actually bring to earnings in the near term? Do see any risks there?

Michael Roger Pearson Smith
Former Non-Executive Advisor

No, very little. I mean, I would say that I'm not so concerned about China slowing. China is slowing to a sustainable level. And indeed, when you look at the actual numbers in terms of the growth being forecast, that's like adding the whole economy of New South Wales every year. It's a pretty significant growth number in real terms. And also, looking at the region, liquidity issues are not as extreme as, perhaps, they might be in other emerging markets, for example, Latin America or Eastern Europe. And I think it's mitigated to an extent by the amount of liquidity, which is still being driven out of Japan. And that is actually flowing through the same watercourse that the U.S. liquidity flowed through. So I think that, that's a mitigant, and it helps to just to adjust those economies to enable them to adjust for that reduction in liquidity, which will eventually happen. But I don't see there's any particular problem.

James Freeman
Deutsche Bank AG, Research Division

It's James Freeman from Deutsche Bank. Just I was interested in what the growth in Asia would've been had we actually sort of taken out some of the strong growth in the trading and balance sheet income? I note on Page 56, you had close to 73% growth in the Asia Pac trading and balance sheet income. So I'd just be curious if we took that out of some of the numbers you've given us today, does that materially change the growth numbers and the return on equity improvement you've seen in Asia? And the second question, Shayne, can I just confirm what your target range for capital will be under a new D-SIB world?

Shayne Cary Elliott
CEO & Executive Director

So yes, you're right that the trading number was a good one in the region. That obviously helped. But if you take that out, core underlying business growth, if you're talking about foreign exchange, was up 37% -- or 27% rather; cash management, 17%; trade was 7%. So the underlying business is up. They are still doing very well. And sales and markets growth in Asia was also strong. James, I don't have the number off the top of my head stripping it out. But I can assure you, the growth in Asia, excluding trading, continues to be very, very strong. Obviously, the trading helps and typically, trading is a low CTI business so it tends to be -- it will help out on all of the return ratios. But that's not the reason that -- I wouldn't be standing here today talking about ROE being above our cost of equity if it was solely reliant on a good trading quarter. In terms of the D-SIB, obviously, we'll -- we've had to reconsider the longer-term targets and we would be looking in the 8.5% to 9% range.

Michael Roger Pearson Smith

Former Non-Executive Advisor

Shayne, if I would maybe add a point there, I think as you look at the balance sheet trading element, I think you've got to compare that in addition to the compression that we've seen in credit spreads in our loan book. That's the other side of that coin. So on one side, we're seeing with our high-quality credits, a credit compression. That then translates into my liquidity book also an improvement in my provision. So I think you'd have to look at in the round in our business.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles from Morgan Stanley. Australia's a bit mixed. Retail was good. But in Commercial and corporate, you had no revenue growth despite your market share gains. Could you tell us what happened to margins in the Corporate and Commercial space? And could you also provide some commentary around what you expect for competition, the margin outlook and, indeed, revenue growth in Corporate and Commercial Banking for the next, say, 6 months to 24 months?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Okay. Philip Chronican is not able to be here. But Mark Whelan, who is running the business, will answer that for you.

Mark Whelan
Group Executive of Institutional

Yes, thanks for that question. Look, the -- it's -- the asset -- let me just talk about the asset growth first, and I'll come to the margin issue, which relates to the revenue obviously. The asset growth that we had in C&CB, PCP was up 3%, and that flattened out half-on-half. So you're absolutely correct that the growth that we saw in the most recent half was lower than what we've seen coming off a very good year last year. With regards to the -- and that's affected the revenue outcome, obviously. The margins, though, that we've seen, we've seen some contraction in the lending side. So that's down half-on-half. It's not large. If anything, compared half-on-half versus PCP, it's actually started to flatten out and, if not, improve a little bit. But it's been offset to some degree also by deposit margins because the deposit margins have been improving across the board, both in Retail but also strongly in Commercial. So if you -- in answer to the last part of the question, our expectations going forward, I think, first of all, asset growth will improve in the second half. We tend to have that seasonality factor anyway in our business. So you need to take that into consideration in looking at your comparisons. But also more importantly, we're starting to see some M&A activity in the Corporate side of the market, Small Business Banking growth has been very, very strong, and we've invested deliberately in that part of the market and that's up 16%. But where we've seen most of the asset -- lack of asset growth's been the middle market still lacking business confidence. So when I look forward, I think that we'll still see growth in Small Business Banking. I think the middle market will start to grow, and I think corporate will also improve. Margins, I think, are flattening, as I said.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. I just wanted to have 2 questions, one on asset quality and one on the Chinese investments. On the asset quality, there seems to be a large provisioning charge coming through the Transaction Banking line, which is typically one that's seen as kind of lower risk. And if you then look at the Australian disclosure, it's lower, which is implying a write-back in the global loans business in Australia. Could you just touch on those 2 exposures, please?

Shayne Cary Elliott
CEO & Executive Director

So the Transaction Banking exposure is -- relates to trade and it relates to the, and I think I referred to it as a name you would be familiar with here in Australia, it's just the nature of that exposure as through guarantees and bonding lines. And that gets -- so that is a the trade business and therefore, the provisions get booked through the trade lines. So that's why the trade business has that exposure. In terms of the write-backs in Australia, I don't know that there's any particular name that drives it. As I mentioned, write-backs from recoveries have continued to be at elevated levels, and there's been no significant change in that trend. There's no one-off name that drives that one.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And then the second one, the ownership of Bank of Tianjin's down from 18% to 14%, not participating in a rights issue. Still associated accounted due to a board seat but I mean, the outlook there, what do you really need to exit that exposure?

Michael Roger Pearson Smith
Former Non-Executive Advisor

We're not -- we're in no big hurry to exit the exposure. Basically, at some stage, the bank will be IPO-ed and that's probably a suitable time to make a decision one way or another. As I've said before, we are -- we look at these partnerships on the basis of what value they have for us, where we can get control, where possible, or if we can't get control and if we can't see a route to really driving income out of them in another way, then we'll look to dispose of them, and as you've seen us do that.

Victor German
Nomura Securities Co. Ltd., Research Division

It's Victor from Nomura. Just 2 questions, if I may. One, following on from earlier discussion around Institutional business unit, if excluding markets business, which obviously are doing quite well. If we look at recent performance, it appears as though there's very little earnings growth and most of the strong volume growth has been offset by margin compression, which is obviously putting some pressure on capital as well. Can you maybe give us a little bit more color as to what is happening in that business and what is the strategy there?

Shayne Cary Elliott
CEO & Executive Director

I don't think -- I'll start, and I guess -- and then Andrew can comment.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Or Andrew, yes.

Shayne Cary Elliott
CEO & Executive Director

Yes. The strategy hasn't changed. The strategy in Institutional is about intermediating trading capital flows in the region, and it's about resources and agri and capital markets and foreign exchange and all the things we've talked about in the past. What's going on in that business at the moment is really a rotation to a much lower-risk, more customer-focused business. And if you -- and in a very simplistic way, what's happened, you're right, we've had lending, which we've said now for some years. We want to deemphasize in the business and reduce the weighting of that business in Institutional in particular. We've seen that come under not a lot of growth in volume, and we've seen margins come down. All right? And on the other hand, we've replaced that revenue and more with good-quality flow business: foreign exchange, trade, cash management, debt capital markets, et cetera. And so while there's not a lot of top line growth in the net number there, the quality of that business today is just far superior than it was before. And it's well, well positioned for continued growth in the future. And Andrew?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Andrew, do you want to add anything to that?

Andrew Géczy
Former CEO of International & Institutional Banking and Member of Management Board

Just maybe a small point, which would be to emphasize once again the strategy is obviously not changing. It's that connectivity that we're able to offer the Institutional customers that's really different, in that it allows us to drive these different types of earnings that we haven't had in the past. So we are going to become less reliant upon the lending book like we've been doing in the past. We're going to become more reliant upon touching the customers with trade but doing the foreign exchange that's going with that. We'll do more capital markets business across the institution. When the capital flows, which come into Australia and M&A transaction to happening, we'll be part of those transactions on both sides. So we're helping that in making that connection happen, and that will be the story that you'll talk about more, not the story about what's happening in my lending book.

Shayne Cary Elliott
CEO & Executive Director

I think the other thing. Sorry, the other thing that we talked about on this business is this is the beauty of ANZ in terms of having a portfolio of businesses. Look, in the past, we know we've been heavily reliant on Institutional. It's a great business but a big chunk of that was lending. So when lending was under pressure for the reasons we've talked about, no demand from borrowing, margins under pressure, what choices do you have when you're a narrowly focused business? But today, we're a broadly focused business, so we can elate [ph] to put our resources into Asia, into markets, into trade to get that revenue growth and that's the beauty of the portfolio that we have.

Andrew Géczy
Former CEO of International & Institutional Banking and Member of Management Board

It -- I think just one final point.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Hang on, Andrew. I mean, the other issue here is that the optionality that growth into Asia gives you means that you don't have to go seeking the alternative, which is going up the risk curve, which is the option, and we have not done that. We have that optionality available to us.

Victor German
Nomura Securities Co. Ltd., Research Division

I think this all makes sense. The only thing that I was noting is that your balance sheet has still grown by 10% and your risk-weighted assets are growing by 9%, which doesn't imply that there is massive decline in risk profile. So I guess, what am I missing there?

Shayne Cary Elliott
CEO & Executive Director

So well, you're not. Your facts are right. The reality is the balance sheet growth, though, is much more trade oriented and short term so it's better quality balance sheet growth, if you will, a; and b, risk-weighted asset growth there, yes, some of it is core asset growth. As I mentioned, there was about $6.5 billion, which is Asia, which is most of that is sitting in Andrew's business. About $2 billion of that is trade. But actually, some of those regulatory impasse, some of those are onetime methodology changes. Those impacted Institutional more than other parts of the business. So that kind of $9 billion you're talking about isn't really a kind of a normal business growth.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Not business growth there.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. I have 3 questions, if I may, and I'll try and keep them pretty quick. Shayne, during one of the earlier questions, you basically confirmed the dividend for this capital ratio, whereas I would haven't thought it doesn't actually flow through until the next quarter when it's physically paid.

Shayne Cary Elliott
CEO & Executive Director

You're right.

Brian D. Johnson
CLSA Limited, Research Division

So can you confirm that is...

Shayne Cary Elliott
CEO & Executive Director

The only reason -- yes, yes, you're right. The reason it's effective this time is because of the last dividend we paid was high, if you will, and so that's the part that impacted the capital ratio. You're right. Sorry, if I wasn't clear on that.

Brian D. Johnson
CLSA Limited, Research Division

Okay, and so when you're saying an 8.5% to 9% range at the first half and full year, it effectively hasn't got the dividend out and your capital's going to be thumped in the third and first quarter. So when you set 8.5% to 9%, can you just give us a feeling about what that means for the third and first quarter numbers when the dividend pops out, full 6 months dip comes out, you only get -- because that's quite a big impact.

Shayne Cary Elliott
CEO & Executive Director

Sure. But I mean, ultimately, we don't manage capital ratios quarter-to-quarter, month-to-month. We manage them over the long term. We make sure we have more than sufficient comfort in meeting both our regulatory minimums, which we're well above, and also being capital efficient for shareholders. And I think, we don't want to get too wound up on distortions about the timing of dividends. Obviously, we take it into account, Brian. But we don't run the bank based on that. We -- the target is what I said. It's 8.5% to 9%. Clearly, there'll be times when it dips below some of those because of dividend payments and things, and that's a sensible and right thing to do for shareholders.

Brian D. Johnson
CLSA Limited, Research Division

Shayne, the second one is ANZ, I think, should be commended on the disclosure. And the flip side is you should be bollocked when something disappears. Now historically, you've done a great job in actually putting in the economic loss. In the result, you actually disclosed, and you talked about the economic profit based on the economic loss, but the economic loss note has disappeared.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes.

Brian D. Johnson
CLSA Limited, Research Division

And I think I'll echo the sentiment of everyone in the room. Just because the others don't disclose it doesn't mean it's the right thing to do. Could we get some commitment that you will basically put out a stock exchange announcement and reveal what it is? And could you also just give us a quick feel of how it moved in the half from the 37 bps that we saw at the FY '14/FY '13 result?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Jill?

Jill Craig
Former Group General Manager, Investor Relations

Brian, just to start to answer that question, if you go to Slide 66, there's a full page on regulatory expected loss and also our historical IP loss rate, and we've given you that restated as well, as if we took today's portfolio and ran it back.

Brian D. Johnson
CLSA Limited, Research Division

Okay. Just the final one. I still think that should be in the CFO review because that's the thing people look at. Shayne, just a final one.

Shayne Cary Elliott
CEO & Executive Director

You need to give the others a bollocking then.

Jill Craig
Former Group General Manager, Investor Relations

We've actually given you more information there, Brian.

Brian D. Johnson
CLSA Limited, Research Division

There's no way I'll do that.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Were they -- no, mostly other banks.

Shayne Cary Elliott
CEO & Executive Director

We'll take it on notice, Brian.

Brian D. Johnson
CLSA Limited, Research Division

Okay. Shayne, just the final point is congratulations on making some comment today on the return on profit in the divisions. But just, I'd be interested in just an observation. If we look at the way the world is moving, ANZ is a regulated bank in Australia, which means you got to run at level 2 ratio in Australia, which actually means that at the end of the day, even though you can probably thinly capitalize the offshore operations and get a great ROE, at the end of the day, you still have to hold the capital in a straightforward [ph]. Could we get a feeling on what the economic profit would have been in New Zealand and APEA had you actually allocated that capital back into those operating units, as in effect you really have to do? Would you still meet the cost of capital?

Shayne Cary Elliott
CEO & Executive Director

I don't see...

Michael Roger Pearson Smith
Former Non-Executive Advisor

Do you want to answer it?

Shayne Cary Elliott
CEO & Executive Director

I don't see -- New Zealand absolutely, because New Zealand is so well hid. There's no reason why New Zealand wouldn't. APEA, we calculate -- I mean, we do calculate on an eco [ph] basis. So when I'm talking to you about ROE, my comments are generally on an expected loss basis and an economic capital basis, unless you talk about it otherwise. So if you think about -- so if your real question isn't checking about Asia and APEA, the ROEs, when I said they're above their cost of capital, I'm talking about on a -- the NPAT basis today but it's on an eco [ph] cap, not regulatory.

Brian D. Johnson
CLSA Limited, Research Division

Which -- but to just confirm what I'm saying, the way level 2 capital works in Australia, the real group capital would be substantially higher than the economic capital.

Shayne Cary Elliott
CEO & Executive Director

It's not substantially higher.

Michael Roger Pearson Smith
Former Non-Executive Advisor

No, it wouldn't be.

Shayne Cary Elliott
CEO & Executive Director

There's nothing -- there's not a whole lot in it anymore, Brian, between the 2. I can come back to you with the actual numbers but it's not a big number.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes, it would be a very, very small amount.

Shayne Cary Elliott
CEO & Executive Director

Used to be big.

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes.

Andrew Hill
BofA Merrill Lynch, Research Division

Andrew Hill from Merrill Lynch. Two questions, if that's okay. Just the first one, a point of clarification around the capital ratio targets. Can you confirm that, that's been agreed with APRA on a D-SIB full run rate basis and it's not subject to change? And the second point is just around Asia and the progress there. A few of the competitors out there have made a lot of progress moving beyond standard trade financing to more investment banking-related activities, particularly some of the larger guys. I'm just wondering where your view stands from a strategic perspective on that front.

Michael Roger Pearson Smith
Former Non-Executive Advisor

I'll answer that.

Shayne Cary Elliott
CEO & Executive Director

So we'll answer the first question first. We don't specifically sit down with APRA to discuss and get an agreement on our targets. Obviously, we have an ICAAP, and we submit that to them and that gets approved. Then obviously, within that ICAAP, there are implied targets about how we're going to manage our -- how much organic capital we're going to generate and some assumptions around that, and that is agreed with APRA. So are our board targets today, agreed with APRA and voted? Yes. But things change over time, as you well know.

Michael Roger Pearson Smith
Former Non-Executive Advisor

And the second part of your question is that we're a Commercial bank. We don't pretend to be an investment bank, and we are not going to turn ourselves into one. Is that clear?

Andrew Hill
BofA Merrill Lynch, Research Division

Yes, it's very clear.

Jill Craig
Former Group General Manager, Investor Relations

Lots of things happens when you do.

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

It's Brett Le Mesurier from BBY. The return on risk-weighted assets you showed for Asia was greater than 1.5% percent. But when we look at the return on risk-weighted assets for APEA, it was less than 1.1%. Can you reconcile those 2 numbers, given obviously, the Asia part is the subset of the APEA part and therefore, it would appear that the return in the rest of the APEA business was very low?

Shayne Cary Elliott
CEO & Executive Director

Yes. I mean, that's -- I mean, you're right. Obviously, you can mathematically figure out what the other part is. It is lower than Asia. But remember, the core of our strategy and the heart of it is around building out Asia. Now -- and part of doing that, we had some assets booked in London, in particular, and that tends to be a heavier balance sheet intense business and therefore, their returns on risk-weighted assets tend to be lower sitting in that business. And then the other difference and being reminded of our colleague here is partnerships. So APEA will include the partnership returns.

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

Can you tell me the proportion of the risk-weighted assets that are in Asia, out of APEA?

Shayne Cary Elliott
CEO & Executive Director

We'll come back on that.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. Ex-foreign exchange, your revenue growth in the first half was around 3.5%. You've stuck with the target for the full year of 4% to 5%. Could you tell us if there are any sort of lumpy items that have affected the first half growth rate or if there's something that gets -- or what do you think will improve in the second half to ensure you reach your target for the full year?

Shayne Cary Elliott
CEO & Executive Director

Yes, it's a good question. So there's nothing lumpy in the nature of one-offs or something that is holding back the revenue growth in the first half. I mean, our plan, if you will, just our internal plan was always to have a stronger second half than a first half, Richard. So actually, that 3.6% is pretty much bang on what our expectations were internally, so there's no change there. The difference, if you're looking for what -- if you look in the underlying business drivers, obviously, some are stronger than had we had thought and some are weaker. As I mentioned in my note, the part that's been weaker and has been a bit of a drag on revenue growth has been lending in the -- in Commercial Australia. So it has been flat for the half, we'd actually thought it would be up a little bit. It's a be big business, so the difference between flat and up a little bit is a reasonable number on revenue. We're actually more optimistic about that growth in the second half. And as I -- I mean, we're going to -- there was some deliberate management down -- or down productive book in Commercial as well, which won't continue. So we -- second half growth, all our businesses going, continue as they are, probably a little bit stronger in Commercial lending in Australia and that will get us to the numbers we aspire to.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

So I think a couple more here in Sydney, I think. Jill?

Jill Craig
Former Group General Manager, Investor Relations

Okay.

Victor German
Nomura Securities Co. Ltd., Research Division

It's Victor German from Nomura. I might ask that second question after all. Just following on from what Richard asked, Trustee business that you've announced recently looking at their -- or looking at asset disclosure, it looks like the gain on sale from that is about $120 million. Can you maybe just take us through where that number is broadly right? And how does that fit into guidance?

Shayne Cary Elliott
CEO & Executive Director

So when we made guidance, it was not assuming a sale on Trustee, so that's over and above that. Your number is slight -- is a tad low in terms of the gain on sales. It's a little bit more than that pretax. That number will be reinvested into the business in both revenue and expense initiatives, which we will be considering over -- I mean, the deal hasn't closed yet, so that we'll do that over the -- through the half. And any impact of that would be over and above guidance. So put another way, we're not going to use the gain on that to achieve that guidance numbers. It will be over and above, and we'll be clear about what we do with that money.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

Okay. So are there any more questions here in Sydney? Now I think we're done here in Sydney for the moment, Jill. Thanks.

Jill Craig
Former Group General Manager, Investor Relations

Thank you, Graham. We have one question on the phone, I understand.

Operator

The question comes from John Buonaccorsi with CIMB.

John Buonaccorsi
CIMB Research

Just 2 quick clarification questions, if I may. Firstly, Shayne, your Common Equity Tier 1 target, 8.5% to 9%, can you confirm that, that's after the dividend comes out? And also on Slide 56, the liquids have fallen away of it. So given that you're going through the process with that for this year, the kind of dry runs of the OCR, can you confirm that the liquids stood up strongly finished?

Shayne Cary Elliott
CEO & Executive Director

Sorry, what was the last part of your question? Confirm what, sorry?

John Buonaccorsi
CIMB Research

That the liquids you built out has actually finished?

Shayne Cary Elliott
CEO & Executive Director

Yes. Broadly, that's correct. And the -- look, the 8.5% to 9% obviously is a kind of, I don't know what the term is, but obviously it's a through-the-year target. And as I mentioned, that will be our operating target. There will be times that it dips below 8.5%. There'll be times when it goes above 9%. Dividends are a big number today and therefore, have big swings within that capital ratio. And if we had to -- if we sit here and ran the business and said it has to be 8.5%. Even after the day dividend's paid, we'd have to be, I think, sitting on too much lazy capital as a buffer. So 8.5% to 9% is really the kind of sensible, most-of-the-time range and accept that there'll be times when it dips below a little bit.

Jill Craig
Former Group General Manager, Investor Relations

We have another one on the phone.

Operator

The question comes from David Humphreys with JCP Investment Partners.

David Humphreys

A question, if I may, on Wealth. It's the question I've got, given the enhanced disclosures is that there was a commentary around improved claims and less experiences, yet when I have a look at the Australian Life Insurance business, it seems that your planned profit margin is being reduced by 10% to 8% on in-force business and your loss experience has essentially got worse. So can you please comment on that?

Michael Roger Pearson Smith
Former Non-Executive Advisor

We'll hand that to Joyce.

Joyce Phillips

We had made loss of a business in the group risk area, and we crystallized a loss of forward claims on that. That impacted revenue about $47 million, and you can see our claims and we've maintained very good retention activities. So our lapse rates have come down, and that's in the disclosures as well. And you can see -- and also on the embedded value slide that the impact of that -- crystallizing that loss from the group risk space, offset by positive experience on the rest of the portfolio, has driven an embedded value growth of 8%. So I think if you strip out that onetime crystallization of loss, the underlying business is growing quite nicely and performing well.

David Humphreys

Right, and presuming that the planned profit margin is being reduced?

Joyce Phillips

The profit margin -- the profit -- the revenue has been reduced, so I don't believe that it will impact the margin. As you know, our group risk area is similar to the rest of the industry. It's a bit of a problem. So it's unlikely that, that would have a material impact on our margin.

Jill Craig
Former Group General Manager, Investor Relations

Any more questions from the room? Yes.

Unknown Analyst

First of all, I'd like to commend you on the super regional strategy, so relative to the strategies of the other banks. But you obviously have shown in the results that we are looking after the bank itself. But the problem that puzzles me is that, how can we ensure that the jobs are being maintained in Australia to further the economy of Australia as a whole?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Well, the number of jobs in Australia has actually increased slightly, so there has been no reduction.

Jill Craig
Former Group General Manager, Investor Relations

I think if I'm ready -- so no questions on the phone. No more questions in the room. So I think, and Graham tells me we're done in Sydney, so I think, unless you had any closing comments, Mike?

Michael Roger Pearson Smith
Former Non-Executive Advisor

No, I think they're all happy.

Jill Craig
Former Group General Manager, Investor Relations
Okay. Thank you, everybody, for coming along today. Obviously, the investor relations team are available this afternoon if you have any follow-up questions, as are the executive team.