Question and Answer

Jill Campbell
Group General Manager of Investor Relations

And we'll take the lectern down so that I can see. Okay, usual process, we'll take questions in the room, and then we'll take any from the phone. If you could please wait to get a microphone and announce where you're from, so we'll start with Andrew Lyons, please.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman. Michelle, just a question on expenses. You've noted today you're focused on absolute cost coming down. But then against that, you've also noted normal cost inflation against that. Can you maybe just provide a bit of clarity on how we should think about that? Is it ultimately, despite normal cost inflation, you still expect that absolute cost, excluding divestments, will be down?

Michelle Nicole Jablko
Chief Financial Officer

Okay. So take out divestments, first thing. Absolute cost down, excluding inflation, but obviously, over time -- you can't do that forever in terms of inflation, but yes, in the short term.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Okay. And then just the second question, just on your WA delinquencies. Clearly, that's an area where you're still seeing some deterioration. Can you maybe just talk about the environment in that market and, particularly, maybe what the loss experience has been in the WA mortgage book as well?

Shayne Cary Elliott
CEO & Executive Director

Maybe, Fred -- do you want to talk to that, Fred?

Fred Ohlsson
Former Group Executive of Australia

Yes.

Shayne Cary Elliott
CEO & Executive Director

So Fred look after, obviously, our Australian Division, so...

Fred Ohlsson
Former Group Executive of Australia

I guess what we are seeing there, it is still a deterioration. And 90 days past due they continue to increase. And we've said this before, and we've thought it's kind of like tapering off a bit, but it probably is, at this point, slowed down a little bit. And it is eventuating in losses. Bearing in mind for us in ANZ now, it is a smaller and smaller part of our book. But yes, it is still deteriorating.

Jill Campbell
Group General Manager of Investor Relations

Jon?

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Two really quick questions. The first one, obviously, the capital position is looking really good, and it's going to improve a lot more. Did you have any consideration about increasing the ordinary dividend in this period? And capital, obviously, is fine. Franking, you could prepay if you need it. So was that a consideration? And second question, in the second half, broker, you said just crept up to 57% of flow. Can you comment on that? Are you comfortable with 57% of flow by the broker channel?

Shayne Cary Elliott
CEO & Executive Director

Yes, Jon. So the first question, yes, clearly, our board, we give that great consideration to set the dividend at the appropriate level. We are really mindful, though, Jonathan, of our franking position and want to make sure we don't get ourselves into a bother in the future because we want to have a predictable dividend. And so our real focus was much more on the prospects for material capital return. So we did consider it, we thought the best thing to do was keep it where it was and focus on the capital return.
In terms of broker, the reality in Australia is that customers have a preference. And they are choosing, they're voting with their feet, to use the broker channel. That increase has been pretty steady over a long period of time. I don't see the prospect of that slowing down, to be perfectly honest. People believe they get good service, they get price transparency and there is a needs of doing business through a broker channel. We work really closely with the brokers on that. We've got great relationships. We're very selective about the brokers that we choose. And I'd also comment in terms of ANZ specifically being a little bit more reliant on brokers than some of our peers, that's the natural outcome of us having a smaller proprietary footprint. Our branch network is about half that of our Sydney peers and, of course, in particular, New South Wales. We've, for some years now, have been slowly, prudently increasing our focus on New South Wales. We're quite dramatically underweight, if you will, well below our natural share. But we started with some difficulty because we had a really small footprint here. So we've been growing our branch network, putting on more people. But as you would imagine, we have been a little bit more reliant on brokers in New South Wales than the rest of the country. I don't think it's going to change, and I don't necessarily think it's a bad thing. I think personally, there's far too much focus placed on the potential difference of returns between the various channels. The difference, from our perspective, is minute. So we have to be servicing customers in the way that they choose. Our real focus is making sure that we are dealing with the right brokers and that the brokers are behaving responsibly and doing the right thing by their customers.

Jill Campbell
Group General Manager of Investor Relations

Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. You flagged today $310 million of earnings lost in FY '18 from the divestments. If you look on Slide 19, your business performance improvement in this year was $550 million, but that benefited strongly from a full in -- massive full in provisions as well as a bumper markets year versus what you call a normal year. So deducting the $310 million and looking at maybe normalizing somewhat for the tailwinds that you received this year, are you confident that you can actually get cash profit in FY '18 above the cash profit in FY '17?

Michelle Nicole Jablko
Chief Financial Officer

So let's talk through the components, Jarrod. I think if you -- you start with the divestments, and I talked about the impact that was pre any gain or loss on sales. So you've got to net those 2 off if you're just looking at 2018. We've then got the -- our reshaping, and it's the reshaping of the business, which did impact the Institutional numbers. We said that reshaping is largely done, and so the core business will start to improve from here. And then you've got the work we're doing on costs. So they're the things we're doing. On the flip side, you've got what's going on in the market, so what's going on with our core businesses outside of this structural change, and I think you've got to look at those things together.

Shayne Cary Elliott
CEO & Executive Director

I mean, I think -- I mean, you're right or you meant to say but the bit that is missing in that calculation is the drag in our business performance that came from the ongoing shrinkage of the Institutional balance sheet. So that was a drag in the year, and we're saying that drag will no longer be evident. In fact, it should turn not on a material positive, but it'll turn the other way.

Michelle Nicole Jablko
Chief Financial Officer

And there'll be a timing difference between these things clearly. Yes.

Jarrod Martin
Crédit Suisse AG, Research Division

So is that a yes or no?

Shayne Cary Elliott
CEO & Executive Director

It's a yes.

Jill Campbell
Group General Manager of Investor Relations

Victor?

Victor German
Macquarie Research

Victor German from Macquarie. I was just hoping to follow up on the sort of capital and dividend discussion. Shayne, earlier on, you've provided, I think, a year or 18 months ago a payout target of 60% to 65%. You're a little bit above that. You're losing $310 million of earnings, but those earnings have never really contributed much to capital. I mean, would it be fair for us to assume that your dividend should be at least maintained at current levels and grow in line with franking credits? Is that kind of the way we should think about it?

Shayne Cary Elliott
CEO & Executive Director

Yes, yes. I mean, when we set the target -- we went backwards from what we were planning the future state of the business to be and after the rebalancing, and I took into account franking, reworked it back because what we didn't want to do, when we had made that tough decision to cut it, we didn't want to be in the business of making serial changes to our dividend policy. So we're confident that we've set a baseline now. That's in normal operating circumstances, but yes, Victor, you're right.

Victor German
Macquarie Research

And just a second question on just capital. I appreciate that you don't have money in the door yet and everything depends on APRA approvals. But just maybe if you can give us a little bit of a sense for how you think about capital. You're already at 10.6%. You -- APRA basically provided guidance around where they want capital to be. I mean, is it fair for us to assume, as you start getting your money through, you don't envisage a scenario where you want to sit significantly above that 10.5% level and ultimately, as that capital comes through, you will return it to shareholders?

Shayne Cary Elliott
CEO & Executive Director

So yes. Simple answer, yes. I mean, our understanding and discussions with APRA, the 10.5% is kind of carved in stone. That's the level. That's an average through the year. They -- we understand there'll always be movement because of the timing of payments, dividends and things. I think it's prudent that we -- our operating kind of be a little bit above it, a little bit above but not materially, and so we're there where we need to be. You're absolutely right. As and when those proceeds arrive and the material ones, we will make decisions then on the best thing to do with that. I mean, obviously, if we have opportunity internally, that's on the table, too. But I think what we're indicating here is it's unlikely from what we see today that any of those opportunities would be material -- would have material demands on that capital, yes? So pretty much anything we get from proceeds looks like it's surplus if you will.

Jill Campbell
Group General Manager of Investor Relations

Okay, Andrew Triggs?

Andrew Triggs

It's Andrew Triggs from JPMorgan. Just a couple of questions, please. Firstly, on the Institutional division. The NIM ex Markets was down 10 basis points, but the chart you have chosen, the risk-adjusted NIM was up. Just some commentary on whether you're seeing continued pressure underlying in the margin. And by geography, perhaps, New Zealand's still seeing a bit of that come through. And the second question just on the mortgage book. What level of switching are you currently seeing from IO to P&I? Or I know it's early days. But do you have a target for that?

Shayne Cary Elliott
CEO & Executive Director

Why don't I answer that one really quickly. Actually, I think -- and you can talk to the Institutional one. Actually, the pricing changes, what happened earlier in the year, we would now call it the call it the 2 by 2 matrix of pricing. We designed essentially to encourage customers to pay down principal, and it's worked. I mean, the reality is they I think -- and again, just reading what others have said, I think we've all been positively surprised at how those price signals have meant. People are willing to move to a P&I outcome. So it's about 10% of the books actually already moved, which is a -- that's a remarkable number in that short period of time.

Andrew Triggs

Can I just ask the difference between investor and owner-occupier in that context?

Michelle Nicole Jablko
Chief Financial Officer

Yes. We've got a slide actually at the back. I'm just trying to see the page number. It's Page 117.

Shayne Cary Elliott
CEO & Executive Director

Fred, do you have it off top of your head how much of the switch is -- I think most of it's owner-occupied, but I can't...

Michelle Nicole Jablko
Chief Financial Officer

Yes, it is.

Shayne Cary Elliott
CEO & Executive Director

It is, yes.

Fred Ohlsson
Former Group Executive of Australia

So then most of it's owner-occupied. Sorry, most of it's owner-occupied, and what Shayne didn't mention there is that it has also slowed down quite dramatically. There was like a peak through the snag which happened when some of the pricing changes went through in, call it, June, July, August, but it's now slowed down.

Michelle Nicole Jablko
Chief Financial Officer

And, Fred...

Shayne Cary Elliott
CEO & Executive Director

And as you know, I mean, the reality is that owner-occupiers are much more sensitive around the rate, and those signals then investors and partly for tax reasons and others that -- and so that's exactly what you would expect.

Michelle Nicole Jablko
Chief Financial Officer

Yes. And I was just going to add, Fred, there was also some switching around that period to fixed as well, but that's also abated as well.

Shayne Cary Elliott
CEO & Executive Director

Yes. So a lot of people took the opportunity to lock into -- we had a special out there on fixed rate, and people have elected to do that as well. Do you want to answer the question on Institutional margins ?

Michelle Nicole Jablko
Chief Financial Officer

Yes. So in Institutional margins, so if you go back to our strategy and why we're reshaping the Institutional business, we're saying if -- we want to get paid appropriately for the capital we put aside. So to some extent, that might bring margins down, but in terms of the capital we're allocating to it, you get a better overall return. So that's been a positive. Margins themselves have also come down just because of asset price competition in the market. We've had much more liquidity into the market from some Chinese, Japanese, Taiwanese banks, and that's had an impact. So there's a combination of those 2 things.

Jill Campbell
Group General Manager of Investor Relations

We'll come down to Anthony and then across to Craig.

Anthony Hoo
Deutsche Bank AG, Research Division

It's Anthony Hoo at Deutsche Bank. Just a question on your liquidity coverage ratio, 135%. Is that the level where you're comfortable with and you're targeting? And then in relation to that, a question around our price at the CLF, looks it's higher for next year from a system point of view. Are there any implication from that next year on your margin?

Michelle Nicole Jablko
Chief Financial Officer

Yes. So if I take the first one, I'd say yes is the answer. On the second one, you're right, and I don't think there'll be any real impact on margins next year.

Shayne Cary Elliott
CEO & Executive Director

Craig?

Craig Anthony Williams
Citigroup Inc, Research Division

It's Craig Williams from Citi. A couple of questions, one around sort of costs and around provision outlook. Firstly, your direction on costs seems to be undoubtedly right in the revenue profile of the business. People are your biggest expense in your business. You sort of removed 10% of your headcount in the past sort of 2 years, and senior roles have been a pretty big chunk of that. So perhaps, the bang for the buck though hasn't perhaps been there in terms of the commensurate sort of absolute expense improvement. So I sort of understand reinvestment and the amortization profile was sort of changing as part of that. So why are the costs sort of proving to be so sticky? And can we expect to perhaps see more leadership from Fred's business as the biggest chunk of the bank?

Shayne Cary Elliott
CEO & Executive Director

Note that down, more leadership from Fred. I ...

Michelle Nicole Jablko
Chief Financial Officer

I say that everyday.

Shayne Cary Elliott
CEO & Executive Director

Yes. So first of all, I think we've done a really good job on absolute costs. So I mean, it looks easy when you stick it up on a chart. It's hard. There is natural inflation in our business. Our EBA with our -- a lot of our staff is at over 3%. We've got to eat that. We do eat a lot of inflation on normal costs as like any business in Australia, and the reality is we are leading in terms of our approach on absolute costs. Now in terms of your timing, you're right. We should get a bit -- we are getting a bit of dividend. There's a lag. There's a lag in terms of the timing of actual people gone, and obviously, we stop paying them when they're gone. But a lot of the cost benefits come from all the stuff that's around those people, the system support and all those other things. So we're confident. That's why we're confident we can keep having the trajectory we're on. Now we have chosen to reinvest some of that. Actually, some of it, we don't really get a choice. We have to reinvest. We have to strengthen a lot of compliance and regulatory costs, things around -- and we've made some choices to invest in building future revenue streams, particularly around our data and digital capabilities, so we make it a conscious choice to do that. But we've also -- investing some of it for further productivity benefits in the future. And so the next wave of productivity, a more lot of that's going to come from automation. Today, most of the stuff we've done hasn't really come from -- it comes from simplifying the way we organize ourselves, all those things. We really got that fundamental benefit from digitization, automation, et cetera, and we're confident we can get that. But that takes a little bit of investment.

Michelle Nicole Jablko
Chief Financial Officer

And I'd add to that, that now that we've changed our capitalized software policy and more goes to OpEx, we've got much more flexibility every year. So it's not -- this isn't an assumption that every year we're just going to spend X. We'll spend and invest in it over time.

Shayne Cary Elliott
CEO & Executive Director

Yes. I mean, maybe it is time to talk a little bit about new ways of working. I mean, one of the great benefits of this is by chunking the work down. Instead of having this big annual investment slate, $1 billion, we sit around and we allocate, and people go off and do their best. By chunking it down into these kind of 6 weeks sprints, we actually now have the ability to shift resources on a 6-week, 12-week cycle to invest more, to invest less, and that's giving us much greater flexibility to be able to manage this and make sure we're getting bang for our buck. And we haven't started that yet. We're doing that right as we speak. We're working with Jarrod and Maile and Fred just to work -- and Michelle to figure out that new operating rhythm and how we're actually going to get good at this actually. We're building that muscle, getting good at actually making those resourcing decisions, and we're confident that's going to deliver.

Fred Ohlsson
Former Group Executive of Australia

[indiscernible]

Shayne Cary Elliott
CEO & Executive Director

All right. Yes, Fred perhaps...

Michelle Nicole Jablko
Chief Financial Officer

This is on you, Fred.

Fred Ohlsson
Former Group Executive of Australia

I think one thing that is important to bear in mind is that based on the trajectory we have, we actually come quite a long way, and I'm pretty pleased with the good start we've had on expenses based on the kind of cost growth we had previously. We are now down at pretty much flat cost growth, and that's a long way from where we were 18, 24 months ago. So I think it's a pretty good start. And based on what Shayne and Michelle said, we are investing in simplification, in particular around systems and processes, so we think we can do more.

Shayne Cary Elliott
CEO & Executive Director

And I think what -- the other thing I would say is if I look at the various parts of the bank and where the kind of heavy lifting has been done, so everybody's chipping in on this, but a lot of the heavy lifting on costs has really been -- is coming out of the benefit from the institutional bank as you would imagine, right? And so that's really led that. As we move into this year, it's shifting more now towards the Australia division and frankly, our technology world, which...

Michelle Nicole Jablko
Chief Financial Officer

And the rest of our support costs, yes.

Shayne Cary Elliott
CEO & Executive Director

So the skew is kind of shifting whether where -- what will really drive the next round of savings.

Jill Campbell
Group General Manager of Investor Relations

Okay, I might go to Brian, and then we'll take one from the phone.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CSLA. Just, I had many questions but just 2. If you have a look at the NIM, we will have had the maximum uplift from the housing repricing, I would imagine, in the June quarter. We've got 1 quarter of the levy coming through, and we've got the switching impact that's yet to flow through. We've got the Institutional margins still going down. Can I just confirm that the margin run rate right now will actually be lower than the rate over the second half and in fact, over the fourth quarter?

Michelle Nicole Jablko
Chief Financial Officer

So can I talk -- just go through those components again, Brian? So if you start with the repricing, the P&I repricing down happened in the third quarter, but the interest-only uplift happened in the fourth quarter. So there was a timing difference between those 2 things. The switching happened pretty much at a time of the P&I decrease. So you got to look at the timing of those. Certainly, we have the -- so I think that's probably a positive as we go into next year. But then you've got the levy, and so you've got a full year of the levy or full half if you're looking at it half-on-half. And then it's a question as to where margins in the sort of Institutional business set up in terms of asset competition in that business. And so there's probably still a bit of pressure there. Yes.

Brian D. Johnson
CLSA Limited, Research Division

The second one -- and as I say, I just really want to reiterate my compliments on the strategy. But just when you have a look at the Institutional business, what it's down about $15 billion, now that sounds great. But when you have a look at this result, we can see the margins still declining. We can see net write-back gains in most of the operating divisions. We can also see that when you have a look at the return on risk-weighted assets in your own disclosures, it's well below basically what you do in the retail bank. If we're talking about the right ownership of assets, the Insto business probably doesn't cut it relative to the others. And I know Mark will be very upset. But why aren't you carving back that Institutional business even more? Because it just doesn't really -- if you were to do -- think about long-term sustainable earnings, other banks are chopping this business. You've really done only a cursory cut off it. It probably needs to be cut back more, still $300 billion of assets.

Shayne Cary Elliott
CEO & Executive Director

It's a really -- it's a totally fair question. That's one we ask ourselves. We talk about it at the boards and executive team, right? But we are confident that we can build that business to be a sustainable return above our cost of equity and in the low double digits. We're confident about that. The first stage of the transformation is done. I don't think it's cursory in terms of the cutback. to reduce credit risk-weighted assets 27%. And essentially, in 18 months to 2 years, it's huge, right? To take out the direct cost, we've still got work to do, Brian. We're not done on the balancing of that business, but we're backing ourselves in terms of getting that business right.

Brian D. Johnson
CLSA Limited, Research Division

But it's right to say, the ROE on it will be well below the ROE of the group level.

Shayne Cary Elliott
CEO & Executive Director

Yes, of course. Of course. But if I take that to its natural -- I'd turn myself in -- we'd turn ourselves into a mortgage-only bank, and that's not right either. So I think there's a balance. The business, we believe in the diversification benefit. We believe in the other benefits that having Institutional bring to the group in terms of balance, in terms of funding, in terms of other things, in terms of the great benefits we get. Do you want to talk about how you're going to get your business to the right ROE? Because we -- it's improved.

Brian D. Johnson
CLSA Limited, Research Division

I'm on your side here, Fred.

Shayne Cary Elliott
CEO & Executive Director

Show some leadership, Mark. No, no. No, but it's important because it's a fair question.

Mark Whelan
Group Executive of Institutional

Now look, it is a fair question, and it gets down to the mix of the business that we have because I think, previously, the mix of the business was too heavily capital intensive, to your point Brian, where we had assets deployed in loans, particularly in international markets. We're not yielding what we wanted it yield. So what we've been doing with sort of the risk-weighted asset reduction is to try and get that book in a position where we can grow profitably at above -- well above hurdle rates and certainly won't get it towards where Fred's numbers are on a mortgage sense, but we think we can lift it by putting assets into the right customers in the right geographies but more importantly, getting the mix of the business within Institutional business right. If you look at our New Zealand business, we have a very low percentage of loan contribution to our revenue, and it has a higher percentage of Markets and has a higher percentage of transactional banking and a higher percentage of trade. That's the mix that we need to have in this business going forward. So the mix of the business has to change and getting the relative weighted returns against the higher-returning businesses such as Markets but particularly Transaction Banking, which we are growing. And we think we can continue to grow that because we've already invested in the transactional banking system 2 years ago. We're now just deploying that. So I think it's the combination of all of those things but certainly the mix of the business, which I think will get us well above cost of capital. I still believe that. We actually are this year, but we need to continue it.

Jill Campbell
Group General Manager of Investor Relations

Okay. We might take one from the phone, please, and then I'll come back to you, Brett, sorry.

Operator

[Operator Instructions] Your first question comes from Richard Wiles from Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

I have 2 questions. Firstly, in the Institutional bank, I think we all realize that the Markets income is volatile and was obviously a drag in this half. But if you exclude that Markets income, revenue was still down 7% for the half, and the margin decline seems to have accelerated. In fact, in the second half of last year, the margin was up 4 basis points, excluding Markets. It was down 4 basis points in the first half, and then in this half, it was down 14 basis points. So this margin decline now seems to be getting worse again. Is it because of lending competition? Is it because there's margin pressure in the Transaction Banking business or in the Trade Finance business? Could you give us a little bit of comfort as to why this margin decline won't get worse going forward?

Michelle Nicole Jablko
Chief Financial Officer

Do you want to start, Mark?

Jill Campbell
Group General Manager of Investor Relations

We'll come back to you, the next one, Richard.

Mark Whelan
Group Executive of Institutional

Yes. Well, I wouldn't say it's not going to get worse, but I don't think it will get substantially worse. There's a number -- if you look at the component parts, there is certainly pressure on the loan book because there is significant liquidity here and globally. So that will continue in the future. I don't see that changing. Second point I'd make is that you've got bank levy in these margins declines, particularly in the second half. That hasn't flowed through, so there'll be further pressure on that into next year as you get the bank levy coming through. Third thing I'd make -- I'd say here is, though, that the deposit margins are actually lifting, and that's because we're getting a better mix on our -- in our deposits and through this investment that I said on transactional banking. And so that, I think, will actually be an offset to us next year. So you've got to look at those 3 components. And the fourth thing I'd say, if you're looking at NIM overall, remember that in Institutional, we have higher degree of deposits than assets. And so when you look at that as a denominator, it'll -- it's pushing down that NIM number as well. So I think you've got to break it down into those 4 pieces.

Jill Campbell
Group General Manager of Investor Relations

So Richard, your second...

Michelle Nicole Jablko
Chief Financial Officer

And it might just be worth touching on bank levy impact, just where it sits. And so in terms of the impact on margins for Australia and Institutional, it was probably about 2 basis points each for the half.

Richard E. Wiles
Morgan Stanley, Research Division

That's for the Australian division and for the Institutional division. Each have 2 basis points, is that right?

Michelle Nicole Jablko
Chief Financial Officer

Yes, yes. Clearly different absolute impact, but on the size of their margins, about 2 basis points each.

Richard E. Wiles
Morgan Stanley, Research Division

I have a second question. On Monday, Mr. Byers said that we also are going to see the borrower debt-to-income levels are being appropriately constrained in anticipation of eventually rising interest rates. The banks, in general, have been telling us that debt to income is not an appropriate measure, and that you shouldn't be -- and that there's no need to disclose the debt-to-income metrics on your home loan portfolio. It seems that the regulator is telling us that debt to income is an appropriate metric. So I'm wondering if you can tell us what was your average debt to income of lending in the second half of '17. Was it lower than it was in the first half '17 prior to the announcement of macro prudential measures and the regulator's focus on this measure? And do you think that the debt-to-income ratio on new lending in 2018 will be lower than it is currently?

Shayne Cary Elliott
CEO & Executive Director

So I'll just give a very high-level answer. I'll ask Nigel to make -- So first of all, we don't think that DTI is a good metric for running the bank, and there's a really simple reason. Actually, it would be irresponsible for us to lend money based on debt-to-income levels. income Levels don't take into account people's expenses. And really, basic application of responsible lending guidelines say we should look at what people have at the after paying their expenses, their ability to repay debt. So that's why we have a different view on it. It's an outcome, so there's a number that we can obviously calculate. But it's not how we run the bank. It's not how we lend money, and it's not how we consider and think about the risk profile of our business. Nigel, do you just want to talk about the print on?

Nigel Henry Murray Williams
Former Chief Risk Officer

No, Shayne, I thought your answer was perfect. Actually, what I would say is the other regulator that we got to take attention of is ASIC, and there's been a lot of attention to responsible lending. And responsible lending is actually understand some of these total debt position, the composition of their income. And income is not -- all income is not equivalent. So clearly, salary is different to bonuses, to overtime, to rental income, vacancies, et cetera. So we actually look at the composition of the income. Expenses is the other big item, and that's received tremendous regulatory focus from ASIC, which we think is appropriate. And so we look at that unutilized monthly income as the right number. Lower interest rates have certainly helped people's household's expenditure, and there's quite a nice table in one of the newspapers this morning showing actually the change in household expenditure on housing, has not changed that much in the last 7 years, which is not surprising given the interest rate behavior during that time.

Jill Campbell
Group General Manager of Investor Relations

We'll go to another call on the phone, please.

Richard E. Wiles
Morgan Stanley, Research Division

This is very important. Can I follow up?

Jill Campbell
Group General Manager of Investor Relations

Sorry, Richard.

Operator

Your next question comes from Azib Khan from Morgans.

Jill Campbell
Group General Manager of Investor Relations

We'll come back to you, Richard. Go on.

Azib Khan
Morgans Financial Limited, Research Division

Look, a couple of questions -- further questions on the Institutional business from me. So I think it was Mark Whelan that said 6 months ago that he -- in overall returns, he was aiming to run off $45 billion of credit risk-weighted assets in that Institutional business. You've now run off $46 million, but Shayne has just suggested that there's further rebalancing to come. Does that mean that, that Insto -- that credit risk-weighted asset run off is now complete? Or is there more to come? And the second question on that, it also sounds like from what Shayne just said that you're sticking with the 13% ROE target for the Institutional business. In my calculations, that business is doing an ROE of about 10% at the moment. So what can you do to close that gap?

Mark Whelan
Group Executive of Institutional

Well, I've just -- the first answer I'd have to that is Brian's told me I need to get more assets down, so I take that into consideration. Look, we're -- we've moved roughly about 48, 49 from peak in risk-weighted assets, so I'd say majority of that has been done now. But what it does hide within that, too, I would say, is that we actually have been growing while we've been reducing. I think there's still a little bit to come, particularly in the international markets, so there's a little bit more to come out in risk-weighted assets, which we're still not happy with. And I'd -- we'll look to do that. But predominantly, we've got near the bottom on the risk-weighted asset side, so I'm comfortable with that part of the business. On the return on equity -- and so we will be looking to grow, but are we growing with the right customers because we've reduced our customers by 37% as well over that period? So growing with the right customers in the -- with the right assets in the right geographies is effectively the way we're looking at it going forward. On the return on equity, obviously, with the bank levy coming in and affecting, as Shayne said right at the beginning of the presentation, bank return's lower. We have to look at that within Institutional. So our target is still certainly in those low to mid-teens that Shayne talked about. The way that we're going to get there is still predominantly -- we've still got a lot of cost to come out of the business. We're still reshaping the international business and other parts of our overall business through -- so there's more to come in international, more to come through digital transformation and getting more efficient from the cost sense and also more to the point that Michelle was making earlier that with our support functions, there's still more cost to come out of that. So it's still a big cost focus for us in Institutional, but we are looking to grow where we're getting opportunities to grow at above hurdle rates. The other thing I'd say here is that our Institutional business in Australia and New Zealand is already close to those numbers. It's what we've got to do to get the international business in shape for the growth that we know that's there that -- where our big focus is. But in general, that's -- that would be the way I'd respond.

Jill Campbell
Group General Manager of Investor Relations

We'll do the last question on the phone, please.

Operator

Your next question is from T.S. Lim from Bell Potter Securities.

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

Question for you, Shayne. What's your view of the new New Zealand government? Is it going to be good for business for ANZ? I think because you guys are the biggest bank over there.

Shayne Cary Elliott
CEO & Executive Director

Sure. Look, it's early days obviously, and the government's just forming. And they've announced a few key policies. We're watching it closely, T.S. We've got a really simple business in New Zealand, which is good. We are the largest bank there. We've got a good diversified business. It's well run, good risk settings, good cost base. I'm very confident that we can essentially continue to run that business well through almost any reasonable set of government policies. But it's really -- it's a bit early for us to really say. The only other thing I would say -- comment on that, I am old enough to remember when Winston Peters was in coalition governments before New Zealand and also many of the labor and Peter are now taking the government there. The reality is this will be a marginally center lift government. And in the past, they've shown themselves to be responsible. I think it's heartening that the Finance Minister -- the new Finance Minister made the point that the previous government did not invent fiscal responsibility, that labor, over time, has shown themselves to be a competent manager of the economy, and I expect that to continue. They are very well aware of maintaining the very positive momentum in New Zealand and their international reputation and why that's important. So I don't imagine it'll shift too dramatically.

Jill Campbell
Group General Manager of Investor Relations

Operator, we did cut one last question off, so just checking there is no one else on the phone.

Operator

There are no further questions from any representatives. I can pass to Richard Wiles in just a moment.

Jill Campbell
Group General Manager of Investor Relations

Okay, we might come back to you. In the meantime, we'll go to Brett.

Brett Le Mesurier

Brett Le Mesurier from Velocity Trade. Continuing on the Institutional theme. Mark mentioned how well the New Zealand business is going. And when I compare that to the geographic disclosures for the APEA business, the APEA business has got 6x the risk-weighted assets, 3x the income and about 7 or 8x the expenses. But that -- and also, that mix of net interest income to other operating income is similar for APEA as New Zealand. So since you're talking about cutting costs out of the APEA business, are you going to increase the productivity of that business because the income relative to the capital and the loan assets is about half of what you have in New Zealand?

Shayne Cary Elliott
CEO & Executive Director

So I think, yes, it's good question, Brett. And then we -- if we go back to basics, so our New Zealand business, in many ways, is kind of the model of what we would like the entire Institutional business to be and why is -- what's great about it. It essentially goes back to what Mark said. It's business mix. It lends very little, and it does a whole lot of cash management in markets, day-to-day foreign exchange business. It's got a great coverage team, who are rated #1 in the country. I mean, that is a perfect model. It's great for our customers, and we get a decent return out of it. Australia is increasingly looking like that, so it's not too far away. Asia is difficult for us because we're starting with kind of both hands tied behind our back. We didn't have product capability when we started this, so really, the only thing we had and the talk was loans. And you build relationships lending money. We know that, that is a really low return, hard, low productivity business. And so we're kind of growing our way out of that by now reducing the loans, and now we've got capability in these other products like markets, like payments and cash. So we're getting that balance right. The other problem of course is the geographic dispersion adds a degree of complexity to the cost. You can't be in all these countries without some level of cost and coordination. What we're working on now -- the next piece of rebalancing of Institutional in Asia is really about how do we get that footprint right. How do we -- because what we've done essentially was taken a very traditional model of what worked in Australian and New Zealand and then just plonked it into 15 countries across Asia, all right, because that's how we knew how to run things. That doesn't work, and so we have to rethink that. What needs to be in country? What could be done in a regional office, et cetera? So it's a lot of hard work, but I'm confident -- the good news is with Farhan's leadership, he's -- for the first time, we actually have somebody representing the international business sitting at my table, sitting at the most senior parts of the bank. We've got somebody who's really experienced, who's been in this business for a long time. We've got Mark --- I mean, the leadership team in Institutional is the strongest it's been in a long, long time in ANZ, and they're all completely committed to restructuring and improving this business. So it's going to be hard work, but I'm confident we can do it.

Brett Le Mesurier

If I could ask one more question.

Shayne Cary Elliott
CEO & Executive Director

Sure.

Brett Le Mesurier

On the Wealth business, the embedded value continues to go up, approaching $5 billion. What's the sale process told you about the embedded value that you're showing?

Shayne Cary Elliott
CEO & Executive Director

You want to answer that, I mean?

Michelle Nicole Jablko
Chief Financial Officer

Well, sale process hasn't shown us anything yet. That's the answer. I think...

Brett Le Mesurier

It hasn't sold.

Michelle Nicole Jablko
Chief Financial Officer

Sorry?

Brett Le Mesurier

It just hasn't been sold.

Michelle Nicole Jablko
Chief Financial Officer

It hasn't been sold. That's right. I mean, the embedded value is the embedded value, and we're comfortable with the assumptions there.

Jill Campbell
Group General Manager of Investor Relations

This is not -- it's not just one business. It's a lot of ...

Michelle Nicole Jablko
Chief Financial Officer

Yes, there's a mix of business. As you know, it's got insurance, got P&I. It's got the general insurance business as well, so it's a mixture of businesses.

Shayne Cary Elliott
CEO & Executive Director

Is there another one?

Jill Campbell
Group General Manager of Investor Relations

I'll check. We'll go back to Brian, and then I will check the phone again.

Shayne Cary Elliott
CEO & Executive Director

Brian?

Brian D. Johnson
CLSA Limited, Research Division

Three really quick ones. Michelle, first of all, dividends in recent years have actually been fully franked but out of the installment on next year's -- first tax installment on next year. Has that happened again?

Michelle Nicole Jablko
Chief Financial Officer

There'd be some of that, yes.

Brian D. Johnson
CLSA Limited, Research Division

Okay, so it really is -- if we were to identify franking position related to this year's earnings, it's probably a negative balance. Is that...

Michelle Nicole Jablko
Chief Financial Officer

You got to look at statutory earnings to start with. It's pretty line ball is how I'd describe it.

Brian D. Johnson

CLSA Limited, Research Division

The next one is when we have a look in New Zealand, there's always a lot of complication on the way that the economic hedge works. Can you just explain to us the big decline that we've seen in the New Zealand dollar? What does that do to next year's earnings if everything was to stay where it was?

Michelle Nicole Jablko
Chief Financial Officer

Yes. We might ask.

Brian D. Johnson
CLSA Limited, Research Division

And can I just also throw into there the New Zealand review of level 1 capital requirements in New Zealand? What does that do?

Shayne Cary Elliott
CEO & Executive Director

Sure. Rick, do you want to? Did you get both questions? Yes?

Richard Marc Moscati
Former Group Treasurer

Yes, I did. Thanks. So on the New Zealand dollars, the chart in the pack, effectively, we're about 70% hedged for the following year and 50% in the year after that. So broadly speaking, we have a fairly large cover against New Zealand dollar appreciation. Obviously, you can't hedge into perpetuity, and the question will be where the NZ dollar settles in the longer term. But in the near term, it's not a big drag because of the hedges. In regards to the level 1 capital structure, obviously, that's a function of what happens with the review. So at this point, we just don't have the clarity, and we'll just have to continue to work through that as the RBNZ progresses its review.

Brian D. Johnson
CLSA Limited, Research Division

I have final question. Just buried in the net wealth prospectus, is this thing about the $1.4 billion of cash that sits on the net wealth platform? And buried in the sub notes is that ANZ have offered them, I reckon, it's pretty aggressive TD pricing, which they're not all passing back to their customers. But it does say subject to that continuing to be treated as a high-quality deposit. Just ringing around and looking at the standard, it talks about that if you've got a fiduciary responsibility to actually have the best deposit rate for the customer, it is in high quality. It's actually not considered to be stable. Can I just understand why it is stable for ANZ, whereas it wouldn't be for any of the other banks?

Shayne Cary Elliott
CEO & Executive Director

We will take it offline.

Brian D. Johnson
CLSA Limited, Research Division

I thought that would happen.

Jill Campbell
Group General Manager of Investor Relations

Okay. I think Richard's back on the phone. So sorry, I cut you off before.

Operator

Richard Wiles, please go ahead.

Richard E. Wiles
Morgan Stanley, Research Division

Can you hear me, Jill?

Jill Campbell
Group General Manager of Investor Relations

Yes, I can.

Richard E. Wiles
Morgan Stanley, Research Division

So I acknowledge what you're saying about income is only one component of assessing a borrower's ability to repay. Clearly, expenses are important, which leads me to 2 questions. First, is there any chance that you can give us some indication of what debt levels are relative to your assessment of net income? That is income less expenses for the borrower. And secondly, given Mr. Byers' focus on this debt-to-income levels, can I ask you is: are you requiring the banks to provide data on debt-to-income levels for their new lending even if it's not the most appropriate way to assess a borrower's capacity to repay?

Shayne Cary Elliott
CEO & Executive Director

So on the second question, not to my knowledge. I don't think we are required to do that. I'll check but note, in the -- people in the room, Philip and Richard are nodding at me and saying that's right. So no, we're not required to do that. We don't measure in aggregate what's the total debt in our book versus the total -- well, kind of the average income of all the borrowers. Again, we don't look at that. It's kind of a meaningless number I think, so we don't calculate it. We don't look at it.

Nigel Henry Murray Williams
Former Chief Risk Officer

I think if you think about this question, you wouldn't go about lending to companies on this basis. And when you look at households, it's really important that -- even their household performance. If you're looking at Central Sydney versus West Australian mining towns, then it's important that you have a context of what the income -- how the income is actually made up and what expenses are incurred and against that income. And that's why a simplistic measure for some of the housing is potentially dangerous because you could have very, very low DTI measures, but all your lending ends up being in towns or suburbs that are concentrated to single industries, which, of course, would be not wise to do. So there is more complexity in this.

Shayne Cary Elliott
CEO & Executive Director

Look, I think the broader point here -- thanks, Nigel. I think, Richard, the reality is, clearly, there has been a shift in terms of the Council of Financial Regulators and their concerns around the levels of household debt. I talked about that in my speech. We acknowledge that. It's reasonable and prudent for them to do so. And as a result, we have seen speed limits and increasing focus on essentially now looking at how do we as a market think about affordability. How do we think about that, yes? So you're right. I think there's still work to do on what the right ratio is, what we will be obliged to do, how we do all that, but it's emerging. It is not going to go away, and we will work proactively with that, try to figure out what the best way of doing that is. And we are actually having those conversations, and they're all very positive. But it's going to be the next area of focus, right? There's no doubt about that. We're just expressing our view. We don't think DTI, LTI, these kind of things are the right way to do it, and we're working on that. That's fair. All right?

Jill Campbell
Group General Manager of Investor Relations

Okay. Any last questions in the room? All done. All silent. I think with that, we're done.

Shayne Cary Elliott
CEO & Executive Director

So thank you, everybody, for your time. Thank you.

Michelle Nicole Jablko
Chief Financial Officer

Thank you.

Shayne Cary Elliott
CEO & Executive Director
Thank you.