Question and Answer

Jill Craig
Former Group General Manager, Investor Relations

Okay. Q&A. So usual process. We will start in the room here in Melbourne. We'll then move to Sydney. I'll hand over to Mark, and then we'll finish up with the questions from the phone.

And with that, we'll start with Craig, please.

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi. You've made a good start on reducing low-returning assets on rightsizing headcount and perhaps resetting the dividend to a more sustainable level. Investors would perhaps like more clarity on what you hope the reshaped business may end up looking like. Can you enunciate this vision a bit more for us in terms of risk-weighted asset reduction timeframes for exits in minorities and FTE? Noting your friends down the road, I think you'd probably end up with something like 35,000 headcount for like probably Loan Trade business.

Shayne Cary Elliott
CEO & Executive Director

So I think, first of all, we have a large and complex, diverse business, right? And as I laid out, there's a lot for us to focus on. The business that we have today, the way that I think about it, Craig, is we have, as I said, a little bit more than half of our capital allocated to the old IIB business. I would like the business of the future to be more like 60-40. 40% -- probably a little over that, but 40-ish percent allocated to Institutional, and 60% around our Retail and Commercial businesses, including whatever we -- whatever the outcome is within the Wealth business, because essentially, it's a Retail-focused business. That's what I would like. Now when you do the math about trying to grow your way into that outlook, and if I assume, let's just say a 5-year outlook for the sake of argument, given the lack of -- given the low capital consumption of the Retail and Commercial, you really had to grow your way into that position. The only way you can do it is actually by both growing responsibly in Retail and Commercial and shrinking Institutional. And the challenge for us is to do that responsibly. So in terms of what does the future look like? 60-40-ish. I think the returns on the Retail and Commercial, given what we know about the rules today, are still going to remain in the low 20s. And the -- it is our job and our intention to restore the returns in our Institutional business into the kind of low -- a double-digit areas, call it. We've said it -- we've said before about the kind of 13-ish percent. We believe that's doable. That will require a significant amount of work on cost, as you rightly point out. And it will mean that we need to be a smaller, more nimble bank. I don't have a target in terms of FTE. That's not the way we think about it. It's really about having that capital allocation right. But it's going to require significant amount of work on cost as you plan.

Craig Anthony Williams
Citigroup Inc, Research Division

And whilst welcome, it's just the above the line treatment of your restructuring today reflects a lot of the ongoing profile for restructuring charges yet to come.

Shayne Cary Elliott
CEO & Executive Director

I think as a -- since -- I'm not taking credit for it, but since my time as CFO, we've had an uncompromising view on how we think about the line, if you will, and what's above and below it. And from our point of view, everything is above the line, except accounting noise. And therefore, restructuring charges, I think, is a broad statement. It's just part of what we do and, therefore, we are accountable for them. And they should impact -- they should be above the line. They should impact executive compensation and all those things. We quite rightly would expect to be measured on the benefits of those restructuring decisions and so we should be measured on taking the charges as well.

Jill Craig
Former Group General Manager, Investor Relations

Any more from the floor here? Looks like it's over to you, please, Mark?

Mark Hand
Acting Group Executive of Australia

Thanks. Must get you to say your name and where you're from for the people on the phone.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Just a bit of a follow-up question on the runoff of the book in Asia. And if you look so far at the balance sheet reduction, nearly all of it's come through the Transaction Banking, or vast majority of it's come from Transaction Banking, which I can understand runs off a lot faster. The Global Loans business hasn't run off anywhere near as quickly, and it's pretty longer duration. So can you just talk touch on that? Is this just an ongoing process or runoff over time? And given what you're seeing throughout there, I think you've reiterated Institutional loans -- or Institutional business, you think you can get 13% ROE target, but some of your competitors, Standard Charter for example, are talking 8% by 2018, hopefully 10% by 2020. Even if you do run this business off and revert to more Australian business, is that just overly optimistic?

Shayne Cary Elliott
CEO & Executive Director

It's a good question, but -- so yes, the focus of the run-off -- remember, the focus we have here is going through from a customer perspective and saying we've gone and built a network that is -- in many ways, it's a beautiful thing, right? And it has fabulous capability. We have to ensure that the customers that are availing themselves of our capability are paying for it, and we generate a balanced return for our shareholders. And so we're going through customer by customer and making sure that, that's the case. Now in terms of making the hard decisions around reductions, the reality is that in the short term, it's much easier to let short-term trade assets run off because the average-tenor notes is 30, 60, 90 days. And so we can make those decisions much faster, and that's what you're seeing here. That does not mean that we are only reliant on the trade book for reduction. Trade's actually a pretty important part of our business. We love the trade business, and we want to do more of it, but we want to do the right business. Global Loans is harder. To give you an idea, average loan tenor is going to be closer to 3 years. You had something in excess of $20-odd billion a year naturally coming up for repricing. And so those repricing opportunities, the opportunities to have a discussion with the customer about the right return, whether we are the right bank for them, et cetera. This is not a strategy about across-the-board sales of loan portfolio. That's not a very practical or realistic outcome. It's about managing customers properly. So you're going to see more activity in the loan book. The other thing I would just say on that, it is not about across-the-board slashing the RWA or loan book. We are increasing in some areas. There are some businesses that we don't want to do more of. So it's about switch, and it's really about getting focused on those customers that value what we do for them and exiting others. So you're going to see significant transition. I don't -- we are not finished in the reduction or the focusing in our RWA. There is more to come. If you're going to ask me for timing, I'd say that is probably for the next 12 to 18 months, that will be the predominant kind of trend there. And so we're sitting on a more sustainable footing. In terms of returns, it's also a good question. The reality is that our business is very different to others. And you talked about Standard Chartered, and it's certainly very different to those. We do have the benefit of very, very strong domestic franchises that, on average, are higher return. If you carve through the Institutional Bank today and look at our Australian and New Zealand businesses, and you just look at those customers that are totally on strategy, doing what we say we're good at, right, and the ones that we have meaningful relationships with, we absolutely produce returns today on those relationships in the teens. And so it can be done. What it requires for us to do is be focused on that and take a -- frankly, a pretty kind of ruthless approach in terms of the way we service customers, in terms of our cost base. So I believe the 13% is reasonable. It's not going to be easy. I'm not suggesting that for a second, it's not going to be easy, but it's absolutely doable given the franchise and the strength that we have today.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

And if I'd just add, Jonathan, the -- is the mic on?

Shayne Cary Elliott
CEO & Executive Director

Yes.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

You can see from the chart that I've put up there that we had a $6.8 billion reduction in loans in International, but we had a $0.8 billion increase in Australia. And that's sort of back to Shayne's point, that we do get good returns where we've got a good client relationship. So I mean, it's, as you said, customer by customer.

Shayne Cary Elliott
CEO & Executive Director

Without belaboring, there's one other thing worth noting. Some of the exit of assets in -- particularly in Asia around the loans book, has been to do with a -- again, the kind of broader target market selection, which is more in the emerging corporate segment. What we're good at, on the venture stuff, is large multinational, international companies that move things around. That's where we have competitive strength. We had attempted in the past and had acquired a little bit novice [ph], a kind of a middle-market portfolio, not very big, in Asia. And we're progressively running that down aggressively as well, and that's have an -- that's had an impact on this half. And it will continue to do so.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. Shayne, there's a lot of decisive action in this result, that the key uncertainty for the outlook is credit quality. You've told us in recent years that Asia is lower credit risk than Australia because of the short tenor of trade finance and the high proportion of investment-grade lending.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Richard E. Wiles
Morgan Stanley, Research Division

Yet in this result, Asia Institutional has $200 million of loan losses on $50-odd billion of loans. And Australia only has $100 million of loan losses on a higher loan balance in the Institutional book. So can you please outline some of the factors driving that loan loss charge in Asia? And can you comment on what you expect for Asia going forward?

Shayne Cary Elliott
CEO & Executive Director

I liked your question up until you said but. The reality is that, Richard, it's a fair question as well. The reality is that the -- some of the losses that are coming through now reflect the reasonably significant deterioration in a couple of markets in Asia that have been probably a little bit surprising, notably Indonesia but also some others. So that's a; b, it also reflects our decision to exit certain segments of the market, as I mentioned, that emerging corporate sector. Inevitably -- well, maybe it's not inevitably, but it's understandably when you do take those decision to exit some of those relationships, it can have the consequence of increasing your provision levels as part of that, and that's very much evident in the numbers that we have today. I think that the Asia book, and we have probably talked about this before, in many ways, is a bit of a barbell. And we have a very large proportion of that book. 80 -- high 80% of that book that is investment grade; very, very high-quality; very short term; lots of FIs; sovereign kind of exposure; unfortunately, pretty low return. But nonetheless, but it still leaves you with the 12%, 15%, which isn't. And it's the 12% or 15% which, rather than being just nudged up close to the investment grade, is actually, in reality, a big step-down. And that's the portfolio that is emerging corporate and others, and that's the portfolio that's -- that has deteriorated more rapidly. And again, we've taken a decisive action to get ahead of it and clean it up.

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. Just to follow up on that question and to ask another. The fact that you said in the previous answer that you were going to continue to reduce RWA for another 12 to 18 months. Does that mean that the emerging corporate Asia bad debt is likely to continue to be at this level or even higher for the next 3 periods? And the fact that the bad debt number that you took on the single names was only $100 million versus a peer yesterday that took significantly more than that, that you were unwilling to put down a statement that second half bad debt charges would be lower than first half as your peer did yesterday?

Shayne Cary Elliott
CEO & Executive Director

Yes. So a couple of comments on that. In terms of the RWA reduction, I think it's important to say that, that is a focus around the Institutional book, okay? We will be increasing our RWA in our Retail businesses partly because of capital intensity and new rules that just happened; and partly, we will be growing the business. So that is a Institutional focus, and it's part of that rebalancing. In terms of the ongoing exit of the emerging corporate sector, that still has some way to go. And yes, there will be further bad debt charges as a result. We would not expect the run rate of that to materially change in the next 12 to 18 months, right? So we wouldn't expect that to spike up or down, for that matter. We should continue at about the same level. Just on that, I think Graham referred to it in his numbers. If you look at the provision charge, about half of -- was for Australia; the other -- the half was in Asia. Of the half in Asia, half of that again was essentially related around this portfolio reduction so that you can figure out the numbers yourself to see what that cohort be. I'm trying -- what -- sorry, what was the second part of your question? What's the...

Jarrod Martin
Crédit Suisse AG, Research Division

And then with the single names, it was only $100 million additional versus a peer who took significantly more.

Shayne Cary Elliott
CEO & Executive Director

No, I think -- so the -- yes, yes, I guess that depends to your starting point, to your exposures and because from what we understand, our single names are not initially the same as the other single names. So there's slightly some overlap, but it's slightly different. All I can say is that our level of provisioning is prudent. It does depend on whether your exposures are secured or not secured. It's either in the tenors and all that other stuff. But I think in terms of the guidance for the second half, I just don't know that, that's a prudent thing for us to be doing. In reality, the whole point about the single names that we saw in the first half is that they were surprised and weren't expected in terms of timing or amount. And so it's a little bit hard to make predictions about surprises. And I think our view on the economy is economy is running well, it's good, it's subdued, but it is prone to accidents and surprises as we go through this transition. So we're just going to manage the pace really tightly and prudently, and I don't think it's prudent for us to be making forecasts about second half.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. I wish I could say congratulations, Shayne, but I must admit this kind of looks as though this is half the beating that perhaps shareholders were expecting. But when you have a look at it -- I've got 2 questions. If you have a look at Slide 41, you say that this 60% to 65% dividend payout ratio includes expected capital requirements. As we sit here today, we still don't know what unquestionably strong means. We don't know what the BAU [ph] Committee stuff on corporate lending, on bigger-ticket lending basically means. We don't yet know what happens to residential investment property lending.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Brian D. Johnson
CLSA Limited, Research Division

The first question is, since you've put that out there, could you explain to us exactly what you're expecting in the capital requirements? But perhaps more particularly, what were -- what are the key capital drivers that would actually drive the payout ratio below that figure?

Shayne Cary Elliott
CEO & Executive Director

So Brian, we can only manage on what we know about the future, right? And we have to -- we can only manage on what we've known about it. If we were to manage on what might be, the only way we can do that is not have any dividends at all, to be totally prudent, so we can't do that. So we have to make some assumptions. And the assumptions we've made here are about the known direction and announcements; so for example, the increase in RWA around mortgages in Australia. So we've factored that in. We've taken those factors in. We believe, for what we know now, that our capital levels in the low 9s are prudent and that we have -- we'll have sufficient organic capital generation and other levers to pull should that change in a reasonable way. We can't set the bank for shocks to our capital settings, as I said, or we wouldn't be able to pay any dividend in that situation. That's always going to be a judgment call. I don't know if you want to add to it. I mean...

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

Well, I mean, I think on the broader Basel agenda, I mean, the guidance that's been given by the regulator is that they'll assess that at the end of 2016, and there will be some implementation after that. So that's not a long way up, but it's still uncertain exactly on quantum and timing. And so we've made some judgments around that, but we still wait to see where that comes. But I think the guidance we've been getting from the regulators is that, that's -- no earlier than next year, we'll see the detail of that, and then we're likely to get some sort of implementation period.

Shayne Cary Elliott
CEO & Executive Director

And I think, Brian, we could have taken the opposite view, which is to say, "Well, let's not do anything. Let's just wait and see." Because quite -- still, there's still lots of unknowns, we'll wait. But I think -- and we've tried -- we've taken a prudent approach to this and balanced what we think the capital requirement's going to be, taking into account what -- as I say, all the levers we have at our disposal around generating capital and trying to do the right thing by shareholders as well in getting that balance right. And that's why we've taken a prudent approach and acted to make a decision rather than just deferring.

Brian D. Johnson
CLSA Limited, Research Division

Okay. And the second question is, if I take a look at Slides 90 and 91, and that's been a pretty consistent theme in the questioning today. What you've done as far as running off the low-return risk assets makes a hell of a lot of sense. But when you have a look up in Asia, we've still got a lot of longer-duration assets that still sit on your book. In January and February, the world was awashed with, basically, the world is ending. You started to see currencies adjusted. It kind of looked a little bit what -- like what triggered the Asia crisis in, basically, 1997. I'd just be interested, Shayne, what is the scenario where -- what is the scenario, both in terms of interest rates or currency, that perhaps we could see a shock coming through, in which case you're not getting out of those lines fast enough?

Shayne Cary Elliott
CEO & Executive Director

So our portfolio in Asia, as we've talked about, is heavily weighted towards investment-grade names, it's heavily weighted towards financial institutions, and it's heavily short term actually. And as we've said here, if we look at China, for example, 87% of the EAD is less than 1 year. So I understand that it's not 100%. Obviously, there's some tenor in there, and we have to manage that prudently. The reality is I think we have a prudent portfolio in China. There's all sorts of scenarios that one could construct that would end up with impacts on our provisioning numbers. And I think we don't manage it as a series of independent portfolios. Obviously, we look at the whole. I mean, that's kind of a long-winded way of saying we're comfortable with our portfolio. Yes, we recognize we have to reset it for a more subdued future. From my perspective, the exposures that we have in our Asia book are being managed aggressively and prudently.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

And I think, Brian, just if you looked at the numbers there on China...

Shayne Cary Elliott
CEO & Executive Director

Yes.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

I mean, remember that around half of that's sort of booked offshore. So it's -- while it's sort of notionally a China risk, it's actually their assets in other jurisdictions as well, which is sort of somewhat different.

Brian D. Johnson
CLSA Limited, Research Division

I suppose, Graham, what really perhaps concerns me more, and I think it's a general feeling around the room, is that if we have a look in the 2015 year, the collective provision overlay was reduced to, I'm guessing, around $25 million. If I look at the slides today, I can see that you still got more exposed New Zealand dairy than anyone else. I can see that the Eris rate is turning up. You still got a lot of Asia. You still got a lot more than your peers of mining services. I'm just puzzled as to why we didn't go one step further in this result. And that's the -- establish a collective provision overlay for what would appear to be exposures relative to your peers that are higher risk.

Shayne Cary Elliott
CEO & Executive Director

So first of all, making decisions around collective overlays is not something we just sit around in the room and make up, okay? We have to go through a reasonably rigorous process. Secondly, that assumes that our starting point's all the same. There are other way -- we have to make -- account by account, making sure that our risk rating is right. It's the primary way of making sure that we're well provided for rather than just relying on overlays, yes. We do not believe, as of today, where we sit today, that we can justify putting a management overlay of any material amount in place. I think you -- to your point, Brian, given all of the other decisions we've made, it would not be in our interest to shy away from that decision if it was the right thing to do. If we felt strongly, clearly, we've just laid out, we've been prepared to make a whole bunch of other tough decisions, so I find it hard to imagine that if we had come to that conclusion, that we would shy away from it. So we don't think it's necessary right now.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

And I think just remembering back a couple of years, we did take an overlay for the resources change. What we've seen is that slowly unfold. And I think the overlays generally come where you've seen a rapid shock, where the risk rates just aren't keeping up with what's sort of going on. But the deterioration that we've seen across the resources sector, all the changes going on there, has now been going for some time. And the risk rates in the book, as Shayne said, they're the ones that really tell us where things are going. And I've been keeping up with that over these last couple of years. So we think that's sort of the way the book would normally work. It's only where you've got shocks that you would generally think about overlays.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

It's Scott Manning from JPMorgan. Interested in your comments around the dividend on Slide 41, taking into account the impact of expected asset sales on earnings. Just trying to understand whether that means that you're effectively putting a line in the sand around that $0.80 per share regardless of potential future earnings weakness as you do exit partnerships so that, that cents per share dividend is preserved given those headwinds to earnings.

Shayne Cary Elliott
CEO & Executive Director

To some extent, yes. I mean, clearly, what we're trying to do here, as we've said, we've set a number that we think is conservative and sustainable in dividend-per-share basis. Now obviously, we welcome change. But based on what we know today, we believe that's a conservative, well-set dividend per share. We've also said that in the medium term, we want to have a glide path towards a 60% to 65% payout ratio. Now, clearly it is our intention to improve the underlying earnings capability of this organization. And so we want to grow -- understand there'll be restructuring, but we're going to grow the business and bring down the -- and glide into that 60% to 65% dividend payout ratio over time. All we're trying to say here is in trying to figure out what's a conservative setting, we've taken into account the probability of other factors happening, like, for example, asset sales, right? But I don't want to overemphasize that. The asset -- we are not relying on those asset sales in order to maintain the dividend or meet capital ratios, that, as I said, we've taken a conservative approach. I don't know if you want to add anything, Graham.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

Well, I mean, the only put I'd add is that we often hear about the benefit of the asset sales on capital. But what we're acknowledging here is it has an earnings effect as well. And so we're actually looking at the balance of those 2, obviously.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

So given those dynamics, the lower earnings won't necessarily flow through the dividend. That means that you will have the capital available from those exits. Does that mean as it gets isolated or quarantined in group capital ratios? Or is there any prospects, at some point, that you can actually either return that to shareholders because I think deploying it in the domestic business is going to be too slow to change that mix?

Shayne Cary Elliott
CEO & Executive Director

I mean, it's all going to depend on the regulatory world we live in, in terms of what the required capital ratios are going forward. I mean, I think we have a fabulous asset here, a $5-odd billion in these minority investments, which -- not going to be easy, which are a capital deduction today, which we can release over time. And if they required to sustain the existing business we have, great. And if there's surplus to requirements, that's another terrific thing for shareholders, and we have to decide at that time. The difficulty here is, obviously, there's lots of common timing issues to hear, and -- but I think we've got a -- as I mentioned, I think we've got a great asset there. I think -- but my commitment here is, say, we're not -- we can't run the bank assuming or taking for granted that those asset sales will happen on a certain time. They are complex. And we don't -- and as quite rightly, you hold us to account because we've talked about it before. It's hard to predict. So we're not relying on them. They will be a net benefit to shareholders.

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

Brett Le Mesurier from APP. Question on the FTEs in the Institutional Bank. They fell by 6% in the second half '15; another 4%, first half '16. Now I gather from what you're saying that we should expect similar reductions going forward over the next few years and that there will actually be no significant restructuring provision in respect to redundancies in that part of the bank. And by significant, I'm talking about hundreds of millions of dollars to affect a quick change. So are you thinking about natural attrition?

Shayne Cary Elliott
CEO & Executive Director

Yes, I mean, yes, Brett. So the FTE reduction has been pretty meaningful. I mean, those are meaningful numbers. Lots of it is being managed through natural attrition, but some of it is actually been -- that's what we've used the restructuring charge that we announced today just as a -- there's a restructuring charge today, the $138 million pretax, about 1/3 of that actually relates to actions that are already taken in the half, and so some of it will be there. Restructuring the business is going to be an ongoing thing, but it is about relatively -- a series of relatively small, thoughtful steps rather than slashing things across the board. So I think it'll just be continuing tightening up in that business, but it's not our intention to do a multi-thousand people kind of announcement or anything and for the reason because we don't need to, and it's not the right thing to do for the business. We actually have a really good business in Institutional. Okay, the world's changed. Yes, we probably got a little ahead of ourselves in growth. But the world's changed at the same time, the competitive landscape, the economic outcome in many of our markets, the regulatory stuff. So we have to reset, and that resetting means it's going to be smaller, okay, but it's going to be smaller and better. And the reality is, as I said, it is a great business, and we'll get it back on its feet pretty quickly, I think.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

And then just, I mean, I'd add it's the business which is probably undergoing the most change, as you've noted.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

And therefore, not surprisingly, just over 1/3 of that restructuring provision is really in the Institutional space. So that's sort of -- that's why it's focused there.

Shayne Cary Elliott
CEO & Executive Director

And the only other thing I would say is -- Mark was just winking at me there -- it's a good point. I -- one thing that's worth noticing about -- noting about the FTE reductions. Look, this will -- nobody likes to make these. These are difficult decisions. We have loyal staff and we want to deal with important stakeholder as well. But we need to rightsize the business. But what we're doing this time is making sure that we're doing it prudently and responsibly. And it's not just about the people at the bottom of the pyramid. We've taken some -- it's about the restructuring of the business. We've merged units, have taken out clutter in terms of our organization. And so in fact, not maybe so much in FTE numbers but certainly in savings, a lot of the savings come from very senior executives that have left the building. And again, that's not a great thing to be proud of, but we try to manage that responsibly across the whole organization. It's a benefit of simplification, not just across-the-board cuts.

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

And since you've signaled the shrinking of the business, and everyone understands that, how do you go about making sure that the best people stay?

Shayne Cary Elliott
CEO & Executive Director

Because the best people actually committed to the vision that we have for the business, about communicating a business, a vision for better and stronger bank. And I think they -- well, I believe they buy into it. I mean, one thing we have -- well, we have lots of things, advantages. But look, I know I love that business. I used to run it. And I would hope that a lot of the people in that business trust me in the sense of this is a business that I'm proud of, and so we do want to look after it. And our best people that understand that. And actually, I'm really -- I am very, very encouraged by the team that Mark Whelan has built. This is a team of really exceptional individuals who are really coming together strongly with a unified purpose, who themselves, they want to be better. And they can be, and they know it. And so they're making -- I'm actually -- to be honest, the things that we asked Mark and the team to do, this team has outperformed on. They've done more, not -- because they know it has to be done.

Andrew Triggs
Deutsche Bank AG, Research Division

It's Andrew Triggs from Deutsche Bank. Just a question on the Global Markets weakness. Looked like a fairly soft second quarter, driven by Australia and New Zealand. A few questions there. Firstly, what was the timing of the valuation adjustments, which were a drag quarter-on-quarter? Secondly, how much of the weakness was due to customer runoff versus just less volatility or the wrong kind of volatility? And thirdly...

Shayne Cary Elliott
CEO & Executive Director

So we'll get you the -- yes, oh, sorry, go on. Yes?

Andrew Triggs
Deutsche Bank AG, Research Division

And sorry, thirdly, just the outlook for this business as the Institutional footprint shrinks.

Shayne Cary Elliott
CEO & Executive Director

Sure. So in terms of valuation adjustments, we have to get back to you on that. I'm not sure about the timing of that, to be honest. In terms of the business, yes, there was a weakness in Australia and New Zealand. The weakness, essentially, there were 2 areas of -- well, there was one area of weakness, and then there was a shift. So the area of weakness, the slowdown has been around balance sheet trading. And I think there's a chart in here that shows that the amount that we generate from balance sheet trading was a lot lower than we've done in the past. That's not surprising given what's happening in corporate credit spreads, a; and b, frankly, the intense scrutiny, quite rightly, on the marketplace, about the way that, that market operates. And so that's going to be -- there's going to be slowdown. I would not expect that business to rebound or change from where it is. I think it's at a sustainable level now. And secondly, we're not asking the business to rebound or to grow that piece of it, right? We want them to manage it prudently. So that's, that first one. The second change that's happened in markets, and when you look at the sales and trading number that Graham talked about, actually, the total's running at about what you would -- what we've seen over the past years. But there has been a shift. And the shift has been, actually, foreign exchange business has done pretty well. It's the right side of that customer activity about making decisions about fixing or floating interest rates has -- that has slowed right down. That's probably not unsurprising given the view in the marketplace today that rates are more likely to fall than not. And in a very simple sense, most of our customers have debt and they're interested in fixing rates, they're going to defer those decisions. And so that's the sort of activity that we've seen a shift in. That's just kind of normal. I think in terms of running the business going forward, we're really good at markets. We've got a great franchise. We're a leader when it comes to corporate foreign exchange. We've got some very great strengths in that business, and we've shown an ability to manage it through all sorts of cycles. But it's not the sort of business you can just ask for more and more and more and consistent growth half-on-half. That's when you start to get into trouble. What we need to do is, actually, in a funny way, is ask for less. We need to reset expectations from that business and not be so reliant on it in terms of a driver of our income. And that's what we're going to do in the future. So it's going to be really important because it's an important part of our customer franchise, but we're not going to put undue pressure on it from a trading and balance sheet perspective. Now that puts a pressure on us to get our cost. But again, it's all circular; puts pressure on us, not just in markets but across the whole bank, to get our cost base right. Because we're making active decisions to reduce leverage in assets, take pressure off trading as a source of earnings and some other things we're doing. Well, we have to therefore take some pretty decisive action on cost. And we're doing it by taking out complexity, exiting other businesses, et cetera, et cetera.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

And just on the first part of your question, I think it was about a $30 million-per-quarter valuation change. And I think the -- it was slightly larger in the second quarter on the DVA.

Mark Hand
Acting Group Executive of Australia

We've finished questions here in Sydney, so maybe back to Jill for the phone.

Jill Craig
Former Group General Manager, Investor Relations

Thanks, Mark. Do we have any questions on the phone? Now I imagine that you're at the back of the room, and I can't see you. Okay.

Unknown Executive

3.

Jill Craig
Former Group General Manager, Investor Relations

Okay, can we start putting those through, please?

Operator

Yes, your first question comes from Victor German with Macquarie Bank.

Victor German
Macquarie Research

My question, Shayne, is again on the dividend and particularly around the guidance or your expected payout ratio. I think if I look at it historically, one of the key reasons and that had lower payout ratio was -- were the 3 key reasons were higher growth, higher balance sheet growth; it was a generally lower-returning business; and you had lower franking credits. Your presentation today effectively outlined the pathway of effectively addressing all 3 of those. Why is it that in that sort of context, you think that you need to reduce the payout ratio rather than perhaps keeping it?

Shayne Cary Elliott

CEO & Executive Director

So that's a fair observation, and I think you're right. We've always recognized the fact that our strategy was oriented around growth, and therefore, we needed to retain more of our earnings in order to fund that growth. I think that was the primary difference. And the nature of our business being -- having more reliance on offshore earnings meant we generated lower franking credits on average and since, so that's all true. The reality is, though, that the changes that we're talking about and that I mentioned in terms of rebalancing our portfolio are going to take time. And I mentioned earlier the outlook is more of a 5-year outlook of where we're going to be. And recognizing that there are lots of moving parts in there that will impact our result over that time, and so we want to set the dividend prudently. Could we have maintained it and kind of hung on and kind of gritted it -- through it? I guess so. But I don't -- we don't want to run a bank like that, that's on the edge all the time. And then -- because I think what that does, Victor, it means we end up taking poor -- making poor decisions just to keep a dividend or a payout ratio to meet some ratios. So we've taken a view about -- you will have heard today, I think -- I didn't count how many times I used the word prudent or conservative. And that is the way we want to run the bank. And we want to have it -- we want to know that when we turn up on a Monday morning, that unless something -- somebody does something really stupid, the bank will continue to grow and generate capital and pay out a responsible dividend that's competitive for our shareholders and do the right thing because that's what we want. And if things go really well, and we achieve more than we hope for, and we do get some asset sales or we -- you will sign up to Apple Pay tomorrow -- I mean, do whatever it is, maybe we'll be in a position to increase the dividend in the future. But that's not the decision for today.

Victor German
Macquarie Research

Right. So maybe I misunderstood because I guess kind of the way I read your announcing was that you were targeting in the medium term to get to 60% to 65% payout ratio, and you're planning to get there over time. It sounds to me like over time, you actually think you can sustain a higher payout ratio, and 60% to 65% is something that you want to get to relatively quickly and potentially grow it over time. Is that the right way of thinking of it?

Shayne Cary Elliott
CEO & Executive Director

Well, no. The way that I think about it -- so if you take through the -- if you look through the specified items today, the payout ratio today is -- of today's dividend is about 67%, I think, something like that, right? So we're not far off it. And if it's -- we're -- if we were at 67%, putting aside future things that might be in that bucket of one-offs, a little bit of growth gets us to a 60% to 65% pretty quickly, actually. So that's the place you want to be. And I just -- we -- as I said, we think 60 -- when we do the math, we do the model just like you do, and we think about all the factors we have. And remember, as Brian pointed out, there's still a big unknown here about the endgame in terms of capital. We think we would rather have a conservative, sustainable dividend that we're confident in rather than one where we, as I said, lack confidence in our ability to do the right thing. So it's a glide path. We're going to grow the DPS over time, hopefully. Obviously, that's what we would like to do and grow our way into a lower payout ratio.

Victor German
Macquarie Research

Right. With a view of potentially increasing over time?

Shayne Cary Elliott
CEO & Executive Director

Sure. Yes, yes, yes. Look, don't get me -- yes, absolutely. Are we saying for -- I think that's fair.

Victor German
Macquarie Research

Because [indiscernible] that 60-40 split, and you're looking at 60% in businesses that generate, you think, over 20%; and 40% generates 13%.

Shayne Cary Elliott
CEO & Executive Director

Yes, but I'm not there yet.

Victor German
Macquarie Research

So it's better ROE than you currently have.

Shayne Cary Elliott
CEO & Executive Director

Yes, I get it. I understand. I think we're just talking about time frames. I totally agree with that. We are here to build a better, stronger bank that, one day, will have a much better return and, therefore, an ability to do that. I think we're just talking about timing. I don't want us to sit for the next 3 to 5 years just hanging on, waiting for that to happen. Actually, I think this is a helpful step to reset. But I take your point. Yes, absolutely, we are not -- just to be clear, we are not saying we are forever locked into a 60% to 65%, that as a result of these changes and repositioning the bank, all else being equal, we will be a higher-earning, higher-return bank that will be able to sustain a higher payout ratio. Yes.

Victor German
Macquarie Research

Okay, understood. And then just one point of clarification. I mean, one of the things that, obviously, investors don't really like to see is reduction in absolute value of dividends. I understand your view around payout ratio. But should we take this $0.80 dividend as kind of your new benchmark for the first half which you will intend to grow from? Is that kind of the way we read it?

Shayne Cary Elliott
CEO & Executive Director

So we -- historically, we've always paid out a higher -- in the second half, dividend is higher than the first half by around 10%, actually, historically. What we said this time in terms of considerate -- we understand that people want some level of confidence around the dividend per share. We said $0.80 in the first half. We said -- or hopefully, very clearly, the second half will be at least the same dividend, right, at the second half. You can take it from that, barring any significant shift in our portfolio or business lines, yes, we are trying to establish a new baseline in DPS. But we would hope -- but in doing it, just so -- obviously, if it's -- let's just say it is $0.80. Obviously, we're going to rebalance, and it will be unlikely that our second half dividends are going to be 10% higher going forward. We're trying to rebalance that as well, yes.

Victor German
Macquarie Research

You don't expect a need to further rebalancing in the first half '16 -- first half '17?

Shayne Cary Elliott
CEO & Executive Director

No.

Victor German
Macquarie Research

So first half '17 should grow on this half?

Shayne Cary Elliott
CEO & Executive Director

Well, it should be the same or more. Yes, that would be the normal kind of assumption from what we see today, yes, barring any -- as I said, barring significant change to our portfolio.

Operator

Your next question comes from Andrew Lyons with Goldman Sachs.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

I got just 2 questions, if I could. Firstly, just on Institutional expenses. You obviously highlighted the rundown in risk-weighted assets within the division and also FTEs. But I note just on Page 60 that the Institutional expenses, ex-specified adjustments and FX, were actually up 4% in the half. Can you just maybe describe why this is the case? I assume it relates to this timing of restructuring. But maybe on a go-forward basis, how we should be thinking about the timing of FTE, risk-weighted asset and then subsequent expense reductions just as far as timing is concerned?

Shayne Cary Elliott
CEO & Executive Director

So unsurprisingly, there -- well, there are 3 probably -- and I just want to go back. Let's just say there are 3 big buckets of expenses in running an Institutional Bank. One is the people, and you've seen there that -- we've said that the headcount's going to come down gently, mostly from attrition, mostly from refocus that will drive the benefit. That's a; b is incentives. That's a reasonable part of the business. And obviously, that will be driven by their outcomes. And so stronger outcomes mean that, that's more correlated to the ultimate profit and returns in the business. But the third one is actually technology, and technology in the broader sense of the term, i.e., the fixed cost, the D&A of building and running the place. And that's -- why is it a big number? Because you got markets which is heavily technology focused and same with transaction banking. The reality is today that we have a pretty stubborn cost base in Institutional because of previous decisions made around some of those investments. Now the decisions made today to accelerate depreciation will help, will actually help the run rate going forward because by lifting our thresholds and changing what's capitalized, that actually benefits Institutional by a reasonable amount. But it hasn't happened. It's going to take some time to roll through because Institutional -- because of those factors I talked about, tends to have a more fixed cost base than other parts of the bank. And the D&A is actually a big number, and it's quite stubborn. But anyway, the real point, Andrew, is Institutional is totally focused on addressing its cost base, and it's doing so through -- in a whole range of areas that you can put under the title of basically simplifying and refocusing the business. And that's going to take some time to come through, but you would expect to see lower cost in that business going forward.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Got it. And just a second question maybe. Can you just talk about the expected payback or any more detail about the expected payback and timing of the payback from the $138 million restructuring charge? You mentioned there are, I think, 1/3 of it that have been used this half. Any more details just around the payback there?

Shayne Cary Elliott
CEO & Executive Director

Yes. So a lot of it is in the second half this year, so it will be immediately apparent. So 1/3 of the restructuring charge relates to decisions already taken and the impact or the -- or some of the impact is already in the accounts, if you will, in the first half; and 2/3 relates to identified actions that have yet to actually happen, that will happen in the second half. The payback's pretty quick. As a very, very high-level rule of thumb, decisions around the restructuring, those kind of things typically have a 1 year payback as a rule of thumb. Probably a little higher but not -- they're not 2- to 3-year kind of payback decisions in this case.

Operator

Your next question comes from Matthew Wilson with JCP.

Matthew Wilson
JCP Investment Partners Limited

You played an essential role in the mistakes of the past. And in terms of succession, your turnaround is therefore more challenging. You've made it stop. Good job. But could you have gone much harder and been more definitive today to, one, disconnect yourself from the past; and two, give yourself more margin for error. And what held you back? Or would be this be the first of the 3 customary efforts to transition?

Shayne Cary Elliott
CEO & Executive Director

So I have no intention of distancing myself from the past, Matt. These decisions today are not about that. This is not about clearing the decks, trying to cut from the past. This about a recognition that the world in which we operate has changed. And we have a new team that is focused on execution and taking hard decisions. It's as simple as that. We're not going to shy away and say, I absolutely accept that we made some mistakes in the past. We overextended. We overbuilt. Fine. We can debate. That'd be a nice thing to do over a cup of coffee or a glass of wine. But the right thing to do now is what are we doing now. And this today is about action, and it's about taking hard decisions to move forward. That's what we're doing. And I know that my ExCo, including Graham and all the people in the Executive Committee, were totally committed to do that. Could we have gone harder today? All of -- I guess -- but we've also got a business to run. And so we've got to get balanced outcomes. This is not about slash, burn and pare, kitchen sink your result. That is not what we've done here today. This is about setting the business up for future success.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

It's a disciplined response to what we're seeing.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Matthew Wilson
JCP Investment Partners Limited

So that's it?

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

And -- yes.

Matthew Wilson
JCP Investment Partners Limited

I just think you're in a good place. Can you confirm whether or not you're going to unsign the Banking and Finance Oath? And where are we with the CFO change?

Shayne Cary Elliott
CEO & Executive Director

Sure. I have not signed the Banking and Finance Oath, and we're having discussion with John Laker about that. For the -- this is actually -- I mean, it's a whole different subject. This is a relatively invisible attempt. It's a good attempt to introduce some -- an oath to the industry. Most people that you talk to in our industry have never heard of it, and so there's an issue around that. But that's a separate issue, all right? It is not because we do not believe that we have an ethical responsibility around all our stakeholders. I guess I take your view that I don't need to sign a piece of paper to do that. But that doesn't mean that I won't. I mean, I have a discussion with John, so that's it. In terms of the CFO, look, I'm very conscious. This is a really important appointment. Of all the things that we've done and I'm going to do in my first 3 to 6 months, it may well be the most important, and so I want to do it really carefully. And as I've said, we've got -- it's a big decision to make. I'm conscious not only because you get want to get a terrific CFO, but because I need somebody who's going to join and augment my executive leadership team. That's really important. And that's somebody who, as I said, augments the skills, somebody who brings something new. And so I'm taking a careful approach there. I'm lucky that Graham is doing a great job. Unfortunately, I might have trouble getting him out of the job because he's enjoying it so much.

Graham Kennedy Hodges
Former Deputy Chief Executive Officer

Yes. And I love it. Just love it, yes.

Shayne Cary Elliott
CEO & Executive Director

He's loving it. But in reality, I -- we're not -- well, look, you can never put -- we're not far away, Matt, from making that final decision. I know that it's been taking time, but as I said, that's because I want it to be the right decision. And I know it's a decision we're making for the very long-term benefit of this group.

Operator

There are no further line questions.

Jill Craig
Former Group General Manager, Investor Relations

Great. Okay, that being the case, we will finish up there. But I think, Shayne, did you want to -- yes.

Shayne Cary Elliott
CEO & Executive Director
Yes, I just want to say a few little things. So thanks, everybody. Really quickly, today, we have announced, I think, a really strong start to transitioning this bank. And the important thing here is that managing change of this scale is never easy. But I am personally encouraged by the vision that we've laid out for the -- for ANZ and the commitment of my team, my Executive Committee, and the daily support that I get on e-mails, texts and social media, in particular, from our staff and our customers. And I want to thank all of our staff and customers for their ongoing loyalty and support, and thank you very much for attending today. And as I said, I'm happy to do Apple Pay demonstrations all day long. Thank you.