Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Victor German of CBA.

Victor German
Commonwealth Bank of Australia, Research Division

Shayne, I was just hoping to ask if you could perhaps give us a little bit more color on this quarter, because if we remembered the third quarter of '14, it was actually quite a weak quarter. And you had quite a strong rebound in the fourth quarter. And part of it was relating to trading income and things that are quite volatile. Is there anything in this quarter that you perhaps can highlight that has been volatile, such as trading income? And should we expect a bit of a rebound in the fourth quarter due to one-off items or low quality items on an underlying basis, excluding bad debts?

Shayne Cary Elliott
CEO & Executive Director

Yes, so it's good question, Victor. The third quarter from all sorts of various reasons tends to be a little weaker than others during the year and that's kind of a seasonality in that business. But no, there's nothing unusual or particularly volatile in the third quarter this year. So it's a pretty kind of both standard performance across most of the businesses there.

Victor German
Commonwealth Bank of Australia, Research Division

And are you able to give us a little bit more color what's happening with markets income?

Shayne Cary Elliott
CEO & Executive Director

Markets income -- just hold on a second. Just making sure we get the facts right on that. The markets income's kind of broadly in line with the past, no surprises, sales income, the customer-related continues to grow pretty well.

Victor German
Commonwealth Bank of Australia, Research Division

When you said broadly in line with the past, it was relative to the third quarter last year or relative to the average of last 2 quarters or...

Jill Craig
Former Group General Manager, Investor Relations

Relative to what you were saying in the first half, broadly, Victor.

Shayne Cary Elliott
CEO & Executive Director

What we've seen is fairly consistent growth in sales over a long period of time and that trend continues.

Jill Craig
Former Group General Manager, Investor Relations

And in particular, we typically point out the same stuff done. So again it is the customer sales component that continues to be remarkably resilient. And all of the filter trends that you saw us outline at the half are fairly consistent.

Operator

Your next question comes from the line of Jarrod Martin from Credit Suisse.

Jarrod Martin
Crédit Suisse AG, Research Division

On the bad debts, and in particular, the increased CP for resources and agriculture. How much of that is Australia versus New Zealand? The agriculture dairy we're seeing some printing of spot, milk prices to be quite low and lower than what was expectation when we were over there a couple of months back? And your expectations of a 21 basis points full year charge, does that include any expectations of further CP increases from risk migration?

Shayne Cary Elliott
CEO & Executive Director

Okay. Good question. So clearly, it's going to be more all that kind of detail on the APS330, which we'll come out with our trading update. The grade migration is more [indiscernible]. It's not just in Australia, it's not just in New Zealand, a little bits in pieces from either part. Neither is particularly significant, but obviously, when you add it up, that's what's driving the change. Yes, there's obviously a little bit of dairy in New Zealand, although it's not particularly significant. In terms of our forecast, we don't see any particular sort-of risk migration in the fourth quarter. That's not to say there won't be some minor amount, but that's not what's driving the forecast. So the forecast is driven on what we know today about the portfolio growth and kind of known risk migration that we can see. And I don't think it will be any particular surprises for the fourth quarter this year.

And just 1 clarification on it. When we say it's related to resources in agri sector, that's a broad comment, and it was designed to be. That does not mean, for example, it is exclusively mining companies or dairy farms. We are, obviously, service providers to those sectors. We're just saying it's those sectors, the softness in that is feeding general downgrade.

Operator

Your next question comes from the line of Craig Williams from Citi.

Craig Anthony Williams
Citigroup Inc, Research Division

Just noting the difference between your unaudited cash profit and unaudited stat profit for the 9-month period. The stat profit is quite a bit higher, which wasn't the case, I think, at the half even. I say, can you talk us through that gap that has it emerged. Is it related to New Zealand FX and some sort of hedge in [indiscernible] ?

Michael Roger Pearson Smith
Former Non-Executive Advisor

Yes. I'll get Shayne to answer.

Shayne Cary Elliott
CEO & Executive Director

It would be related to all of those, Craig. As to the FX, the revenue hedge is also related to the basis swaps on a funding derivative.

Operator

Your next question comes from the line of Richard Wiles for Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

This capital rising covers information on the mortgage risk [indiscernible]. It also seems to cover some of the nonrecourse debt deductions that are pending. In the release, you've said that you were capitalized, you've got a range of options available to increase capital in response to future regulatory changes. Does that mean that you expect capital requirements to increase further from here? And can you give us your view or your interpretation of APRA's comment that capital would need to go up 200 basis points or more to be in the top quartile of international banks in the medium to long term? Do you think that relates to common equity or do you think it relates to total capital?

Shayne Cary Elliott
CEO & Executive Director

We don't know, Richard. So we don't know what the trend is on capital, but we're saying on the balance sheet had the belief if it's going to move, it's going to be higher rather than lower. And it's exactly the reason we've taken a pragmatic approach to our capital plans to say we will deal with things as they're known. And then trying to guess the direction, quantum and timing of things is a dangerous game for us to be playing. So we'll deal with things as and when we know them, and that's exactly why we are dealing with the situation at this point. In terms of the 200 points, I might get Rick to make a comment on that.

Unknown Executive

Sure. I think there's going to be discussion about this in the APRA release. They clearly showed a range of 70 basis points to 200 basis points in your analysis. And 70 basis points to CET1 and 200 basis points to total capital. The total capital issue is more complicated because of transitioning deals that were in Canada, so that's not part of the conversation today, but we absolutely think the bottom of the top quarter was 70 basis points. They also spoke about 12.4% being the top of the bottom quarter or 76th percentile if you like as of last year. On the basis of what we're doing today, I mean, [indiscernible fully disclosed their methodology, but we have to have dialogue, and we think this takes us into that sort of 13% territory. So again, that's why we think [indiscernible] the right amount of capital for where we are, and what we know.

Shayne Cary Elliott
CEO & Executive Director

It might be worth just walking through -- because we're obviously talking here that these changes [indiscernible] of 9 30 [ph] just tell you about the 13 indiscernible]

Unknown Executive

[indiscernible] of the curtailment [indiscernible], so on the bottom of -- I think it will be the second paragraph, as Shayne went through, we give you a pro forma. That pro forma is really just taking very simply our June reported number, which is about 60 [ph], will add on 65 basis points for the $2.5 billion underwritten placement, and 13 basis points for the SBP on top, to actually 9.3. So that's a simple pro forma with those 3 elements. We can then do a walk in terms of where we get to. When you add in the higher mortgage, risk weight is going to take off something like 50-odd basis points from that change. You also may need to think about, in your own estimates, in terms of organic capital generation from the June quarter to the end of September, clearly knowing that there is no dividend in that, and so largely, that's kind-of a buildup in earnings. And those 2 things will largely offset each other and they're going to come back to a very similar number to the one that we just walked through in a bit more detail. To be frank, things like the wealth did unwind. I mean there's only 1 transit that could go over the $400 million, that's 10 basis points. Against that, we got things like Esanda, those things are ups and downs, which pretty much negate themselves. Probably also in farming as well as magnitude. So whether you look at operation today on a pro forma basis or on an all-in basis, it's in that low 9 territory. Then basically, you sit back and say how do I get back to the international comfortable number? But at this point, historically, we have been talking about an adjustment of 380 basis points, and that's being disclosed previously in this part of the [indiscernible] analysis. That's been pretty close to the industry average in terms of harmonized adjustments. APRA came out on the 13th and put us at 310 basis points across the industry average. So we are using that number of 310 basis points. We think that's a conservative estimate for us. But then also, you need to consider the high mortgage risk rate that does not impact that, so you just add that back. And also, on a harmonized basis, our risk-weighted asset number is lower than the APRA basis, that's why the ratio is higher. And so the capital raise itself is worth more basis points on a harmonized basis than it is on an APRA basis. So those 2 things combined, you add back 80 basis points. So you come back to adding something like 390 basis points to an APRA number and get roughly at 13% territory.

Unknown Executive

So 9% cuts on the APRA basis is the equivalent of 13 plus on the harmonized rate. Anyway, next question.

Operator

Your next question comes from the line of Mike Wiblin from Macquaries.

Michael Wiblin
Macquarie Research

Just a question around rather soft Standard Chartered result last night. See, [indiscernible] They're talking about continuation of adverse trends. No signs of these reversing. A bit worrying, the NGL ratio was up to 3.1%. What's the difference between ANZ and Standard Chartered given it was one of the sort of KPEs that was highlighted as something that they're obviously [indiscernible] looking to replicate up in Asia? And are you seeing any softness in Asia at all, or is it just -- you feel much better underwriting results compared to them? I don't know that we attempted or said that we were trying to replicate Standard Chartered. I'm not sure that, that would be a very sensible thing to do given their performance. But I think the point is we see that what we want to do is we want to occupy and compete in 1 area of the business, which is in Asia. Our business structure is very different to theirs. They are far more commercial in Asia than we are. We are much more institutional. We are a high-end business. They are more in the middle and down. They have their eyes on particular issues with their balance sheet expansion, very notably in places like Korea or India, and they're in the process of that now. So I don't know that they're comparable. I'll take your point that Standard Chartered clearly operates in emerging markets including Asia, and they talked about the fact that there's a slowdown. If there's a slowdown in parts of Asia and we see that too, I think the difference is the nature of our business and who we deal with and what and the drivers of those business, which is really around foreign exchange and capital flow. It's at least apparent to us that we don't see the same slowdown in our business. The slowdown that we've seen in Asia, if you're looking at the numbers, it's more of the effect that we're building a bigger and bigger base. And so that growth, as you know, can't continue to grow the kind-of 20-plus percent growth that we've been having. Put it this way, there's nothing that we're seeing in our business in Asia today is that some of the economic stuff we're reading about in the papers or seeing is having any material impact on our business flow. Having said that, yes, of course, our Asia business is inevitably going to slow its growth rates because it's getting bigger, and we have to manage quite rightly the balance between growth and return, and we're being more deliberate about that as we've talked about.

Michael Wiblin
Macquarie Research

More of a revenue issue than impairment issue, is that right?

Shayne Cary Elliott
CEO & Executive Director

Absolutely. And we've talked before that the general fall in commodity prices has put pressure on our trade with revenues just from a mathematical point-of-view. You finance a shipment of coal or wine -- it's [indiscernible] than it used to be, and you're not going volume on that. So there is a slowdown on parts, and the business has been pretty well-managed to do that, but it's not a provision, as you know. Having said that, I will like 1 thing to clarify again to somebody's earlier question. Let me talk about the risk weights changing. That is not exclusive to Australia. If you know [indiscernible] it is small. It is not a material number, but just to be very clear -- that has impacted places like Indonesia and others that are related to the commodity sector or ag sector, but we're not talking big numbers here.

Operator

Your next question comes from the line of Brian Johnson from CLSA.

Brian D. Johnson
CLSA Limited, Research Division

Shayne, what you're saying today, and I'm looking at the quarterly numbers. The earnings look a little bit weaker, perhaps, than we thought. The capital requirement is going up. At the end of the day, what drives your ability to have a sustainable payout ratio as a function of earnings in growth? But we also see the capital requirement going up. Does today basically flag a change at the target payout ratio?

Shayne Cary Elliott
CEO & Executive Director

No. You're right about the earnings, but what we're saying is PBP growth is good and continuing, but there's clearly been a small turn in the provision number. That kind of gets exacerbated by the fact that we're coming off a pretty low period for the last 5, 6 quarters, extremely low. It's been kind of more than normal level, and that's a big number. That's really what the earnings are. No, it doesn't have an impact. Clearly, we are conscious of the fact that as we look for more capital intense in the business, yes in provision cycle, somewhere near the bottom. It puts more onus on us to continue to [indiscernible] on productivity and capital efficiency -- absolutely.

Brian D. Johnson
CLSA Limited, Research Division

Shayne, at the moment, you target 60 to 70, and you're saying you're comfortable in the top end of range? So I'm assuming the 60 to 70 doesn't change, but are you still comfortable at the top end of the range?

Shayne Cary Elliott
CEO & Executive Director

For now, yes. And its 65 to 70. Yes. Cash, yes.

Operator

Your next question is from the line of Jon Mott from UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Hi Shayne. At the start of the call, you called out that you saw no sense in moving too quickly on capital. And then you sort of said, well, the numbers that you're raising in capital today effectively just offsets the Basel III for mortgage risk weights. And we know that in about 4 months time, we're going to get Basel IV coming down the pipe. And also looking at all the results that've been coming out around the world, the numbers you benchmarked in your shelf on capital, they're already 12 months out-of-date, and all of that is [indiscernible lot of the capital in that last 12 months? So I just wanted to get a feel for why you have that view, that it makes no sense in moving too quickly when it's pretty clear that capital ratios are going higher -- you can mathematically just go through and look at a lot of other banks to work out where that number will roughly be in 12 months time. And we've got a lot more coming down, a lot more accounting changes coming should you have gone harder, raised more money and moved ahead of the curve.

Shayne Cary Elliott
CEO & Executive Director

No. And I'll pass to Rick on some of the concerns, Jonathan. But, no, and the reason is that we're dealing with the known. And remember, we have a lot of options ahead of us in terms of dealing with those changes. More notably, sales of non-core assets that we have talked about. The reality is why we're acting today, a large part of it is the accelerated timetable. And all that does is in an accelerated timetable, clearly we don't have total control over the timing of some of those disposals. And we don't want to put ourselves under unreasonable pressure in terms of either price, timing of those decisions. And so this is the right pragmatic thing to do. We're dealing with a known change in the situation. If and when more changes come, we'll continue to have all the same options that others have, plus we have these extra [indiscernible] to deal with. I think it would be kind of irresponsible for us to go out and kind of get what those changes are going to be, over-raise capital and just sit on -- too much capital puts you at high periods of time. The problem is that we'd just be going in circles and then try to figure out what would that amount be.

Jonathan Mott
UBS Investment Bank, Research Division

Just to clarify, you won't be doing underwritten day-out pay in the next few results, or is that still 1 of the options that you're calling out?

Shayne Cary Elliott
CEO & Executive Director

Right now, we're not moving anything in or out, right? We'll have a DRP. We'll have to wait and see what changes come over the coming year.

Jonathan Mott
UBS Investment Bank, Research Division

So I'll have to watch the accounting standards to count out the full year net.

Shayne Cary Elliott
CEO & Executive Director

If accounting standards, regulatory changes, whatever happens, we have to manage through those things. Yes, of course, once we know about them, we'll manage them.

Unknown Executive

Just to pick up on a couple of things. You said Basel IV is 4 months away. To the best of our knowledge, we certainly don't have that information. I think in Basel world, they all have realized that the proposition of their discussion is extremely complex, particularly when you're talking about consumer lending in different geographies and different legal structures, et cetera. So I think you're perhaps a little bit ambitious to say that in the ins-and-outs of Basal IV in 4 months, there's been no discussion about what the [indiscernible] will be, and this is going to take quite some time. And again, even if we start to get some clarity later in the year, into next year, it's going to take a long time to settle. And those are just the things, like the OCR and [indiscernible], and the first rate we got of those and the final standards which emerged later. And also the transition periods. Again, same transition periods for LCR and municipal. So I think it's kind of a bit ambitious to say we're 4 months away. In terms of capital standards going up, I mean we have to look at that. The actual number we discussed is 12.4. We're aiming for above that. And APRA also has been pretty clear that its a sense check -- it's not a particular reference in terms of competing, or we'll be chasing our tails here. So we have thought about these things.

Operator

Your next question comes from the line of Brendan [indiscernible] from Citi.

Unknown Analyst

I just had a quick question on the third quarter results. In the first half, you had 8 basis points decline in the net interest margin. I was wondering if you could make any comment on the experience in the third quarter?

Shayne Cary Elliott
CEO & Executive Director

Sure. Just hold on second. I'm just going to get it. It's been pretty steady. So in terms of the NIM, we're basically seeing some of those trends that you saw in the first half. So in the Australia and New Zealand businesses, they're managing well. And obviously, just straight to the fact that was as of June and that was prior to any repricing that you've seen, particularly in the Australia division more recently. And the strength that we have in the Institutional book in the areas before remains in Globe Alliance, and that strength remains. And so those margin appreciation is continuing at a pretty steady rate, although we had called out previously that trade margins have compressed and those have actually held up pretty well.

Unknown Executive

There was some decline because we built up [indiscernible] or not there's so [indiscernible]

Shayne Cary Elliott
CEO & Executive Director

You remember, as prepriced from the LTR 2, we had to build up highly liquid assets that tended to have lower margins, and so just from a weighted average point-of-view, bring down the group. But that's what's largely behind it -- it' a done thing. Now the margins are actually holding up a bit on the third quarter than previously.

Unknown Analyst

And just quickly -- you called out at the half on home loans. Are you still seeing some margin contractions in that line of business?

Shayne Cary Elliott
CEO & Executive Director

Not really. And actually, with the recent repricing, that would probably start to turn the other way.

Jill Craig
Former Group General Manager, Investor Relations

Mike, I think that's all we have time for on the call, and I noticed there are no questions in the queue. So we might...

Shayne Cary Elliott
CEO & Executive Director

Thanks, everybody for your time today, and thanks for the questions. So like I said we obviously have a trading update on the 18th. so there'll be a little more flavor in the numbers, and no doubt, we'll be speaking to many of you between now and then. Thank you very much. Bye.

Operator
That concludes this conference. Thank you for your participation. You may all disconnect.