Question and Answer

Jill Campbell
Group General Manager of Investor Relations

Okay. Realizing that you have done this 1 million times, I'll still give you instructions. So we'll take questions from the room, if you could please wait for a microphone, and then we'll go to the phones. I'll start with Jarrod.

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. No surprise to kind of start on something like margins. If you look at your margin would have fall Slide 22 and the back end of that, can we have some comments just regarding the reversibility of some of the items towards the back end, in particular the market's balance sheet activities and what that's likely to be in? And obviously, you got your repricing, $271 billion of Aussie home loans, Australian home loans, I shouldn't say Aussie home loans, of which a fair chunk are variable. So of the 16 basis points repricing, you got to think that 5 to 6 basis points flows through to group margins. Are we looking at a spot margin in October somewhere in the 190s?

Michelle Nicole Jablko
Chief Financial Officer

So maybe I'll break that into bits, talk about the right-hand side of the chart first, then we'll talk about the left. On the right-hand side, Asia Retail has gone, so that doesn't have an impact anymore. Market's balance sheet, that's sort of opportunistic business we do. You don't -- we don't manage that for margin. It's high-return, low-margin business, so that will vary year-on-year depending on decisions that are made in that business and then customer remediation which I've spoken about. Then if I go to sort of what I call the core margin, so you're right, firstly, we've got the repricing in the Australia mortgage book. In terms of impact on group margin, it's probably more like 4. Take the other factors that -- and again, if I look forward, it's really again about Australia predominantly. We had higher funding costs this year. They feel relatively stable at the moment. Next year, we'll be higher on average than this year was but relatively stable. So if the balance sheet behaves in the same way, you wouldn't expect any significant impact there. And then on top of that, the 2 real drivers were switching and front book discounting. On switching, I would think the impact into next year is largely similar to what it's been. We had -- this year, we had about $23 billion of switching from P&I to interest -- sorry, interest-only to P&I. And contracted was $16 billion, so it was over and above the contracted level. Next year, the contracted is $18 billion. So I sort of expect the impact to be broadly the same. And then front book margins, the market stay -- remains competitive, and I think we ended the year at higher discounting than we -- the average through the year, so you'd expect that to continue to roll through.

Jill Campbell
Group General Manager of Investor Relations

Yes. If you wanted to hand it to Marty, that'd be great. Thanks, Jarrod.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Just on Slide 8, ROE, there's a little box on the bottom, which is quite interesting. Where, you're kind of saying that the ROE is about 12.2% cash weighted on a CET1 ratio of 10.5%, excluding all the lumpy one-off, large chunky items that came through it. If you kind of think that -- I'll give you the benefit of the doubt in the lumpy items, but you're not going to be able to run it at 10% -- and I like they are not going to repeat, but the -- I'll give you the benefit of the doubt on those. But you're not going to be able to run at 10.5%, so you've got to put a buffer in there. And also, you've just come out with a new expected loss of 27 basis points through the cycle, which is down on where it has been in the past. So if we then go through a look forward through the cycle, you're getting somewhere around

10.5%, maybe up to 11%, depending with the credit cycle. Is that what you're thinking you should be running through the cycle on the ROE?

Michelle Nicole Jablko
Chief Financial Officer

Yes. So in terms of the ratio, the CET ratio, what we aim to be, before the new rules probably changed the percentage, because they will, is 10.5% on average through the year. So it's likely to be a bit higher reporting dates, a bit lower when you pay a dividend. So you're probably looking at, yes, call it, 10.7%, 10.8%. All things being equal, we have to make decisions as we go depending on the environment and what we see as well.

Jonathan Mott
UBS Investment Bank, Research Division

Yes. And then the target on the ROE.

Shayne Cary Elliott
CEO & Executive Director

So we don't have a target on ROE. I mean, clearly, it's pretty important. We talk about it a lot, and we've been probably running the place focused on risk-adjusted returns, so we don't have a target. You're right that all else being equal, it remains under pressure from just the environmental -- the environment that we live in. And that's why we're working hard to -- the work we're doing on costs, the work we're doing on simplification, the work we're doing on capital efficiency is all designed to mitigate that and actually improve the ROE over time.

Michelle Nicole Jablko
Chief Financial Officer

And also, Jon, there are 4 things probably impact the ROE. There's capital as we've spoke about. You're got business mix, and that will -- the impact on ROE will change after the new Basel rules come in, not -- maybe not day 1, but the incremental ROE being generated from each business will change. You've got costs. Cost is a significant driver for us and a significant focus. And then you've got just business conditions, and they're sector wide. And what we're looking at is how do we best manage the various levers we have against those.

Jill Campbell
Group General Manager of Investor Relations

Can you hand back to Richard? Thanks, John. Richard Wiles.

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. Shayne, a couple of questions. Firstly, given the meaningful change that you've flagged as necessary in the banking sector to win back trust from the community and your customers, do you think a further reduction in some of your revenues, particularly fee revenues, is required? And second question relates to the mortgage pricing. When National Australia Bank chose not to follow the other majors in repricing variable rates recently, Mr. Thorburn made some comments about aggressive front book discounting and the strategy of back book repricing mean unsustainable economic model. What's your view on that?

Shayne Cary Elliott
CEO & Executive Director

So we don't know what's going to happen post Royal Commission in terms of what that new world looks like. I think in terms of winning back the trust of the community, we've taken a view that, that's completely aligned with our strategy around simplification. It's much easier to stand up and do what you say when you're doing less things and you're doing simple things. So actually, I don't buy the argument that, that necessarily imposes costs onto us in terms of operating costs or it's more expensive to do the right thing. I don't believe that. I think it's actually -- in many ways, it's cheaper. And I think that also, on a cost basis, I think those are aligned. Your point on revenue is a good one. I think the reality is we've already kind of broken the back on that, particularly in Australia but also in New Zealand, in terms of eliminating a bunch of fees, but the reality is that I think that, that will continue. I think that will continue to be a bit of a drag on revenue, i.e will have a full year impact next year of decisions already made, and it's likely to be further cleanup around fees and things. So I think that is inevitably true. Funny enough, I mean, well not funny enough, but if you look back at Royal Commission and some of the mistakes we have made operationally, a lot of it has been about the application of calculation of fees. And so, again, having less of them, yes, we give up the revenue, it's the right thing to do and actually it simplifies our operating risk from my perspective. In terms of the mortgage business, we might get Fred to comment a little bit on that. Look, each bank has to do what it thinks is right for its own customers and its market position. I -- obviously, we've decided that we did need to do a reprice. We think that was fair and reasonable given the changes in the cost of funds. It is a delicate balance of managing your front book and your back book, as you know, and you can work out the relative -- just from a financials point of view, the relative merits and value of that. We want to grow owner-occupied, and we want to grow P&I. And we're showing our ability even with that repricing, even we're making hard decisions on that, that we've been successful. And we're growing above system in that responsibly to do that. That's going to continue to be our strategy in terms of where we see the risk-adjusted returns of the sector.

Richard E. Wiles
Morgan Stanley, Research Division

So, Shayne, maybe I wasn't clear enough. For the last 10 years, banks have been repricing the back book and then discounting aggressively on the front book. And regardless of what NAB does on this latest round of repricing, Mr. Thorburn basically said, that model, that business model of repricing the back book and aggressively discounting the front book is not sustainable. Do you have a view on that?

Shayne Cary Elliott
CEO & Executive Director

I don't think that is our strategy. If -- the implication of the question, I guess, is that it's a deliberate strategy to discount people and then reprice later and that we build that somehow into our models. Well, we don't. And it's not the strategy -- the strategy is we have a product that is clear and understandable that sits at a variable rate, and that rate can vary, if we so choose to do so. And for customers who don't like that risk, who don't like that profile, they have other alternatives in terms of fixed rates. So I think we probably have to do a bit of job of explaining those options to people, and that's partly the reason we've seen a growth in fixed rate lending in Australia. I do not believe that, that -- the model or the attraction of variable rate product is somehow going to disappear. I can tell you, at ANZ, it is not and never -- well, I don't know if it never has been, it is not in my time at ANZ being the strategy to discount people and -- with a view that we will knowingly reprice later. That is not the way that we've run the bank. Did you want to add anything, Fred, to the point, no? Good.

Jill Campbell
Group General Manager of Investor Relations

We might go to Brian.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Just to come back to Richard's question, Shayne, which you're really not answering. If we ever look at the electricity industry at the moment, the telecommunications industry, front book, back book pricing is something that could actually be removed going forward. So rather than asking about whether you do it or not...

Shayne Cary Elliott
CEO & Executive Director

How would that, how would that...

Brian D. Johnson
CLSA Limited, Research Division

Well, let's wait and see. We are heading into an election, Shayne, let's see what the politicians come up with, but there is something in the electricity industry, for example. So rather than debating as to whether it's right or wrong, could we get a feeling -- and I apologize I might not be able to come back straight away, could we get a feeling what it would cost if you price the entire book at the front book rate right now? Because it's got to be a risk across the sector.

Shayne Cary Elliott
CEO & Executive Director

We'd have to figure that out. I mean, it's not an easy thing to figure out. I just -- perhaps -- I understand your question. What you're suggesting is that variable rate mortgage would be banned, that there would be no such product.

Brian D. Johnson
CLSA Limited, Research Division

I'm suggesting that there'd be no difference between the front book and the back book price. You'd have one benchmark rate, which would be the rate. Go back to see in the electricity industry, and the real risk is that if banks don't get in front of this issue, you're going to have some politicians that will. So we can debate whether it's right or not. But the reality is, Shayne, the ROE on a home loan is well north of the group ROE that you earn overall. I would suggest to you that an incremental level that's incredibly high and this front book, back book discounting, you can already sense the environment is really moving against it. But whether you agree with that or not, I'd just be interested to know what it would cost to rebase it.

Shayne Cary Elliott
CEO & Executive Director

Okay. So I think the answer is you're implying that we're going to change one variable...

Brian D. Johnson
CLSA Limited, Research Division

One refresher.

Shayne Cary Elliott
CEO & Executive Director

And then we could -- and that we can run through our model and say what the impact would be. I'm sure we could do that. But in reality, if that such a dramatic change was mandated, regulated or whatever, there would be all sorts of implications for that and the entire market would reprice and act differently. So I think it's really hard to understand without giving it some serious modeling what exactly would happen.

Michelle Nicole Jablko
Chief Financial Officer

It wouldn't necessarily be the current front book pricing.

Shayne Cary Elliott
CEO & Executive Director

Correct. Exactly right. So I don't...

Brian D. Johnson
CLSA Limited, Research Division

There'd be none of these things were basically rewarding your most disloyal customers if...

Shayne Cary Elliott

CEO & Executive Director

I don't know that, that's exactly how -- we can have that debate about the value of variable pricing in the way front book, back book, but that's not -- there's a lot of industries that, that's a normal thing. I enter into a transaction today, I understand the terms of that, it changes tomorrow.

Brian D. Johnson
CLSA Limited, Research Division

If I come back to a second question. If we have a look at the buyback, we've got a situation where you've just bought back a great wad of shares at north of $28 a share at a multiple of book value. We've got the share prices now a lot lower. If we're to go back, for example, the most recent divestment, which was the New Zealand business, I think, from memory, you sold that on a p of sub-8. I think you actually sold it below book value. You've got a lower dividend payout ratio. Mechanically in retrospect, even though you haven't got franking credits, it might have made more sense to have a high payout ratio than simply buying back the shares, Michelle. And every time I speak to anyone at ANZ, they say, we're not in the job of picking the share price. But is there a level of the share price where, basically, it would swing you back to doing a cash in hand unfranked as opposed to buying back stock?

Michelle Nicole Jablko
Chief Financial Officer

Firstly, we don't -- we haven't sold our businesses for capital. So we've sold them for a whole range of strategic reasons. And then our job is really, if we think we've got surplus capital to get it, to deal with that as efficiently as we can. And there are a range of mechanisms we look at, and we look at everything and we look at it each time, actually. There is a cost to shareholders for -- so if we didn't unfrank dividend, for example, that would impact your ordinary as well because you can't stream your franking to a special dividend relative to your ordinary, so that would come at a cost.

Shayne Cary Elliott
CEO & Executive Director

So we do those.

Michelle Nicole Jablko
Chief Financial Officer

So we go through the analysis.

Brian D. Johnson
CLSA Limited, Research Division

You've got more shareholders than the other banks as well. So let's not lose sight of the fact that...

Shayne Cary Elliott
CEO & Executive Director

I think the point is that we go through all those permutations every single time and figure out what we think is the most efficient way to get capital back to our shareholders. But -- so there's no rule. We don't sit here and say we will never do that. We'd have to sit down and do the calculation every time.

Michelle Nicole Jablko
Chief Financial Officer

And also, if we were to reduce the franking, that would increase the cost of our hybrids as well. So there's a whole lot of things we take into account.

Jill Campbell
Group General Manager of Investor Relations

Victor?

Victor German
Macquarie Research

Victor German from Macquarie. Two questions, if I may. First one on my favorite subject of expenses and then also on Australia performance.

Michelle Nicole Jablko
Chief Financial Officer

I take on margin and you're on expenses?

Shayne Cary Elliott
CEO & Executive Director

Yes. At least we're predictable.

Victor German
Macquarie Research

So on expenses, you -- historically, when you took restructuring charges, you were able to deliver at least onetime benefit in the following half. You also wrote down some software balances. So very sort of high level, mathematically, it looks like you've got about $200 million potential tailwind into expenses going into FY '19. I'd be just interested in kind of your observation in terms of what are you thinking about excluding potential remediation-related issues. Your -- ex large, notable items, you're about $8.5 billion. Kind of where -- how you think about expenses for next half. Do you want me to leave the second question?

Shayne Cary Elliott
CEO & Executive Director

I'd just take a bigger picture view, and then I'll get Michelle talk to the next half. I think we're actually on the record of saying that we think -- we thought it was possible to run the bank that we want, the continuing business for around $8 billion, right? We said that, that was an aspiration. It wasn't a target. We're not going to do anything stupid just to hit a number because we know that, that can end in tears. But we still think that is a reasonable aspiration. Now we're not going to get there in the next half, but we certainly believe that getting that business -- we've come from kind of $9.5 billion down to $8.5 billion, and some of that's because we sold things I accept that. But a big chunk of it is because we just got more efficient, and we're going to continue on that path and we think we can get that down towards 8-ish. Now I'd be the first to accept that, that may not be enough in terms of when I go -- when I look out a little bit further a few years, if you -- given the pressures on the industry, may not be enough. We may have to go -- probably do have to go further. But right now, we're focused on just every day, every quarter, every half managing absolute costs. And we've got good momentum. We're building confidence on it. We're getting better at it. We haven't given up. And for now, $8 billion is sort of the aspiration we have, but I accept we have to go further. But for next half?

Michelle Nicole Jablko
Chief Financial Officer

Yes. I mean, we don't -- so I've said it before, we don't manage the business in a linear way half-on-half because that's -- then you don't make the right decisions for the business. In terms of your math on the tailwind, that's kind of broadly right. We only take restructuring charges when we think we get a real payback in a -- quickly. So it's possibly a bit better than that, actually, but broadly right. There are a couple of things offsetting that. I spoke about compensation outcomes were down this year. I don't know what they'll be next year. And also my guess is we'll have an even higher OpEx-to-CapEx ratio. So for the same investment dollars, as we move to smaller and smaller-type projects, more of it is OpEx, so that might provide some offset. But your math is broadly right.

Shayne Cary Elliott
CEO & Executive Director

Yes. The other thing I would say, that we've also got a bit of momentum. If you notice in some of our FTE numbers, it was actually a reasonable reduction in the latter part of the year. And that's just the way it happened, and there's a timing, which means we haven't actually got our benefit of those in FY '18, but we've -- we're getting those in '19, and that's particularly in the Australia division but also in our technology teams. And it's largely as a result of moving to, what we call, New Ways of Working or the agile. So we've still got those benefits to bank as well.

Michelle Nicole Jablko
Chief Financial Officer

Yes, which why I said the number is probably a bit better than your math.

Shayne Cary Elliott
CEO & Executive Director

And those changes were already paid for, if you will, they're not.

Victor German
Macquarie Research

Second question, somewhat related, on Australia. So -- and both of you highlighted there was a challenging year for Australia. Completely appreciate the fact that you're trying to go into -- in P&I, and that's a decision that you've made that makes sense. However, if I look at, for example, deposit growth, which, presumably, is something that you target, it hasn't really grown. Business SME performance hasn't really been particularly strong either. Just be interested sort of how you reconcile the fact that you are targeting cost quite aggressively to make sure that some of those cost reductions actually not having any impact on the franchise.

Shayne Cary Elliott
CEO & Executive Director

Yes. It's a really good question. And we know from our own bad experience that, that can sometimes happen. So if we pursue costs at all cost, if it becomes the only thing we do, we know we make poor decisions. And part of our challenge is to make sure we get that balanced message to our front line, to our operational centers, our contact centers and businesses. It's about doing the right thing and getting the right costs out. As I said, actually, taking our costs is not that hard. It's taking out the right costs and making sure that you continue to invest in the franchise. Look, it's -- that is difficult. I think just on the SME piece, you're right. I mean, that sector, actually, is in pretty good shape in terms of talking about the economy. We haven't really seen any impact in terms of risk appetite of the banks or any kind of regulatory changes or all the other things that have affected borrowing capacity and retail haven't really affected SME outside. The only -- and we like the sector and we want to grow. It's actually our second priority. The only caution I would say, some of that business is -- in our view, is disguised commercial property. So small businesses legitimately have the reason to borrow against the property. But sometimes, actually, that is the small business, property development and others. So we -- I think you have to be cautious in comparing with our peers exactly what we're doing, and we've been quite cautious around that sector, which is not always easy to identify and to do.

Michelle Nicole Jablko
Chief Financial Officer

Yes. I was just going to add. So on deposits, I think, for us, on deposits, we probably managed -- given we're lending growth wealth, we probably managed margin more than deposits this year. And so that sort of offsets some of the other margin impacts we had. And then to just add to Shayne's point on small -- on business bank. If you go to my slide, which is Slide 30, you can see there's quite significant growth in unsecured lending and consumer asset finance, which was offset by the rest. So it was quite -- what we don't always get -- and I think Shayne spoke about this on the Australia division more broadly, sometimes we go a bit hard too fast on some of our decisions, but we think that they're the right decisions strategically.

Victor German
Macquarie Research

So just -- sorry to push my luck, but appreciate all that. Maybe if you can give us a gross number, excluding commercial property, that would be useful. And I'm just interested in kind of your observation, maybe Fred wants to comment as well, what do you think success in that business looks like in 2019 and 2020? I mean, do we start to see growth? Is it margin management? How do you measure success in the Australian division?

Shayne Cary Elliott
CEO & Executive Director

In the Australia division? Our priority -- it's going to be another kind of, to use the word, messy year for Australia division because we are -- we're remediating the bank. That is a significant priority for us. You've seen the work that we're doing. We got 160 people odd full time. This is just -- this excludes wealth. This is just within the Australia retail business in terms of remediation and customer compensation. And they got work to do, and that's where some of those charges that we've taken. So that is really important piece of work. We have to continue to run the bank well. To your point, we've got -- we've still got millions of customers. We've got a great franchise, a good brand, a good network. We're going to continue to run that well. We've got to rebuild some of our bank in terms of these processes, systems and rebuild for that. And actually, there's also a little bit about reimagining the future, the work that Maile and others are leading about the kind of more different horizon stuff. So it is complex. I think our challenge -- the definition of success will be until we get the remediation, kind of we've broken the back of that and really making progress on that and confident that we don't have any more coming down the track, that'll be number one. Two, have we grown in our chosen segments, owner-occupied, P&I? People don't want to start and run a small business, really small business, not commercial property. Can we show that we are growing better than our peer group in there? And then three, have we made progress in terms of that simplification, and associated with that, better cost outcome? That will be our definition of success. I know it's complicated in terms of -- it'd be nice to say we've got one goal and that'll be the definition, but that's the reality of what we live in. I think what gives us confidence is we've got a good track record of this in New Zealand. And Fred was part of that team. And Fred was there for many of those years. He was part of that simplification process. And some of the people in Fred's team have come out of that business. And so he deeply experienced it in that and confident in what can be done. And we've also got a track record now of exactly the same process within institutional. And, of course, they don't do it on their own within the businesses. That's well supported by our talent teams, our technology teams, our operational teams, et cetera. So we are -- it's not going to be easy, but we're confident that we can adopt those same disciplined approach as to simplifying the bank. So I want to stand here next year and tell you we've decommissioned more systems. We've closed more products. We've invested more heavily in digital and data. And we've grown our customer segments in the right places.

Jill Campbell
Group General Manager of Investor Relations

Andrew?

Andrew Triggs
JP Morgan Chase & Co, Research Division

It's Andrew Triggs from JPMorgan. A couple of questions, please. The first one, just in terms of the risk-adjusted performance in the institutional bank. We saw a 7 basis point lift in PBP, the average ought to be way. Just interested perhaps from Mark if he thought that pace of improvement could be sustained into next half or next year. And the second question, Michelle, you mentioned deposit growth. I just noted that the deposit growth was much weaker in the retail and business and private bank, and institutional deposit growth is actually very strong, and most of that came through markets. Just a sense of the quality of the deposit growth that you thought you could get in the half, please?

Shayne Cary Elliott
CEO & Executive Director

Can I just -- so just one thing sort of related to that, Andrew, is I think it's sort of important, and Michelle mentioned that was -- in terms of the institutional cash management business, which is what's generating those positives, it was the best ever half we've had in terms of revenue. We're winning more and more mandates in terms of regional cash management. So we're really on a roll there. Our balances are the highest they've been. We are absolutely, within that business, in particular, biased to succeed in a rising rate environment. And you're starting to see that happen, and so we feel really good about the deposit piece within institutional. It's a real strength. Did you want to talk about that?

Michelle Nicole Jablko
Chief Financial Officer

Yes. I mean, if I -- do you want Mark to talk first, then I'll about deposit...

Shayne Cary Elliott
CEO & Executive Director

Okay, Mark, why don't you talk about the returns piece, and then...

Mark Whelan
Group Executive of Institutional

We've still got a little bit of work to do. I think, Andrew, part of the process of getting that risk-adjusted returns up is repricing some of the tail book that we've got that still was underperforming in a return sense. We've got somewhere between $12 billion and $15 billion, I think, of assets that still sit there that, in my view, need to improve, either get out of the book or returns back up. So that's a process that we still got underway. So whether that rate of growth that you've been seeing in more recent years continues, I'd say, probably starts to moderate a little bit, but I think there's still further improvement to come.

Michelle Nicole Jablko
Chief Financial Officer

Yes. And then on deposits, well, business bank didn't grow a huge amount. It actually is still a pretty good contributor to deposits. And actually, a lot of our customers are deposit customers as opposed to lending customers, and they have really good quality deposits. When we look at ANZ, they're really strong, so I think we're pretty comfortable from a quality of funding perspective.

Jill Campbell
Group General Manager of Investor Relations

Anthony, did you have your hand up before? No? You decided not to? Brett.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Brett Le Mesurier, Shaw and Partners. A few questions. Firstly, you said your home loans, owner-occupied and P&I, was growing above system, and I noticed broker-originated loans is increasing significantly. The broker flows 55%, you disclosed. So to what extent is your above-system growth due to the increased use of brokers? And what's the increased appeal of the use of brokers?

Shayne Cary Elliott
CEO & Executive Director

Yes. So I don't know that they are necessarily correlated, but the reality is that we have had a high dependency or usage of brokers than some of our peer group. I don't think that's surprising, as we've talked about before. Consumers are increasingly choosing to go to a broker channel, and the reason they're doing that is because the complexity of home loans has actually increased because pricing, because we now have differentiated pricing between investor and owner and interest-only and not. And so it's become much more complicated from that. And we also know that in terms of the tightening of the application process in terms of verification of income and all those other things, the actual processes got a little bit harder for people. And so understandably, people want help. So I don't think it's surprising that more and more people in the market are choosing to go to brokers. Most people think they get a really pretty good service out of a broker, actually, and are pretty happy. And we haven't seen a lot of, across the industry, complaints about it. There are obviously questions asked within the commission about legal obligations, transparency, who should pay fees, and that's all -- that will play its way up. So broker is important to us. It's a great source of new-to-bank customers. When you've got a small -- particularly in metro, when you've got a reasonably small branch network, it's unlikely that people just -- who are not already customers come to ANZ and ask for a home loan. So as a broker channel, it's a really attractive way to get new-to-bank customers. Our choice is we prefer new-to-bank, owner-occupiers. So yes, brokers are playing a role in that. And we communicate pretty strongly through the broker channel that, that is our preference, and we set our pricing and et cetera appropriately for that. I don't think that's going to change.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Secondly, on the institutional business, you had 9% loan growth in 6 months, so 1% decline in risk-weighted assets. Can you give us some details as they managed to achieve effectively 10% reduction in the relationship between risk-weighted assets and loans?

Shayne Cary Elliott
CEO & Executive Director

Well, it's really just about the significantly improved quality of the business. So the businesses that -- RWA that -- customers who were exiting tend to be high-risk weights because they are riskier, and the people we're acquiring that we are putting our capital work tends to be in the lower risk part of the business. But -- and I think that...

Mark Whelan
Group Executive of Institutional

Yes, I think that covers it, but also, because we're concentrating in certain sector -- I don't know where the question came from, sorry.

Shayne Cary Elliott
CEO & Executive Director

Yes, Brett.

Mark Whelan
Group Executive of Institutional

Oh, Brett. Yes, sorry, Brett. And also, in the sectors that we're concentrating growth on at the moment where there's opportunity, some of it's in the financial institutions area where we're seeing good growth, and some of it has been in some of the big resourcing companies where we're seeing also some opportunities. So it is very much at that higher end of the risk grade.

Michelle Nicole Jablko
Chief Financial Officer

And sort of low capital intensity, short dated.

Mark Whelan
Group Executive of Institutional

Yes, mix of the business.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

And while you're up there, the increase in expenses in the APEA geography in your institutional business was quite sensational from the first half to the second half. And I gather from what Michelle was talking about before, it largely comes from the closure of Asia Retail, so the institutional business was stuck with those expenses.

Shayne Cary Elliott
CEO & Executive Director

The software.

Michelle Nicole Jablko
Chief Financial Officer

The software.

Mark Whelan
Group Executive of Institutional

Yes, it's soft -- there's 2 things with that. Yes, there is some stranded cost. We've got about half of the -- there's about $150 million, $160 million...

Shayne Cary Elliott
CEO & Executive Director

$160 million.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Mark Whelan
Group Executive of Institutional

That Michelle gifted me last year, and we got about half of that out. A lot of it is property, some of it is people and technology. And so about half of that, but still more to come. But really, the growth that you've seen is due to the software amortizations that we took in the second half.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

So that's....

Mark Whelan
Group Executive of Institutional

Absolute cost if you strip that way, I should say.

Michelle Nicole Jablko
Chief Financial Officer

That was $220 million.

Mark Whelan
Group Executive of Institutional

That's $220 million.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

It's a large number, yes?

Mark Whelan
Group Executive of Institutional

Yes, it is. And that's why we should've called it out. But also, if you strip that out away, actual cost in Asia is part of that 5-year -- 5-half reduction half-on-half. And I think that will lower half-on-half.

Shayne Cary Elliott
CEO & Executive Director

And the reason it's a big number is when we were sitting here some years ago, we were -- when we were building Asia, we had invested in software, not just a platform but a bunch of software, imagining that we would have this larger, more complex network. Now that we've made these strategic choices, particularly around retail and commercial and a slimmed down institutional and with the sale of a couple of those franchises and closure, that we can no longer sustain the valuation of those things on a sheet. And so that's why we accelerated the amortization.

Michelle Nicole Jablko
Chief Financial Officer

So looking through that, the international costs were down, I think, 4%, from memory. And that includes, as Mark said -- we gave them no benefit for the fact they took on extra costs at the start of the year. So it's probably double that pretty much, excluding that.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

About half of that increase will disappear. So half of the increase was one-off, and so only the other half will recur next year.

Michelle Nicole Jablko
Chief Financial Officer

So the $220 million, yes. That's right. That's right.

Jill Campbell
Group General Manager of Investor Relations

We might go to the phones, please.

Operator

[Operator Instructions] Your first question comes from Andrew Lyons from Goldman Sachs.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Just a question, firstly, around expenses here. Australian expenses from continuing operations ex large items was up 2% in the year but down 4% in the second half. To-date, Institutional has clearly been a big driver of the cost performance at the broader group. I'm just wondering if you'd expect to see that very strong momentum in the cost performance from Australia continue into 2019. And then just a second question, just around the new impaired assets, which are up reasonably in the second half. You put it down to a single name. Just wondering if you can provide any data around the industry that, that's in and just the level of coverage, et cetera.

Michelle Nicole Jablko
Chief Financial Officer

So let me take expenses first. When we were here at the first half, I -- we had costs up in Australia, and I mentioned a large part of that was we accelerated some of our investment into -- so we had invested in digital branches, the ANZ app and some structural work on our lending systems, et cetera. So it was more lumpiness through the year. The Australia division has actually reduced FTE through the course of the year. There was no real benefit in the first half, some benefit in the second and more into next year. So going forward, I'd expect continue to manage costs in the Australia division, probably not the same trajectory as the second half but we keep managing.

Shayne Cary Elliott
CEO & Executive Director

And the reality is we still -- going back to what we talked about, this is still an attractive business and we want to invest in it. And there is -- we do need to continue to invest, particularly when we're waiting for open banking. So we are investing in terms of systems and processes and capabilities there and just in terms of the data opportunities there as well. So it's not -- I don't want people to walk away and say, hey, the Australia story is a cost-out story like perhaps Institutional had been. It's not. It is a much more nuanced, balanced story. We've got -- we do need to get costs out. We need to get the right costs out, but we are also going to be investing in the business.

Michelle Nicole Jablko
Chief Financial Officer

Yes. And there was a question on new impaireds. So there was a -- one specific client where there was a restructure of their loan, and just technically, we had to take that through new impaireds.

Jill Campbell
Group General Manager of Investor Relations

Because it was longer than a year.

Michelle Nicole Jablko
Chief Financial Officer

Because it was longer than a year. There was no provision for it. There wasn't a loss, it was just a restructure.

Jill Campbell
Group General Manager of Investor Relations

And right in the very end of the half, Andrew. We have another question on the phone.

Operator

Your next question comes from Brendan Sproules from Citigroup.

Brendan Sproules
Citigroup Inc, Research Division

Look, I just had a question on your home loan approval process. Obviously, given the comments regarding the use of HEM, particularly from the Royal Commission and also APRA, what are your plans next year to, I guess, reduce the reliance on HEM if that is the plan? And are you planning to move ahead with that? Or you're going to wait and see what the Royal Commission says in its final report? And is that going to be a significant headwind to your ability to grow the mortgage book in FY '19?

Shayne Cary Elliott
CEO & Executive Director

So no, I don't think in and of itself it's a significant headwind because I think it is an industry-wide issue. So I don't know that, that in and of itself will slow ANZ relative to the market. Our responsibility is to verify applicants' financial position. And the way that we do that, obviously, is through asking lots of questions, historically anyway, and then we've used benchmarks as a kind of a check and a balance. And as you know, we use HEM today for a significant number of applications. We have already started -- so we're not waiting for the final report. We have already started to reduce the need to refer to HEM. And the way we do that is by -- we've increased the number of questions and the detail of questions that we ask of those applicants, and we are also requiring more documentary evidence, whether that's bank statements or payslips or whatever that might be. That has made the process a little bit more cumbersome, if you will, for an applicant. They need to be a bit more prepared, and therefore, it slowed it down. But that is -- as I said, that is an industry-wide thing rather than ANZ. The other thing we're doing is investing more in technology that basically will allow us, particularly for ANZ customers. So if you're already a customer of ANZ, we can use tools to go through and actually look at your historical spending and use that as a reference point rather than HEM. So still ask you the questions but now referred to using data to go back and say, hey, that's different than what we've seen in your account, can you explain? So we're doing that. And with the move towards -- progressively moving towards open banking and statement exchanges between the banks, we'll be able to extend that analysis to not only analyze our own customers but others. So throughout all of those investments are being made, a lot of those are already happening, and the usage of HEM at ANZ is already falling at reasonably significant rate. It used to be somewhere in the 70% usage, and it's down in the 50s or something at the moment, and we expect it to go lower.

Michelle Nicole Jablko
Chief Financial Officer

And comprehensive credit reporting will help as well.

Shayne Cary Elliott
CEO & Executive Director

And comprehensive credit reporting will help as well. But I don't know that -- as I said, on a relative -- I mentioned that all banks are doing that, it's the right thing to do. I don't think that will, in and of itself, slow growth for us relative to the market.

Brendan Sproules
Citigroup Inc, Research Division

I just have a second question in the Institutional business. You made a comment that, obviously, loan growth has been a lot faster than risk-weighted asset growth, and you talked about the change in the credit quality there. Looking forward, do we expect that risk-weighted asset growth and revenue growth will continue to be much weaker than asset growth? Or do you think that there's a bit of a timing delay in terms of when those loans are being written?

Shayne Cary Elliott
CEO & Executive Director

I don't -- I do think there's a bit of a timing. Remember, we -- to a business, that's credit. They've had a significant -- and we talked through that, a significant amount of change in a relatively short period of time, significantly smaller balance sheet and less customers. And what you -- even though the balance sheet is smaller, within that, what's on the balance sheet has churned a lot, if that makes sense. So that actually hides even a greater shift. So to some extent, all of that change is now coming through, and you're seeing the trends that you talked about. That won't continue. That is a timing difference. And now we'll be in a more stable relationship between revenue, risk weights and GLA.

Jill Campbell
Group General Manager of Investor Relations

Thanks, Brendan. Anybody else on the phone, please?

Operator

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

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

I couldn't find an outlook statement in the slides. So in the first half, you mentioned Australia and New Zealand and regional economies continue to grow. Are you expecting this to be the same heading in the next 6 to 12 months?

Shayne Cary Elliott
CEO & Executive Director

Well, if you thought about -- so we think the economy is getting -- everywhere we operate at the moment, it is always going to be softer patches, either in certain industries or parts of the countries, et cetera. But in general, economy is sound is fundamentally strong. They're actually really strong in Australia. They're pretty good in New Zealand and most of Asia as well in terms of where we operate. So we don't see any kind of environmental economic factors that cause any immediate concern. I think the issues -- in terms of the outlook, the real challenges are much more difficult to predict. It's more of the market environment around competition, any further changes as a result of the Royal Commission, those kind of things which would have more impact, I think, than how the economy is doing or how the environment is operating.

Michelle Nicole Jablko
Chief Financial Officer

And we do ride at the back of the pack, it's right at the back. We've got our economists' forecasts in terms of global growth, et cetera.

Jill Campbell
Group General Manager of Investor Relations

So if you go right to the back tiers. Okay. I think we still have one more on the phone.

Operator

Your next question comes from Azib Khan from Morgans.

Azib Khan
Morgans Financial Limited, Research Division

Shayne, you mentioned earlier that you're probably going overboard in terms of reducing your appetite for investor home lending. So is that something you look to increase in FY '19? And I suppose, more importantly, what level of demand are you seeing for home loans from investors?

Shayne Cary Elliott
CEO & Executive Director

Yes. Look, so like everything, when we said what we wanted to focus on, we went out to our people and finely said, look, we really want to prioritize owner-occupiers because that's where we'd see long-term value. Understandably, some people, maybe not, but some people interpret that as we have no appetite for investor. And so we were a bit harsh. And so we had to be really cautious about our communications. So what we saw is, investor -- at the same time, the market was turning towards 0 growth, we went even harder. And so we've rectified that already. So it's not about what we are going to -- we've already rectified that balance. We've explained better in terms of our front line but also our processes. It's not that we don't want to do any investor loans. We just want to be really selective about who they're with and on what basis. So I think we've already fixed that, if you will, in terms of being a much more balanced approach to it.

Michelle Nicole Jablko
Chief Financial Officer

But you wouldn't expect a big shift from here.

Shayne Cary Elliott
CEO & Executive Director

No. At the end of the day, we still prefer owner-occupiers, but we accept that many of those owner-occupiers also have an investment property. Well, that's perfectly sensible for us to be providing that, and those are the customers that we will continue to prefer. But I think any large organization like this with millions of customers and thousands of people, getting -- particularly in mass market like the Australia retail, getting these messages right. And I think in the past, we've talked about -- Fred used a language of being hot or cold on deposit pricing or mortgages, et cetera, it is actually a real art to get that balance right, and we don't always get it right. And that's why we've tended to overshoot on things. But we're getting -- I think, today, we're comfortable with our risk settings and our communication and what we want to -- the front line to be focused on.

Jill Campbell
Group General Manager of Investor Relations

Okay. I think at that point, we're all done.

Michelle Nicole Jablko
Chief Financial Officer

I think we've got one.

Jill Campbell
Group General Manager of Investor Relations

Brian's got another question.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Just while we've got Mr. Whelan here, just on Page 64, we've got the Global Markets business, and ostensibly, on Page 65, you run a very low VaR, which I think is quite a mythical thing anyway. But I'd just be intrigued, when we had to go through ANZ, historically, you've had quite substantial profits from this. I'd just be interested, Mark, how did the -- what was the trading result in some of these horrendous days we've seen of late, the trading and the balance sheet position? And is there a scenario where those numbers can actually move negative? Because you can't rule out the fact that we could see pretty tectonic shifts at the moment. Just the interest, so we could talk about that kind of -- what we should be watching for.

Mark Whelan
Group Executive of Institutional

Yes. I think it's a good observation, Brian, because what you've seen in the market is -- while we've talked about there being low volatility, what you have been seeing in the market is this real spiked volatility on certain days, and that's very difficult, as you can imagine, for our trading teams to manage. And so you can be caught 1 day with the position that looks all right and then through a spike, for whatever reason, that might be a Tweet or whatever, in the marketplace, it can cause pretty big disruptions. And a lot of the discussions recently about trade wars, et cetera, is also adding to this. So while volatility has been low in general, you are getting these really big movements, to your point. And so you can't get caught on the wrong side of it. What I'd see is going negative on a year-on-year basis, I find that hard to see, but you would've -- to see in a negative sense in a full year. But there's no doubt that I think trading returns pretty much globally have come down. And I would expect that to probably continue for a little bit longer until you start to see the movements in the economy and some of these volatile new impacts that we're seeing in the marketplace where there's trade wars or Tweets or whatever start to even out. So the way that we're running it is lower VaR. We're not running big risks during this current period. The other thing I'd say in the results that you saw, particularly in the second half, is that FX went up a little bit, and we got some returns in FX half-on-half. But really, commodities, rates, credit were all down. And I think we don't often get that in one period. So we saw that in this half. The way we're trying to do -- build the business, which I've mentioned a couple of times, we still said it's a $2 billion business. It's missed it by about $100 million this year if you add back the bank levy. Partly, that's due to trading in these market environments. But our sales business, we're focusing really heavily on that to try and build that to compensate, but they're never one for one or in line.

Brian D. Johnson
CLSA Limited, Research Division

So, Mark, the $571 million on the balance sheet, which ostensibly is [indiscernible], what happens to that number? Is the bulk -- would this be -- pre-scenarios bulk goes up dramatically and just rise and fall ostensibly?

Mark Whelan
Group Executive of Institutional

It depends. There's a liquidity part to the balance sheet where we're investing in that, and so that'll be relatively steady in the current environment. And then the positioning that we might be taking against that will move around. But again, we're not taking big risk on that at this point in time.

Brian D. Johnson
CLSA Limited, Research Division

And credit spreads?

Mark Whelan
Group Executive of Institutional

Credit spreads with the XVA.

Brian D. Johnson
CLSA Limited, Research Division

Does it drop around a lot?

Mark Whelan
Group Executive of Institutional

Well, it does. You saw that. You saw that with what happened in the first half last year. We had an outstanding period there when the credit spreads went away. And you can actually hedge those. We're actually looking at those at the moment, whether we can do them in indices or whatever it might be or a one-off, actual direct hedges on particular names. So you can actually hedge part of that. We've toyed with that at this point in time, but Brian, we don't think at this point in time it's the right time to enter the market to do that. So you will get some swings around the XVA, in particular.

Jill Campbell
Group General Manager of Investor Relations

Okay. After threatening to finish, I'm now really going to do it. No more questions from the floor? Okay. Thanks, everybody.

Shayne Cary Elliott
CEO & Executive Director

Thank you.

Michelle Nicole Jablko
Chief Financial Officer

Thank you.

Shayne Cary Elliott
CEO & Executive Director
Thank you very much.