Question and Answer

Jill Campbell
Group General Manager of Investor Relations

Thanks, Shane.

Now with the caveat that I know you've been through Q&A a million times, I'll still take you through this procedure anyway. It's slightly different because we're virtual. [Operator Instructions] And if there's anything you don't get a chance to get to, the Investor Relations team, of course -- are, of course, all available through the afternoon.

And so with that, I'm going to hand to Andrew Lyons from Goldman Sachs for the first question, Shayne.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

Just two questions, if I may. Firstly, your market income, down 13% on PCP. It does appear somewhat at odds with what we've seen at some of the trading banks around the world in recent weeks. Can you perhaps just talk to the drivers of this, and importantly, how you're thinking about the franchise into the second half?

And then just secondly, on expenses. You've just delivered first half expenses down 3% on PCP on an underlying basis. But you've said that you'll have 1% to 2% growth in full year expenses this year, which seems to imply sort of around about 8% half-over-half growth in the second half or 6% on PCP.

Just in light of that big step-up in costs, in light of a broader attempt to get the cost base lower, can you just talk in a bit more detail around what's going to drive that tick up in expenses in the second half?

Shayne Cary Elliott
MD, CEO & Executive Director

Yes. Thanks, Andrew. They're both really good questions. And I'll get Mark Whelan to talk about our markets performance. And then I'll ask Shane to talk about expense.

Just quickly on the expenses, though. Shane can talk to it a little bit more detail. But you're right to point out that shift. I think again, what we are signaling here is it's really about the composition. So our BAU run-the-bank costs will continue to be flat to down.

The increase we're talking in the year-on-year is really because of the accelerated investment, and that would -- that really comes down, and I would say there are 3 big buckets of that. One is the BS11 work that we are doing in New Zealand, which -- this is like peak spend time, if you will. And that program, by and large, comes to an end -- it's not finished, but the spend piece will have finished in the second half. It was certainly a big line, that's one.

The second is the ongoing work we're doing around digitization. And so that drives real benefits for us, and we want it. We're actually going to accelerate that in the second half.

And the third is to do with our move -- our cloud program, which, again, is really -- it's a great program, and will drive real benefits. It's actually a critical part of us getting to that $7 billion, but it doesn't -- again, it's really that question of -- it won't all come in a straight line. But Shane can talk about that a little bit more in terms of the math.

But Mark, why don't you give a little bit of insight into the markets business, particularly that second quarter, first quarter and the relativity to global players?

Mark Whelan
Group Executive of Institutional

Yes, look, and thanks for the question, Andrew.

Look, in the first quarter this year, we did see a continuation of what we saw last financial year. There was elevation in volatility. Customer activity was still pretty much there. Spreads were wider. So we had that first quarter looking relatively strong. As we headed -- we went into Christmas and we went into Chinese New Year, there was just a relief in the market. Volatility dropped significantly, customer volumes dropped as a result of that. And a lot of hedging had been done anyway in that first quarter and actually last year. So there was a slowdown in customer activity.

Spreads came down significantly, which affected both our rates business that -- also our credit business and turnover has subsequently dropped there as well. And you saw a lot of government issuance which occurred late last year drop right off, particularly in the second quarter. So that -- what we saw in the second quarter was really volatility dropping significantly. And as a result, customer activity dropping and also, as I said, spread contraction. They were all basically what hit into the second quarter.

With regards to the comparison to our counterparts in the U.S., particularly, a lot of those companies, and we track that pretty closely, have very large equity-related businesses. What you've seen in financial markets globally is what we call a risk on environment. So people in certain asset classes will benefit from that. Equities is the obvious one, as you've seen through a number of the indices. So when that activity increases, we've seen their equity businesses particularly increase. We're not active in that part of the business. We concentrate on fixed income and currency as really our part of the business.

Second point and observation I'd make is that there was a large M&A activity that we saw, particularly starting to grow offshore. We see a big strong -- and that's affected and helped the FIC business, if you like, in the U.S. and in parts of Europe as well. We haven't seen that activity yet. Our pipeline looks really strong in Australia, but we expect that, that will come through in the second half.

Shayne Cary Elliott
MD, CEO & Executive Director

Thanks, Mike. Shane, you want to?

Shane M. Buggle
Acting Chief Financial Officer

Well, thanks for the question, Andrew. And if you ever want a reminder that the CEO used to be the CFO, which is why he answered that question before I did.

Just to reiterate a couple of points. Firstly, we expect BAU costs, what we call BAU costs, to be flat to down each half, and that's what we've seen. And that's what will drive the $7 billion BAU cost base in -- at the exit 2023.

The step-up is all investment-related. We expect to expense around $1.5 billion this half in precisely the things that Shayne talked about: accelerating the completion of BS11, investing in digital and investing in cloud transition. So it's a -- you've got to look at it, whilst the total cost base is up, it's BAU down, investment up, and we always said that would not be linear.

Jill Campbell
Group General Manager of Investor Relations

Okay. Thanks, Andrew.

We'll go to Ed Henning from CLSA, please.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Two for me. Firstly, just on the institutional business. The margin was up 3 basis points. You ran down assets there.

Can you just walk through a little bit more on the outlook around asset growth? Are you going to still run that down, and therefore, that -- what implies that spending going forward, please?

Shayne Cary Elliott
MD, CEO & Executive Director

And what's your second question, Ed? We'll take them.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Yes, yes. Second question is just really around mortgage growth. So you talked about mortgage growth slowing in the second half. Are you anticipating that to grow below system? Because if you look at the last couple of months through the APRA stats, you have been growing below system. And is that just really the processing issues coming through?

Shayne Cary Elliott
MD, CEO & Executive Director

Yes, they're both -- again, they're insightful questions. I think -- so Mark -- both Marks will talk about it. I'll get Mark to talk about it. I'll just give headlines.

Institutional, it is all about customer selection, as you know, and making sure it's the right assets. So I think while it's tempting to look at the gross numbers, I think you really need to get into the detail. And I think, though, Mark will probably is going to talk about the fact, we think that's bottomed, but he can give you a bit more insight into that. It's certainly not us walking away from the business. It's really just being disciplined about customers and those assets that generate the right kind of return.

And then on the home loans, look, again, I'll get Mark Hand to talk about that. He can give a lot more detail. But what we are seeing, we actually see a potential shift in consumer behavior. I mean there has been a massive uplift in just application volume. It's quite extraordinary.

I mean if you look, as you see in the charts here, the number of home loan accounts we acquired in the half was 50% higher than we saw a year ago. I mean that's an extraordinary -- and that's what drives the work as opposed to the FUM growth, which drives the revenue.

And so yes, the work has been extraordinary. I mean we're not the only ones experiencing that. And that does have flow on effects. But that -- so partly, it's about that, but it's also about the fact we have a view that, that growth rate is unlikely to be sustained. And I sort of mentioned a little bit in there about some population does matter here, and we think that will start to be more evident in the latter part of the year.

But Mark, why don't you talk about the institutional lending book?

Mark Whelan
Group Executive of Institutional

Yes. On the lending book. I mean, lending margins, Ed, were up half-on-half, about 13 basis points, which is really strong. And that's as a result of us repricing that book, and obviously, the benefit of some elevated spreads that flowed through post last -- the year last year with COVID. And so really quite strong. We've actively been repricing that where we can, particularly internationally, and we'll continue to look at opportunities for that.

With regards to the volumes, if you look at our credit risk-weighted assets, they're down about $15 billion on the half. Now $5 billion of that is FX-related. So it's really just volatility that we see through that. Far end of that is on derivatives, where we've just benefited from a higher -- a stronger Australian dollar, which dropped the mark-to-market on the derivative book and $5 billion of that is volume.

So the real number there on volumes is about $5 billion. Of that $5 billion, $3 billion of that was actually active management, where we took the opportunity to continue to reshape the book that we wanted. So we've reduced exposures with some customers, and we've actually exited some customers. So that was deliberate decisioning by us.

And then the other $2 billion reduction was really just a combination of some volume reduction, which Shayne mentioned. Customers are repricing -- sorry, refinancing into the debt capital markets, particularly, and there were some methodology changes. So really, the real impact on the overlying book is around $5 billion. But as I said, some of that is just deliberate actions to us managing risk.

Shayne Cary Elliott
MD, CEO & Executive Director

Just add to the sort of your sense of the outlook and the pipeline?

Mark Whelan
Group Executive of Institutional

Yes, on the outlook. Look, with regards to the outlook, I think the pipeline looks really strong. As I said, not necessarily in what I think is just normal CapEx type investment by customers. We think that's still quite slow. But the M&A pipeline is probably the strongest I've seen it in 5 to 6 years.

And so there's a number of transactions that are occurring there. We want to be part of that. It's a core part of our capability around loan syndications, debt capital markets and bigger underwrites. So we're keen to participate in that. Obviously, they need to come through fruition.

On the outlook for margins, I think we still look relatively positive on that. We think that there's still opportunity for us to keep that stable, and we're trying to do that. The front book looks strong against the back book. There will be pressure on it because of liquidity, but we're confident we can continue to manage that as best we can.

Shayne Cary Elliott
MD, CEO & Executive Director

And while Mark Hand takes the stage, I'll just add a little bit of flavor into that as well, Ed. I know you're talking about sort of lending in general. But the other one that's in there is trade. And trade has actually suffered a little bit in volume. As you can imagine, the world's been a less easy place to operate. That also seems to have bottomed and has started to grow again.

Now that's a lower-margin business, and it's quite small. But again, there's really positive signs there about getting some growth back into the -- decent return growth back in the trade.

So Mark Hand on the home loan volumes?

Mark Hand
Group Executive Australia Retail & Commercial Banking

Yes. Just to your question, Ed, about guidance, about where we expect to go next half, I think there's 2 factors, and it's pretty obvious thing to say, but what comes in the door and what goes out the door. And whilst we have seen elevated applications, and as Shayne said, that does create quite a lot of work and it puts pressure on our turnaround times, that is not all translating through to settlements at the moment.

What we're finding is there is a shortage of supply in the market, so customers are getting loans approved, but prices are getting away from some customers. And also, when they turn up to buy, there's just not the stock on the market. So I would expect some correction. I think the prices will drive an increase in supply, which will help us flow through to more settlements.

And the other thing that you'll see from the APRA stats is where our market share sits, you'll see that we have a higher market share in owner-occupied and a lower market share than that in our investor book. And that's not the same for everyone. The investor market has been a little bit subdued. But what that means is because we have a higher share of owner-occupied, we have higher attrition, more P&I lending in that book. Customers have taken liquidity they've injected into their households over the last 12 months and paid down debt, in many cases, switch into fixed rates. A lot of activity in that space, but we have seen higher attrition as a result of us having a larger owner-occupied market share than we do in the investor space.

Shayne Cary Elliott
MD, CEO & Executive Director

And the only thing I would add to that, Mark, I think the good thing about that, Ed, is in a funny way, having that lots of demand for applications makes us, should we say less hungry at the front end. It's an easier position for us to be able to manage margins responsibly, et cetera. So that's partly what led to a really good result in Mark's business, being able to manage margins wisely, while still actually experiencing really good share in terms of growth in volume.

And our FUM for the half was up $6 billion, okay. It slowed in the second quarter. But it was a pretty strong result when you look at it compared to others and certainly compared to our history.

Jill Campbell
Group General Manager of Investor Relations

Thanks, Ed. We'll go to Matt Wilson from Evans & Partners.

Matthew Wilson
Evans & Partners Pty. Ltd., Research Division

So two questions. Just further to Ed's question, the housing market is quite intriguing. Obviously, house prices are up strongly, circa 20%. Home loan applications are up 50%, credit growth, only 4%. And sort of Mark Hand referred to repayments matching or, in some cases, ahead of new sales.

It sort of implies that new loans must be larger given the change in house prices, and yet, the industry says that there's been no change in lending standards. What's missing as you try and square up all those data points?

Well, then secondly, I look at this a bit perhaps. And then just on the margin, great outcome. You seem to be indicating a bottoming in the net interest margin, but debt costs have started to rise when you look at the average balance sheet. You've repriced deposits faster than you've repriced loans. And you now have a peer in Sydney who wants to win back 140 basis points of mortgage market share, and they think low rates are still to bite. So can you just compare and contrast your outlook on the margin versus theirs?

Shayne Cary Elliott
MD, CEO & Executive Director

Sure. I'll get Shane to do the margin. Housing market, again, you're right. It is complex and lots of moving parts there. There has been a change in the shape of the business in terms of flow versus the back book. So the ones there, in no particular order, Matt, and you know these ones, massive shift into fixed rate. I mean, fixed rate used to be sort of 15% of flow, and now, it's 40%. I mean, so people are attracted by that concept in that sense that they're blocking in so many in the bottom. That has implications in terms of our margin and also just switching. I mean a lot of that is not -- a lot of that is just our customers who've already got a relationship with the bank, who've got a standard variable moving to fixed. So there's a lot of that in the book.

Secondly, there's a much higher proportion of first homebuyers. So while first homebuyers are only 8% of the book, they're 17-ish percent of the flow, so that sort of doubled. And so despite talk about unaffordability, which is real, actually, first homebuyers have never been as active or certainly not in many years, and that has implications to the shape of the book. That also has implications in terms of things like LVR. First homebuyers typically stretch themselves a little bit more. So that's why you've seen -- and there's some data in there, you're seeing a little bit more of growth in that above 80% LVR.

Now we haven't changed our lending standards or the way that we assess somebody's capacity to repay or the suitability of a product, but there has been a shift in demand. Now it's not so much on the 90% and above. It's in that 80% to 90%. So there has been a shift in there.

In terms of the average size, actually, I can't find it right now, but I know there's a slide in here, I was looking at it before. Actually, it's not that material. Actually, the data would suggest the flow average mortgage is actually a bit lower than it was. But I think a lot of that has got to do with -- remember in that flow, a lot of it is refi. And so a lot of the refinancing sort of -- can kind of complete some of that data.

So there's lots going on. We just had our risk committee this week actually with the Board, and I can tell you the Board and ourselves, with Kevin and the others, are really intensely focused on the housing market, as we should be, given it's our single largest asset class, and giving some of those issues you referred to as just being things to be really cautious about.

But what we reassured our risk committee is we haven't changed our policy settings or risk appetite. As a result, we have pretty strict rules and policies around things like DTI, so -- et cetera. None of that has changed at this point.

I don't know, Kevin, is there anything you wanted to add? No, he's shaking his head. I think we've covered that. Matt, and happy to take follow-ups. But Shane, do you want to talk about margin?

Shane M. Buggle
Acting Chief Financial Officer

Yes, Matt, thanks. Good question.

Look, as ever, margins have headwinds and tailwinds. It's a mixture of both. I think we managed -- I think we've shown we managed that well in this half. And what I called out in terms of headwinds and tailwinds as we go into second half, we expect the low interest rate environment to continue to be a headwind, albeit a reducing one. And I talked about the [indiscernible], which was 3 basis points this half, as we foreshadowed. We expect that to be around 1 basis point going forward. Competition continues at pace. It's intense. There will be -- there is a move to fixed rate from floating, and that will continue, and that impacts asset margins.

The -- so it's 2 headwinds and tailwinds, we have -- we'll see some benefits from deposit pricing, what we did in the first half continue into the second half, although the opportunities to reprice are probably less. And finally, the -- new wholesale funding will continue to be a benefit in the second half as older tranches of wholesale -- expensive wholesale funding roll off, and we have the opportunity to draw further down on the term funding facility, the RBA's term funding facility. So it's a mixture of those. We're not giving guidance, but just pointing out the mixture of the head and tailwinds.

Shayne Cary Elliott
MD, CEO & Executive Director

And Matt, just to give you some one of my colleagues dinged me today. So first half '21, the -- at origination the average home loan account size as 364,000, 364,000 and a year ago it was 382,000, so the number has dropped. And of course, the other impact, which I forgot to talk about was just the -- and again, you know this, the impact of lower rates. I mean that has had a material impact on affordability or the serviceability of loans.

Matthew Wilson
Evans & Partners Pty. Ltd., Research Division

Can I just follow on given you brought up the average. I imagine that's impacted by loan splitting and it's not an average based on actual customers. So it might be a tad misleading, but anyway. And then you raised the fixed rate loans the level jumping to circa 40%. How do you think about that in 2, 3 years' time when the RBA stops repressing the yield curve, and we're hopefully, in a more normal market environment for interest rates.

Shayne Cary Elliott
MD, CEO & Executive Director

So really -- and I might ask Mark Hand to get ready to answer that one, Mark? Do you want to get up -- it's a good question, Matt. I mean, there has been a tendency in Australia for people to really just focus on standard variable. But as we know, that's been over, I don't know, 30-year cycle of interest rates falling. So it sort of made sense, I guess. And what we've seen is quite -- it is a really significant shift.

Now we should remember when we talk about fixed Shane mentioned in the -- the average tenor of fixed is 1 to 3 years, call it, 2, just on sort of average. So it's not very long. I think it's going to be -- all I can say, it's going to be really interesting to see consumer behavior and how they think about it, hypothetically anyway, in a more normal rate rising market and particularly if the yield curve steepens in any way or changes shape. So It's a good question. I don't think we have an answer, but Mark, you've been in the business for a long time. I don't know if you've got any sort of thoughts about how you think that might roll.

Mark Hand
Group Executive Australia Retail & Commercial Banking

So is that -- Matt, was the question about what happens when rates start to rise?

Shayne Cary Elliott
MD, CEO & Executive Director

Yes. And people's propensity for fixed rate and what happens if fixed rates will roll off, what...

Matthew Wilson
Evans & Partners Pty. Ltd., Research Division

It reminds me of what happened in 2008 with the old adjustable rate mortgage in the U.S. potentially.

Mark Hand
Group Executive Australia Retail & Commercial Banking

Yes. Yes. Mark, Will and I have been talking about this, I think, for 10 years about when rates rise, banking is going to be a really good business to be in, but it just doesn't seem to happen. It's been going the one way ever since we've theorized about that.

Look, I think it's probably speculation because it has been so long since it's happened. And the difference in debt that the average consumer carries is quite different to what it was last time rates were rising. But we see a lot of customers even today as rates are falling, have tried to opt out of existing fixed rate facilities because even with the penalty fee that they might have to pay or the interest that they have to pay on that breakage of that fee, they're willing to wear that to move to a lower rate facility.

I think people will hold on longer. And I think when they start to talk about interest rate rises, we might even see a bigger shift towards fixed rate in the short term. And this has been occurring increasingly over the last 18 months, the shift to fixed rates.

So I suspect there's 2 things. One, the problem is going to be very well spread out over a number of years. It's not all going to come in, in one piece. And I think we could also look to our New Zealand business, which has had fixed rates at a much higher percentage, around 80% for a long period of time. I think we can look to our New Zealand business to see what typically happens when you come out of this environment.

Jill Campbell
Group General Manager of Investor Relations

And we'll go to Brian Johnson from Jefferies, please.

Brian D. Johnson
Jefferies LLC, Research Division

Congratulations on a great result. Just to mirror what Matt, I think, was talking about I would have thought the real problem is that we've got a lot of people that have put on 4-year fixed-rate loans at sub-2%. In fact, it's probably as low as 1.9%. And the maturity of those matches exactly with when the term funding facility sees the banks on refi basically pops through.

So we're going to have a big cohort that are going to face higher interest rates on the borrowing at the same time as the banks actually face refi, that could equal a bit of stress down the path I would have thought.

But my 2 questions. The first 1 is -- and so I just want to reiterate great result. The 12.2% core equity Tier 1, $7 billion above the 10.5%. The problem that we've got is that that's level 2, but we do have a higher requirement coming through in New Zealand. which, by definition, and I know you will easily get to that figure, but that then creates a constraint at the level 1.

On top of that, you wouldn't really want to sit right at 10.5%. You'd want to have a buffer. Could we just get a feeling practically of what the level 2 core equity Tier 1 from a very practical level that you could actually deploy to before you after -- when you're taking into account capital management. So how much of that $7 billion [indiscernible]

Shayne Cary Elliott
MD, CEO & Executive Director

Yes. I understand. Okay. So first of all, thank you. And again, your insight around the 4 years are really a pertinent point, Brian. It's good to point out. I think -- actually, I don't have the number at the top of my head. Our -- so I think your comments about the market are bang on.

I think from our experience, 4-year fix was -- I don't think we did like any volume in that whatsoever. It's an interesting -- I don't think demand was there, but it's an interesting point and we should probably do some more work on that from an industry perspective because I think it's an excellent point. On the CET1...

Brian D. Johnson
Jefferies LLC, Research Division

Shayne, Shayne, Shayne, the reason you guys didn't do much volume is you didn't follow the other muppets in repricing down quite as much.

Shayne Cary Elliott
MD, CEO & Executive Director

Yes, we -- yes. Thank you. Now...

Brian D. Johnson
Jefferies LLC, Research Division

It's a system problem.

Shayne Cary Elliott
MD, CEO & Executive Director

Yes. I agree with you. And it will be interesting to see how that rolls through. And again, even on fix, we -- anyway, it doesn't matter. You know the data. On CET1, so take your points, but in the broader, how do we think about the excess capital we set on the $7 billion it is now. To be really clear, that $7 billion is above 10.5%.

Now we are not going to run the bank through the cycle at 10.5%. I think that would be a bit too aggressive. I -- we've said historically, and I don't think there's any reason to change that is that the right sort of operating level is sort of in the high 10s, so call it, 10.8%. And that -- there's no magic to that number either, but you want a little bit of a buffer. That's how we think about that, Brian.

As we sit today, and as you do your forecast, it's without any significant decisions or changes in our sort of capital management structure, it's hard to imagine how we get to 10.8%. I mean, as I said, you saw in this half, we generated 110 basis points of capital. Our dividend policy is clear. So -- but that's where we see it the 10.8%. So then I don't have the -- how many dollars that equals, but it's a significant amount of the $7 billion still.

In terms of the level 1 gap to level 2, it's only 20 basis points. And your comment about New Zealand, you're right. We're comfortably going to get there. I don't -- and we talked about it in the past. We're not sort of sleep walking into our position in New Zealand. We're actively managing capital in New Zealand. We -- these changes for the RBNZ are happening, okay. They've been pushed out. They're real. They do have consequence. And our team has worked really hard and diligently about reshaping our business in New Zealand as a result.

Now I know there's a desire, I guess, to talk about exciting things like M&A and all that other stuff. But we're just getting on with a diligent job, customer selection, capital allocation, repricing, all that sort of boring stuff. And the team in New Zealand has done a good job. And we're really confident we can meet our requirements in New Zealand and run, continue to run the leading franchise in that market and generate fair and decent returns for the shareholders of ANZ Group. I don't know if you want to add...

Shane M. Buggle
Acting Chief Financial Officer

Maybe I'll just add that the [indiscernible]

Brian D. Johnson
Jefferies LLC, Research Division

So the 11% level 2, is that the real number, including New Zealand, the high capital requirement there. Is that how I interpret that?

Shayne Cary Elliott
MD, CEO & Executive Director

I believe so. Yes. Yes. Yes. I believe so. I will see if any of my team is shaking their head vigorously saying don't say -- and then that's our interpretation.

Shane M. Buggle
Acting Chief Financial Officer

And -- yes. And just to reiterate, Brian, that the -- most of the New Zealand build -- capital build is now done because Frankly, we couldn't get dividends out of there. So we don't have that far to go.

Shayne Cary Elliott
MD, CEO & Executive Director

Yes.

Shane M. Buggle
Acting Chief Financial Officer

And now the focus is on capital efficiency.

Brian D. Johnson
Jefferies LLC, Research Division

[indiscernible] it would be great in the result if we could have had the New Zealand figures in there. Second question. I don't understand why they can't be there, shown to be quotes. I think you should change the timing of the New Zealand Board meeting or whatever, it should be in the pack. Shayne, just the second one is if we have a look at Slide 51, just the housing market share.

Shayne Cary Elliott
MD, CEO & Executive Director

Yes.

Brian D. Johnson
Jefferies LLC, Research Division

Now from a strategic point of view, we've got a kind of constrained revenue environment. So what happens is every bank seems to focus suddenly on costs. But when we have a look at the strategy, we can see that even in this half year, your percentage of your home loan book that's originated through mortgage brokers is going up. We can see this increased flow to commodity product, which is basically the fixed rate. We can see the mainline transaction -- the Worldline transaction, where basically more of your ability to face the customers in the SME space is going to be through this intermediary.

So against the backdrop of that, when we have a look at Slide 51, we hear -- from every bank we hear disciplined pricing. But when I look at your housing market share, and it's a great chart, ANZ versus the system, it's hard not to look at that chart and conclude that when you guys passed on the full rate cut in March, whereas your peers didn't, your market share went up. And then when in November, every other bank cut its fixed rates, your market share went down.

Now when we actually have a look at the market share loss over the last 3 months that ANZ have had in housing. And we -- everyone is pretty openly critical of Westpac at the moment. But 14 basis points of housing market share over 3 months, that's the same kind -- well, Westpac has actually beaten you in terms of market share over the last sort of while. Are we getting to the point where we should be actually quite alarmed in that slippage in market share which you've seen in the last quarter? Or what does that mean [indiscernible]

Shayne Cary Elliott
MD, CEO & Executive Director

So again that's it's an entirely fair question. So just a couple of comments on that. And I think it's important to say we are not suddenly focused on costs. We've been suddenly focused on costs for 5 years now. So I think we've got a track record on that. But I take your point. And the point there is we are not driving our customers to the broker channel. Our customers are choosing broker channel because they feel they get independent sort of advice and counsel and they get some price comparability. So we see it as an important channel.

What's interesting about that is while we saw a spike for very practical reasons in COVID because you couldn't go to a branch, actually, it's sort of more normalized now. And so the brokers is back to that sort of mid-50% sort of origination channel. But again, I think that's about customer choice. I don't think it's about us pushing them in there because we're trying to save cost. That's -- I think that's far from the truth.

I think that your point -- so we see it as a legitimate channel. Our challenge there is what we haven't done a good enough job on and we are investing heavily in is making that broker experience better and more automated and more straight through.

We -- for many years, Brian, as you know better than most, we sort of made a -- we were talking about this yesterday with the Board, we sort of made a virtue of the fact that when a customer came through a broker that we manually assess that. First of all, the broker is not doing the assessment, we're doing the assessment. It was all manual.

In hindsight, and it's easy to say in hindsight, perhaps that was a bit too virtuous. And actually, what we should have done is spent more money trying to automate and streamline that process. And what I mean by that is digitizing the document into the bank order approval, et cetera, and that's what we're doing now. So we can think we can make that a more -- a better channel for broker experience and for customers ultimately.

In terms of your Page 51, again, good observation. I think it's a little bit more than that. I think you're right about the price does matter. And the pass-through, absolutely not going to shy away from that. But another really important thing happened in that period where you see that spike in growth. And that was a huge marketing campaign, which we internally called Firecracker. That was the single biggest marketing campaign we've ever done in our history.

You might remember that was the David Hasselhoff thing, the thing with the Qantas frequent flyer points. That hit the market really well timed partly good luck, partly good management. And the good luck was it hit the market right at that time of lockdown where lots of people were sitting at home, worried about the future and saying, I need to think about how I can optimize my household expenditure. I'm going to look at my home loan. And we were a massive beneficiary of that, and that's what saw that run up.

What we've got is also, which doesn't really come through because these are growth rates, which doesn't come through here, that just absolute volume of work has lifted right throughout that period and remains an elevated period, and that's put pressure on our systems, and we'd front it up to that. And we -- and as fast as we put on more people and Mark's put on literally a couple of hundred -- we put on hundreds of assessors into that manual assessment process. It's never enough because the volume increase has been sustained for much longer than we anticipated.

So we've got some really good investments going on there, both in our own processes and automation and also with the broker. We're going to get that assessment time down. There's already good -- I mentioned there's a pilot underway on that. There's some good signs. But that, to me, gives us the opportunity to manage reasonable volume and margin. So no, I don't think it's a red flag. I don't think it's a concern -- it's always concerning to lose share. I get that. But no, we don't think it is a long-term trend.

I think market conditions are just far more buoyant than any of us could have imagined and it's caught us a little unawares. And we're rapidly doing what we can to build -- I'll give you an example, actually, Brian. We've been responding to a change in customer behavior for quite a period of time, which means we've had less branches today than we've had in the past. And it's interesting to note other banks slowly catching up on that. But we've been at that for a while.

What we've got there, we've got amazingly talented people in our branch network. And what we've been doing is so through COVID, we're able to shift them to help in hardship. And now what we're doing is shifting them into this home loan assessment work. And so we've got a really good cadre of experienced people who know how to get work done, who understand customers and they're already with us. And so we can train them up in terms of assessment much more quickly. And so that's one of the areas we're reasonably excited about to be able to get on top of some of that fulfillment backlog.

Jill Campbell
Group General Manager of Investor Relations

Thanks, Brian. We'll go to Jarrod Martin from Credit Suisse.

Jarrod Martin
Crédit Suisse AG, Research Division

A question for Shayne firstly. So we've got...

Shayne Cary Elliott
MD, CEO & Executive Director

That doesn't help, Jarrod, that doesn't really help. Which Shayne?

Jarrod Martin
Crédit Suisse AG, Research Division

Shayne with the Y.

Shayne Cary Elliott
MD, CEO & Executive Director

All right. Yes. Okay.

Jarrod Martin
Crédit Suisse AG, Research Division

Okay. So we've got 2 cost targets out -- or one cost target of $8 billion for Westpac, yourselves cost ambition. Now I won't get you to comment on Westpac's $8 billion. But what makes you think that $8 billion is the correct number for ANZ? What sort of benchmarking have you done?

And I'm not sure whether the Board has asked you this question, but given that Westpac is now out with the same number, I'm sure that that's something they'd ask the ANZ Group executive. Why is $8 billion the correct number? And the first thing I'd sort of observe is that Westpac is a much larger bank. So shouldn't ANZ's be lower than $8 billion. That's the first question.

The second question is for Mark with a W for clarity. Page 33 of the MD&A. new impaireds increased $402 million in insto, and then the phrase used that every bank analyst hates for a couple of single name exposures. So I just wanted a bit more color on that.

Shayne Cary Elliott
MD, CEO & Executive Director

Yes. I'll get Kevin to actually answer that. So Kevin will come up and get ready to answer that one. Again, both excellent questions. So on the $8 billion. So I'm happy to comment on Westpac, if you like, but it's probably not appropriate. Hey look, actually, I can -- the $8 billion isn't the right number. And I don't think there is any magic about a number being right because the next question would be, well, what happens when you get there? Then what?

So -- and the reason we use the word ambition, we're not trying to weasel out of it here, Jarrod. As I mentioned in my talk -- and you may be cynical on this. Seriously, if Michele and I thought -- Shane and I thought, if we want to get to $8 billion, next, we can do it, it's really not that difficult, right? We can just shut a bunch of things down. We can stop investments. I mean, some of our peers have said they've stopped all these investments. And fine, we could get there not in too difficulty, but it's not the right thing to do, right? Because what our target is, is to build a better bank actually that has more sustainable returns for the long term.

Now we just happen -- so why did I even mention $8 billion in response to a question because I had done the work myself and with the team in finance and with our friends in strategy, a real sort of bottom-up review of what is the -- so one of the things -- and again, I could talk about this a long time, I'll try not to. But one of the interesting aspects of banking as opposed to other industries, there is a lack of correlation between what drives your cost or the work that you do and how you make your money.

Home loans is a great example. Home loan -- the cost of home loans is driven by how many approvals you do, for example, that doesn't necessarily translate into revenue, which is driven by FUM. So we went through what's the work that gets done in the bank, right? So what drives those cost bases? What would best-in-class benchmarking, look in each one of those things. So yes, we did do benchmarking. We looked at, I don't know, a bank of our scale. What's the -- what are other companies doing in terms of their cost of finance, or the cost of processing, et cetera.

So we did do all that benchmarking, and we added that up. And then we did our own sort of view of just -- there's always limitations for that because it's hard to find people that look exactly like you and there's always reasons why they're not appropriate. And then we did our own just bottom's up thinking through the bank we want to be and the work you want to do, how much would it cost? How many branches would you need for that? How many people would you need in a call center. What's the right coverage model in institutional, how many people would you need and talent, all that sort of stuff.

So it's quite -- it was actually a lot of work, and we attacked it from multiple angles, with some outside help but mostly internally. And every time we came around, it sort of centered on that about $8 billion-ish kind of number.

Now the big unknown in that $8 billion, to be honest, and we've talked a little bit more about it here today was what's your investment capacity in that yes? And so -- because I think $8 billion is not difficult. It's the question about, yes, but how much do you want to retain the capacity to invest for the long term. And that's why today, we've talked about the sort of $7 billion run the bank and have that OpEx -- the ability to spend $1.4 billion and OpEx spend is $1 billion to invest. So that's why we've done it.

But as I said, there is no magic to $8 billion. What the magic is, is actually getting a business and a bank and a business operating model that works that actually generates good outcomes for customers where you're winning where you need to be winning, that you can service them appropriately, that you can -- we talked a little bit in here about resilience. I mean, we don't want to weaken the bank in the process. We want to strengthen the bank in the process. So operating -- less operating risk, all those other things.

So no magic in $8 billion. The magic is in being a better bank. We are highly confident that $8 billion is achievable without doing anything silly, like being sensible. That's why we have resisted hard targets because history says that companies will do almost anything to hit those hard targets. And at the end of the day, I think shareholders pay a long-term price for that. That's my view on the $8 billion. But Kevin, do you want to talk about the single-name question on the impaired.

Kevin Paul Corbally
Group Chief Risk Officer

Sure. Yes, Jarrod, in relation to the impaired, so basically, it's attributable to 2 customers. Their positions were known to us and have been for some time. We've been working through them. The first one was a customer where we effectively restructured the facilities for them. And APRA requires us essentially where we restructure those facilities without the need for any provision on them to treat them in this way. So that's until certain conditions are met. That's the first one.

The second one effectively is a facility where we had recognized this in previous years. We had carried a collective provision against the NIM. Essentially, what we've done is we've now impaired the asset. And have the collective provision that we had previously carried against that NIM essentially netted out against the individual provision charge we took. So there was little impact on the credit impairment charge for the year.

Shayne Cary Elliott
MD, CEO & Executive Director

Is that clear, Jarrod? Yes. Thanks.

Jill Campbell
Group General Manager of Investor Relations

Next we'll go to Victor German from Macquarie.

Victor German
Macquarie Research

I was hoping to follow up on the capital question and also have a question on replicating portfolio as well. So with respect to capital -- I'm in China. I'd just be interested in your thoughts on this because we've kind of talked -- we've heard banks talk about having surplus capital for a long period of time.

And in fairness, over the last 3 years, bank capital positions have increased significantly across the entire sector. Yet APRA still talks about whenever they talk about capital, they have a statement there saying, APRA is not seeking to further increase capital from current levels. I'd just be interested in your observations of kind of where is the disconnect? Why kind of banks are thinking they have plenty of surplus of capital, and APRA doesn't necessarily view -- or at least publicly do not acknowledge that. And kind of leading that into a sustainable payout ratio as well. You've paid out 67%.

Obviously, there's lots of notable items in there, but also your BDD charge is very low. Just be interested kind of as we progress from here, where do you feel your sustainable payout ratio is. And on the replicated portfolio, a very simple question. I've noticed in your chart, you showed 5-year rate there. Should we be interpreting that as you're now investing in your liquid earnings totally on a 5-year basis, and that's why the drag is much smaller.

Shayne Cary Elliott
MD, CEO & Executive Director

Okay. Thank you. All good things to get into. So I'll get my colleague, Shane, to talk about replicating portfolio in a minute. So in terms of capital, I think it's really important -- and again, you probably expect me to say this, it's really important how you got to have surplus capital. I mean the easy way is just to go and take it from your shareholders.

We got there the old-fashioned way by generating it, a little bit by selling some things, but generally by organic way. So I think that's an important thing to note when we say, oh, everybody's got surplus capital. So we got in a good way for shareholders in a prudent and good stewardship of their funds. So that's important.

Two, in terms of APRA's comments, the way that I read that, Victor, I'd be happy to go and look at their comments and send them to you. I think what they're really saying is no that unquestionably strong -- at an unquestionably strong level at the 10.5% that is sufficient capital for the system. They're not suggesting that the amount of the capital in the banks today is required to go forward. They're really saying, hey, there's no reason to recalibrate the 10.5%. And when they make changes to risk weightings and calculations within various portfolios, net-net, they would see that to be an industry wash if you will.

Yes, it might mean for some will be slightly worse off and have to hold more and some might get a benefit. But an industry that 10.5% has remained sufficient. That's the way that we interpret that and that there is still a -- that there is still, therefore, some surplus. Now the problem with that surplus is I'm putting words in their mouth, that needs to be stress-tested surplus, i.e. it's all very well to say we've got surplus as an industry today. The question is, on a stressed basis, would you still be able to maintain above 10.5%.

And I think from where we sit, we'd be very highly confident that even on that debt definition, we sit on surplus. And that's why we made some references to having the flexibility for the Board to consider capital management and returning some of that to shareholders.

Why are we a bit hesitant on that at that point, because there's still a lot we don't know. And from where we -- we've still got the budget next week. And while there's positive sign, we still don't know, and that will have an impact. And secondly, I think really importantly, the impacts of the removal of things like JobKeeper have actually yet to flow through into our data. And if you're a small business that was only surviving because of JobKeeper, that only finished literally, what is it, a few weeks ago.

We're not going to really know how that is for you until probably into June when that will start to know. So I think there's a little bit more time, a little bit more water to go under the bridge. And as I said in response to one of the other questions, we think the operating rate is still -- is sort of 10.8%, yes. And our payout ratio, whichever way we look at it through the cycle, 60% to 65% ex LNI makes sense for us. Why? Because when you look at the model, that allows us to grow our risk-weighted assets at about 3% to 4% per annum through a cycle, which is pretty decent from what we see.

To be able to grow so you have enough capital to grow to generate organic profits and return that 60% to 65% makes sense and it all sort of works and still be aligned to our franking credit position in there. So I mean, as you can imagine, we went back and -- because that was our previous payout ratio, we haven't changed it. We haven't seen the need. We went and basically road tested that to say, is it still appropriate? And obviously, we go through our own planning and we've come to the conclusion, that it is.

And now to your point about we're a little bit above it today, it kind of depends, right? And if you look with LNI or not, on one hand, you could say we're a bit below. We're in the sort of mid-50s payout today. You're quite right, there another way to say we're in the mid- to high 60s, call it somewhere in the middle. We're sort of -- we're in the mix.

And I think the important thing about LNI issues, particularly in this half, a lot of them were not capital impactful. So we think we're back on track more or less in that 60 to 65, and we're conscious about it being sustainable and no need to shift our ratio. So Shane, do you want to talk about the replicating pool.

Shane M. Buggle
Acting Chief Financial Officer

Yes. Yes. Thanks, Victor. Good question. We called out a 3 basis point impact for one half '21, and that's where we came in. We indicated that the impact would be more like 1 basis point in the second half, and that's for a couple of reasons. Firstly, the impact of the older tranche is rolling off relative to the current investment yields. And yes, that's the 5-year rolling is reducing.

And secondly, whereas we built up deposits last year, with rates being so low, we kept those -- some of those incentive deposits at the short end. With rates increasing, we've now pushed those out to the longer end. So we get a delta half-on-half. And that's -- it's the -- both of those together makes us think it would be about 1 basis point headwind in the second half.

Victor German
Macquarie Research

Sorry, can I just confirm? In the past, it was 3 years, wasn't it? So you're [indiscernible] investing into 5? Is that how I should think about it?

Shane M. Buggle
Acting Chief Financial Officer

3 to 5 years. Yes. The tenor of the portfolio is 3 to 5 years. With the rates where they are, we've moved out a little bit more than 5 year at the moment.

Jill Campbell
Group General Manager of Investor Relations

We'll go to Brett Le Mesurier from Velocity Trade.

Brett Le Mesurier
Velocity Trade Capital Ltd., Research Division

Shayne, number one, you talked about achieving sustainable returns. What do you consider to be the sustainable return of ANZ?

Shayne Cary Elliott
MD, CEO & Executive Director

Wow, that's a big question, Brett. I'm not going to put a number on it because, again, I don't want to be sitting here every half explaining how I'm going against my new target that I've committed to. Look, sustainable -- the way that we think about it, Brett -- the reason I -- and also I think -- in all seriousness, it's all to do with your cost of capital as well, right?

And so we've probably been more vocal on that and not everybody likes it, but we do think about that. And our cost of capital has come down over a period of time. So I really think it's about how do we have a business that sustainably generates a decent return above our cost of capital.

Now as you know, and you can argue about what the right margin is, our cost of capital in the half, and we moved it to 8.5%. We -- I think a sustainable return means in that environment, would be sustained in double digit, yes. So I think there needs to be a reasonable margin above that. But we need to be able to show that we can run a business that is attractive to customers, generates fair and decent returns above our cost of capital with a margin. So not at 8.51%, but as I said, over -- through the cycle. But I don't think we can -- I don't think it's wise to have a -- just pick any number for the sake of it.

Brett Le Mesurier
Velocity Trade Capital Ltd., Research Division

Sure. And when you set your 60% to 65% dividend payout ratio based on 3% to 4% risk-weighted asset growth, do you think that implies a sustainable return?

Shayne Cary Elliott
MD, CEO & Executive Director

Yes. So -- and now again, you quite rightly will ask well it depends on which risk-weighted asset growth you get. But when we do our planning, we think about our business about the 3 businesses that we have, Institutional, New Zealand and Australia and based on slightly differentiated -- they've certainly got different returns profiles today and going forward, and they clearly have different growth rates, so it will depend on the mix.

But yes, we model all that out, through different scenarios and say, yes, 3% to 4% RWA growth, depending where it comes from. If we apply the discipline we do today, in terms of our pricing models and our customer selection, yes, that will generate the sort of returns that are, we think, a fair margin above our cost of equity. And that 60% to 65%, then that's why there's a range there to give you some flex depending on any particular year of what's going a little bit better than others.

Jill Campbell
Group General Manager of Investor Relations

We'll go to Andrew Triggs from JPMorgan.

Andrew Triggs
JPMorgan Chase & Co, Research Division

A couple of questions, please. One to follow up on the cost ambition. And two, just on sort of the likelihood of some form of macro grow later in the year. Firstly, on the cost side of things, obviously, still an ambition rather than a target. Can I just ask to the extent to what this is embedded in scorecards for the management team? i.e., how do you ensure that there's enough priority on taking costs out in what is obviously a difficult revenue growth environment looking further ahead?

And then just the second question, do you think there's a significant risk of macro prudential rules in Australia? And if so, what form do you think that would take given the challenges here are very different to what we've seen in New Zealand.

Shayne Cary Elliott
MD, CEO & Executive Director

Yes. Okay. Andrew, again, a really good question. So on the cost one, look, I don't want to hide behind semantics here. That is our plan. Our 3-year financial plan has our cost going to that exit rate of $8 billion. So it's not like, oh, we've got a plan that we run the bank on them. But I come out here and say, wouldn't it be nice if costs were $8 billion as an ambition. So maybe it's not the right word. What I'm trying to signal here -- so it's in people's scorecards. It's my scorecard, it's in our team scorecard. But what I'm trying to signal here is we are not going to hit $8 billion at any cost, right?

We're not going to do it by missing out on opportunity or by under-investing in regulatory and compliance work, right? Or by not investing in the right technology for the longer term. So that's the subtlety we're trying to get across. And again, maybe I'm scarred by it, I just feel if I came out and said, it is a hardwire target, the nature of large organizations is to deliver it at any cost. And I think that we would live to regret that.

So -- and if I have to stand here in front of you at some point in the future and explain why $8 billion is no longer the right number, I'll do it. But I need to be held accountable to explain why that's no longer the case. But as I sit here today, I have no reason to believe that we can't achieve it and that it would be the right thing to do for our customers and for our -- to meet our obligations. So that's sort of the subtle difference.

So I think it's very subtle. It's in our scorecard. I'm accountable, My team's accountable. That 150 initiatives with every dollar and all that stuff that adds up to the 600, it's all in their scorecards and that's the stuff that we monitor literally every week. We have a system, we go through and do all that. So don't for a minute think that I'm softening or walking away from it.

Macro prudential, look, it's a big question, right? I think -- so our own economics team believe that there is possibility and likelihood that there might be some macro prudential limits put in place towards the end of the year. My personal -- and look, we don't know. So we're here to catch it. My personal view is I agree with you. And I think the situation in New Zealand is considerably different in terms of housing and the impact on the community there.

So I don't think it's analogous. And I also think that the last time -- and you all know this, and you know it, Andrew, the last time we had macro prudential in this country wasn't that long ago, but it was actually designed around a prudential system issue. It was around -- that was the first priority, the prudential soundness of the system and whether the massive uplift we saw in investor and interest-only was sort of sustainable and in the long-term interests of the system.

I don't see that same driver today. When I hear people talking about macro prudential potential, it's generally through more of a political, and I understand social lens of affordability.

The way I read it, that is not in the remit of APRA in terms of their sort of statutory obligations. It doesn't mean it won't happen. And the only other comment I'd make. So I'm not -- you'll have a view, the only other comment I would make, I reckon that macro prudential stuff that happened last time was actually good for us. I think it was actually the right thing to do, and I think it actually helped the system.

And actually, if I think about it today and said I think it was a good outcome. I think the macro prudential stuff that's happening in New Zealand is actually a good thing for ANZ. And I understand it, it's not perfect, and it has unintended consequence. I would say it's been a good thing for us, and you would have seen in New Zealand, we actually sort of front ran that in terms of lowering the LVR on investor. We got ahead of that and didn't wait to be told. So I don't think it's necessarily a negative for the system or the sustainability of our business.

Shane M. Buggle
Acting Chief Financial Officer

The only thing I would add, Andrew, to what Shayne said is we do have targets. Everyone has got a target. And we have separate targets for BAU course and for investment. And we think about them quite differently.

Shayne Cary Elliott
MD, CEO & Executive Director

A good point. It's the BAU point that we really have the targets on. The investment -- as I said, we haven't committed investment out to 3 years. So it's kind of...

Shane M. Buggle
Acting Chief Financial Officer

It's available for growth.

Shayne Cary Elliott
MD, CEO & Executive Director

Yes. Good point.

Jill Campbell
Group General Manager of Investor Relations

We'll go to Matt Ingram from Bloomberg Intelligence.

Matt Ingram

Sorry to bang on again about the dividend question. I just wanted to clarify, so we've obviously got a 60% to 65% base level, which obviously meets APRA's sustainable kind of comment. But in order to get to the lower level, the 10.8%, clearly, we're going to need to see a one-off event. Is that kind of what you're implying by saying that the Board will review that sort of that capital management.

And the second question's regarding the Investa housing loans. The APRA data suggests that, that ticked up for you in the March half year. Was that a demand factor? Was that a change in your focus? If you could please talk about that, that would be great.

Shayne Cary Elliott
MD, CEO & Executive Director

So I'll take them in reverse order. It wasn't really a change in focus. It was a demand issue. I mean our focus has been pretty consistent. We want to grow the business. We want to do it responsibly. We haven't changed our lending standards. We have changed no policies around risk appetite. We do have a skew to prefer owner-occupiers, but it's not exclusively So we just sort of -- we've been open for business through that period of time. And it's just really responding to the demand characteristics that we talked about previously. So no, it wasn't -- there's not been a shift from our perspective overall. And that -- and by the way, that appetite remains today. Yes.

In terms of capital management, again, good question. What we -- you're right, the math is simple in a sense. It says, well, hang on, Shayne, if you're sitting at 12.5% and you're saying at some point, 10.8%, our dividend payout ratio of 60%, 65% isn't going to get you there, right, unless you've got some massive capital consumption growth coming into your business, which we're not signaling that.

So you're right, what we're signaling. I don't know that I'd be -- with all due respect, I don't know that it's quite as simple as you put it about this one-off event. But clearly, the only part to get to 10.8%, putting aside sort of almost unimaginable growth in our balance sheet would be some sort of capital management activity. And as you know, they -- there is a range of options there, whether that's I don't know, special dividends, buybacks, all that sort of stuff. We've made our views on those things in the past, I think, reasonably clear.

And I think our record speaks for itself without giving our franking balance given what we are historically, it's not an indication of the future, but historically, we've chosen a path to return surplus capital using our market buybacks and reduce our share count. And what we're saying in this result is it's good to have choice and it's good to have the flexibility to be able to even consider those things.

Jill Campbell
Group General Manager of Investor Relations

We'll go to Brendan Sproules from Citi.

Brendan Sproules
Citigroup Inc., Research Division

My question is just related to Slide 25. You show here the impact of credit portfolio risk migration. And you're suggesting that there's a potential 15% impact in the second half of '21. I was wondering if you could expand on that and whether it's a reversal of what you saw in the first half or whether it's related to some other parts of your loan book.

And then my second question is just on the collective provision balance. Obviously, you've had a large write-down in this period. Your loan book is obviously smaller than it was pre-COVID and your average credit risk weight to EAD is lower. Should we expect that over time, once the Australian economy improves, that it should be down below what it was pre-COVID?

Shayne Cary Elliott
MD, CEO & Executive Director

I'm going to ask Shane to comment on to Page 25, the 15 basis points top right. Yes.

Shane M. Buggle
Acting Chief Financial Officer

Yes. Yes. So look, great question, Brendan. So what we're expecting to see there is our institutional investors, which we did 90% of them, we regraded them whilst COVID was underway. They're coming through much better, so we expect those improved risk ratings to come through in CRWA. That's what we're seeing.

Brendan Sproules
Citigroup Inc., Research Division

Yes. And the second question?

Shayne Cary Elliott
MD, CEO & Executive Director

I think the high-level answer to that is that we've done a lot of hard work. So just -- if we can just park COVID just for a second. We've done a lot of hard work over 5 years to derisk our portfolio and to really focus on risk-adjusted returns. Now most prominently that people tend to think about Institutional, and that an Institutional have done an extraordinarily good job in that. But it's broader than that. It's the same. It's that derisking that led a lot of our decisions about disposals and about capital allocation and about even customer selection within things like Australia retail. Yes?

Shane M. Buggle
Acting Chief Financial Officer

I'll come back -- I'll take that [indiscernible] question.

Shayne Cary Elliott
MD, CEO & Executive Director

So that derisking is coming through here and what we're really pleased about -- so that's a longer-term trend. What we're really pleased about is that, that really held up well through a period of stress. And we look at all the things we missed. I mean so it's easy to sit here and say, well, things have worked out really well for the economy. Well, yes and no. I mean there were failures. And again, we run a global business, not just unit.

There have been companies fall over. There have been failures. There have been companies that have got themselves into bother. And our customer selection has put us in really good standing to avoid a lot of that. When you say the economy recovering, I mean the reality is the economy is -- I mean Australia is in really good shape from where we sit today and certainly based on the data and our customers are in really good shape.

I mean they still don't have a lot of debt. I'm talking about businesses. They're sitting on a lot of cash. And that's what's really driving the sort of regrading towards the positive and that positive risk migration, which has been a good thing.

Hey, some of them -- Mark mentioned it before, some of them will lever up a bit, take opportunities as they see it, maybe in terms of M&A activity. I don't sit here today overly concerned about that. I think they have the capacity to do that without it really impacting our risk rating as a bank. But did you want to add?

Shane M. Buggle
Acting Chief Financial Officer

Yes. Yes. Look, I actually want to clarify -- ask and -- answering a slightly different question. The answer to it is in the 15 basis points, look, what we've seen in -- through the deferral packages, through the government stimulus is we've seen customers really tidy up their own balance sheets. We've seen buildup in offsets accounts. We've seen customers with deposits and many months of ability to pay the mortgages. We've seen lower credit card usage. So all that's led to a customer risk weight migration in the first half.

With the removal of the packages, with the removal of deferrals, with the removal of the stimulus, we expect -- as I said earlier, We expect delinquencies to come back to more normal levels. And so what we're seeing in the second half or what we expect in the second half is a little bit of the reverse of what we saw in the first half. The Institutional reversal gains, I was talking about are probably a little bit further out than us.

Shayne Cary Elliott
MD, CEO & Executive Director

Yes. And the 15 points there, Brendan, we think is more predominantly going to come from actually our retail rebound in the second half in particular, and so it will be a bit further down.

Jill Campbell
Group General Manager of Investor Relations

The lucky last, Richard Wiles, Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

I've got a couple of questions. I've got a couple of questions, Shayne. The first one relates to margins and the second one relates to capital So on the margins on Slide 18, you highlight an asset repricing benefit of plus 2 basis points. It includes a drag from retail and commercial of only 1 basis point. Given the competition we've seen in the mortgage market and given some of the disclosures from other banks on the impact of mortgage competition, could you explain why that retail and commercial drag is only 1 basis point? How much is the mortgages? Is there something else offsetting it in the business bank?

Shayne Cary Elliott
MD, CEO & Executive Director

Yes, we can answer that. And the next question?

Richard E. Wiles
Morgan Stanley, Research Division

And then the second question just relates to capital. You've said the -- you've said 10.8% is a rough indication of where you might be able to run the CET1 ratio once the environment is a little bit clearer. Is that on a pre- or post-dividend basis? Because your $2 billion dividend today is about 50 basis points. So if you were looking at a pre-dividend common equity Tier 1 ratio of about 10.8%, that would take your ratio below 10.5% on a post-dividend basis. Is that something you'd be prepared to do?

Shayne Cary Elliott
MD, CEO & Executive Director

Yes, I'll answer that question, and I'll -- Shane can talk about the math. Yes. So it's -- again, it is a good question. And so the 10.8%, the way we think about that is a through-the-cycle sort of number, right? I don't think it's helpful for us to say -- because as you know, the sad reality of dividends is we just happen to pay them twice a year in really bigger lumps. I don't know that, that suggests -- today, we sit at, I don't know, 11% and tomorrow, we sit at 10.5%. Suddenly we're a riskier bank. I mean maybe technically, that's true.

So anyway, short answer to your question is we would be prepared for timing reasons like that. to dip below. And let's not forget that there's still -- as you know, there's really strong organic capital -- I mean we're generating capital every day. And so yes, we would be prepared to dip below the 10.8% if it was due -- for those sort of timing reasons.

And because, again, Richard, part of the reason for having that buffer is exactly for that. And I think -- and to be really fair to APRA, and -- it's interesting, it wasn't a year ago, we were being encouraged by the regulators to use the buffers and go below the 10.5% and being potentially criticized if we didn't contemplate that. So I think they've shown a maturity about it. And they do not expect us to be at 10.51% every day of the week, every week of the year. So yes, we would tolerate dipping below it for short periods of time if it was to do with timing like that.

Richard E. Wiles
Morgan Stanley, Research Division

But Shayne, they -- yes, they said you could use the buffers, but they also effectively required you to defer or cancel the dividend. It was a pretty extreme scenario. I would have thought you'd want to operate with very little risk of having to reduce or cancel the dividend.

Shayne Cary Elliott
MD, CEO & Executive Director

Oh, sure.

Richard E. Wiles

Morgan Stanley, Research Division

So if you're at 10.8%, you pay a dividend, you go to 10.3%. And then let's say you have a couple of single name exposures or you have an event that causes your institutional corporates to draw down on their debt. You could be in a position where you're at 10.5% or even below at the end of the next half and then you're in a position where you can't pay a dividend. How is that running with enough of a buffer?

Shayne Cary Elliott
MD, CEO & Executive Director

Yes, fair enough. Maybe I misunderstood your question. That's a totally fair question. That's not what I am suggesting. So what I'm suggesting is that when we do -- running at 10.8% means that when we do our forecast. So for example, this week, when we sit down with our Board and we talk about our capital plan and our ICAP and all that other stuff, we have to assume, and I mentioned about in a stressed scenario.

It's not just 10.8%, hey, I'm at 10.8%, I've hit my number. It is forward-looking and sort of on a stressed basis to say, hey, we're highly confident, and it's not going to be perfect, but we're highly confident in the normal course of business, with some level of stress, that we will be at -- continue to be able to operate at 10.8% or above. So it's not -- I take your point, and I'm not suggesting that we are aiming that sort of perfect on a day sitting at 10.8% because I accept all the risks that you point out.

I understand what you're saying. That's not -- that's -- and maybe I'm not making myself clear. It's more of an operating plan over the future to say we aim at 10.8%, there'll be ups and downs and things like that, and we stress it to make sure that we can comfortably do that. Because clearly, you're absolutely right. The last thing we want to do, and I think ANZ has some credibility in this, is dilute shareholders or cancel dividends unnecessarily. We understand -- and that's why we've talked about that sustainable payout ratio is really sort of important. Yes.

Shane M. Buggle
Acting Chief Financial Officer

Richard, thanks for the question on the asset pricing. The front book, back book is 1 basis point, as we've pointed out there. It's lower than usual this half due to the fixed focus, the flows into fixed rate lending. And the fixed rate impact sits in the asset mix.

Shayne Cary Elliott
MD, CEO & Executive Director

Yes. The only other thing I'd add, Richard, I think the 10.8% question, it's interesting, and I'm not -- please, I'm not diminishing your question. At this point, it's sort of highly theoretical. I mean we're sitting at 12.5%. But I -- so at the moment, the prospects of us through the normal course of business being anywhere near that seem quite remote. We sort of have an embarrassment of riches, if you will, in terms of the excess capital.

Richard E. Wiles
Morgan Stanley, Research Division

We're trying to work out how big a buyback [indiscernible]

Shayne Cary Elliott
MD, CEO & Executive Director

I figured that out for myself.

Richard E. Wiles
Morgan Stanley, Research Division

And how far the share count will come down.

Shayne Cary Elliott
MD, CEO & Executive Director

Okay. No, no, I figured that one. No, I understand, Richard.

Jill Campbell
Group General Manager of Investor Relations

As cunning as that question is. And so I'll hand back to you, Shayne.

Shayne Cary Elliott
MD, CEO & Executive Director

Yes. Look, thank you very much for the questions and the opportunity to talk to you today. This has been an extraordinary period of time. I just want to reiterate a couple of key points. We're 5 years into my time as CEO and the strategy that we have. We are getting better. We are not perfect, but we are getting stronger as an organization. I don't just mean that in terms of capital. I mean that in terms of our ability to execute and get things done.

We've simplified the bank a lot, but it is still a complicated place, and it is there's a complexity that is natural in such a business, and it comes from a lot of the questions that you asked today, and you guys all know that. We're feeling really good about the strength of our balance sheet. And I don't just mean capital. I mean the quality of our assets, the quality of the business we have. We're feeling good about the -- our management team is a really strong one, and we've got really diverse skills, and we have been together now for a period of time. And we're just feeling we're getting -- every day, we just get a little bit better in terms of that execution focus.

And I would -- I made a comment in my speech. I think it's really important. That is really flowing down into our organization in terms of that execution focus about getting things done and the accountability that comes with it because that's not always been our strength.

And then finally, operationally, we've also -- because of simplification, we just have less things to do, so we can orient our efforts to those things and get them better. We had some issues in home loan processing. We're not alone in that. That's no excuse. And we are diverting resources as best we can to improve that and enhance it. We operate a regional business. We're really mindful of the stress that some of our colleagues are under, and I mentioned some of the countries, particularly India, it's really tragic what is happening there.

We're doing everything we can to support those people in those markets. And I'm confident we're going to continue to do the right thing by them. But I'm also -- and while that's tragic and front and center in our minds, we're also, frankly, sort of have mixed emotions -- we're excited about the opportunity we've got ourselves into here in terms of that strength that we can deploy for the benefit of shareholders and for our customers over the coming years. So a difficult time.
Thank you for your questions, and we look forward to talking to you over the coming weeks. Thanks.