Question and Answer

Operator

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

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

Just 2 questions if I may. Just firstly, you've had a good underlying cost performance, seems like underlying costs over the year. Can you maybe talk about the opportunity on costs looking forward in a bit more detail? Today, Michelle, you spoke to absolute cost reductions. But previously, you have spoken to a stretched cost base of $8 billion. And so I was wondering if you could provide a bit of an update on this particularly in relation to timing and what areas of the business will be the focus of the absolute cost reduction.

And then just a second question around dividends. Average dividend restrictions are expected to come off at the end of the year. Can you perhaps talk to how the Board is thinking about the payout ratio going forward? Your returns would appear to support a payout ratio sort of in the low 60% range, maybe in the mid to high 60%, including DRP. So just keen to sort of understand how the Board is thinking about the trajectory of the dividend payout ratio going forward.

Shayne Cary Elliott
CEO & Executive Director

Yes. Thanks, Andrew. I'll take the first one, and I'll ask Michelle to comment on the second. And they're both really good questions.

So let's just talk about costs. So a couple of years ago, I talked about the fact that we felt that it was really incumbent upon us to drive much greater simplification, more automation, more digitization, simplify the bank. And then as a result of that, that would mean that we should be able to run the bank at that sort of $8 billion number. We haven't shied away from that at all. And I still firmly and we still firmly believe, a, that's a requirement, we're going to have to do that; and b, that that's achievable.

I just want to break down the cost number. So if you look at our numbers today through the large notables, there's $8.6 billion. But importantly, there's 2 parts of that. There's the run-the-bank costs, $7.4 billion, and then there's the sort of investment spend. Now I'm not for a minute suggesting that all of that investment spend is discretionary because clearly, it isn't. Some of it -- as I mentioned, some of it's good old-fashioned maintenance, which you have to do every year. Some of it's compliance-related, which you have to do in an ongoing basis.

But as a rule of thumb and -- you'd say, of that investment spend, which in OpEx terms added $1.2 billion to our cost this year, about 3/4 of it, it would be in the category of sort of must-do stuff. And about 1/4 would be in the discretionary area, the things that we want to do, investing in the future, new capabilities, new technology, new products and features, et cetera.

When we think about the future, our focus is on that $7.4 billion, to continue to drive that down in absolute terms year-after-year. And we really see the big opportunities there in 2 big areas of cost. One is in the broad term of distribution, whether that's our branch network, whether that's our people out on the front line, et cetera. We see opportunity to digitize and do that much, much more effectively. And the second is around process automation. The reality is that sadly, we are still very heavily manual in a lot of our processes, including things like home loan processing. And we see opportunity to streamline that and make it much more straight through. But that obviously will cost a bit of money. So the $7.4 billion, we got to continue to drive that down. And that will create space for us to have an ongoing investment pool, which we think is appropriate to drive long-term value.

Now when can we get there is your question. It's the right question. So initially, we said, hey, look, we thought the $8 billion was realistic as sort of an exit rate at FY '22. That's going to be harder today, to be perfectly frank, for a couple of reasons. Partly because of COVID, it makes it a little bit harder to know exactly what the environment is going to be like and how we think about these tailwinds and headwinds. But actually, the really big issue is how hard do we want to go on the investment side. And I could sit here today and essentially carve down -- we can stop a lot of that investment to hit a number. I just don't think that would be the right thing to do.

So we want to continue to invest. And actually, at the moment, we see more opportunity to accelerate investment. Why? Because our customers are actually changing their behavior at a rapid rate. That move from branch to digital, from cash to card, we're seeing real opportunities, and we're seeing the benefits of some of the new technology.

So look, we will get to the $8 billion. It isn't probably going to be the exit rate of '22. I don't have a target in mind because I want to make sure we get the balance right. But as I said, run-the-bank costs down, create the right space, I think through the cycle $8 billion or even potentially below is absolutely achievable. And I'm not kicking the can down the road to say it's in 10 years or 5 years. I'm just not sure it's going to be '22. Perhaps it's more like a '23 sort of outcome.

And then on dividend...

Michelle Nicole Jablko
Chief Financial Officer

You want me to take the dividend? Yes. So in terms of the dividend, clearly, that's a Board decision. But in terms of how we think about the longer-term depot, it still hasn't changed around 60% to 65%. Clearly, in the near term, we'll have to see what APRA says, and we'll have to look at economic conditions and our capital position at that time. But the long-term philosophy hasn't changed.

Operator

Your next question comes from Ed Henning with CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just further to Andrew's question on the costs, you've put out obviously a target there for the $8 billion. When do you think you'll be in a position to be able to give us a pathway to get to that $8 billion? Is it next year? Is it '22? How far away do you think you can give a bit more detailed plan on how to achieve that?

Shayne Cary Elliott
CEO & Executive Director

That's a very fair question, Ed. I would -- my aspiration is that at the first half result of this financial year, so -- and whenever it is, April, May, when we're talking to you, I would like to give you much greater clarity about that. And why do I say that? I think at that point, we'll have much greater clarity on how this whole COVID thing is really playing out. And I don't mean the credit costs because to some extent, they're not completely uncorrelated, but that's not what I'm talking about. I'm talking about really what will the impact be on our cost base in terms of, I don't know, new compliance requirements, how -- whether there's new regulation that's starting to emerge as a result, et cetera. So we'll have -- I think we'll have greater clarity on just what that run-the-bank impacts of that will be.

And we also are going to feel -- we feel we'll be in a much better shape to talk to you about that investment -- those investment opportunities that I've mentioned. We've been doing a lot of work and spending already actually on some pretty exciting new capabilities. And they're at early stages. But we think by then, we'll be in a position to be able to share some of that in a bit more detail and be able to articulate how much are they costing, what do you get for it, et cetera. So that's certainly my aspiration, all going well.

And again, I just want to reiterate, I know there's interest in the $8 billion. And again, the target was set as an outcome of doing the right thing in running the bank. And I think that's important. So again, I'm not shying away from it. We still imagine that -- in fact, if anything, you'd argue the environment in many ways, it's even more incumbent on us to focus on productivity. And we've got a great track record at ANZ. We've done this now for a number of years.

But on the other hand, and again, not showing -- I don't want to get in where we just do something silly just to hit an $8 billion number by -- because what I was trying to say to Andrew's question, to some extent, I can get there by '22 if I just stop investing in the business. And that will -- why would you do that? When -- we've got a $50-odd billion business here. Why would you underinvest in it just to sweat assets and say, "Hey, look at me. Aren't I great? I hit a target. I see it." So -- but I accept that I've got to be more forthcoming with Michelle about how -- exactly what that path looks like.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay. And then just a second question. Can you just give a bit more detail on the outlook for credit growth as you're seeing -- and particularly on the Institutional part, have you seen all the drawdowns repaid? Or is there still some headwind to go there?

Shayne Cary Elliott
CEO & Executive Director

It's a great question. I'll get Mark Whelan, the Head of Institutional, to talk about that because there's been a lot of moving parts there. Mark, do you just want to...

Mark Whelan
Group Executive of Institutional

Yes. Thanks, Shayne. Yes, look, with regards to the Institutional business, I mean we saw a big surge in loan requests, as we said, at the first half. And then it pretty much reversed completely in the second half.

So a lot of our customers really effectively realized -- that did draw down in the first half, realized they either didn't need the money and then paid it back because they overemphasized how much they thought they would need it or secondly, many of them have now accessed debt capital markets. They've gone into longer tenor, both domestically and offshore, in debt capital markets and used that to pay down some of their bank debt, which has been good.

And the third thing that we've seen happen is, effectively, we've also gone out and actively managed our book. So we've looked at sectors that we maybe didn't want to have as much exposure to. So we've actively managed that down in the marketplace and dealing with those customers and also active in the marketplace where you can move that.

So we've seen that occur in the second half. So actually, our loan volumes, if you strip out all the other noise around FX movements, et cetera, it was down about $5 billion over the course of the year. And my expectation going forward is that we'll continue to look at that risk-weighted asset reduction as we have been over many years. We saw some growth in the last, say, 18 months, but we're actually pushing that back down again. We think that's the right thing to do in this environment.

Shayne Cary Elliott
CEO & Executive Director

I might ask -- I know it wasn't your -- specific to your question here, but I might get Mark Hand, who runs the Australia division, to just talk about the mortgage book in particular because obviously, there's been a bit of a turnaround and growth there, and that's still the single biggest asset we have on our book. So just some thoughts about how we're thinking about that.

Mark Hand
Group Executive Australia Retail & Commercial Banking

Sure. So...

Edmund Anthony Biddulph Henning

CLSA Limited, Research Division

That would be great.

Mark Hand
Group Executive Australia Retail & Commercial Banking

We -- you might recall, a couple of years ago, we talked about the fact that we had fallen behind, which was largely a factor of our turnaround times. We spent quite a bit of effort getting our policies right, our turnaround times right, so we could get back into the market. And we were really well prepared for a market that was a refinancing market, and we had much better service times to our brokers, which, as you know, is north of 50% of the volumes.

What we didn't see coming was the COVID environment. And that very much played into the brokers, into the refinance market, 2 things we were very well prepared for. We coped very well in terms of turnaround times when we went into COVID. Our onshore and offshore capacity worked very well. And we won quite a bit of business from competitors in that time in the refinance market. And it also coincided with the time that we had some fairly sharp fixed rate prices in the market. And fixed rates very much became the flavor of the month for our customers.

So we've seen the volumes continue. We've still got turnaround times that are amongst the best in the market. We're seeing good volumes continuing into the new market. And we're still seeing the level of refinance activity. We're still seeing a level of customers opt in for fixed rates to try and secure their repayments for the next couple of years. But we're also starting to see activity just start to show signs of returning in Victoria as well. Of course, we've largely done this without Victoria, which is a very strong market for ANZ.

Operator

Your next question comes from Matthew Wilson with E&P.

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

Hopefully, you can hear me.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Michelle Nicole Jablko
Chief Financial Officer

Yes, we can.

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

Yes. Two questions if I may. Firstly, sort of more philosophical. Do central banks frustrate you? The banking sector is obviously doing its best to support the economy, yet our central bank and even more so, the Reserve Bank of New Zealand, continues to replicate the errors that we've seen in other jurisdictions like Japan and Europe. How do you think about negative rates, particularly in that jurisdiction, and very low interest rates and their impact on confidence? Now we've seen pretty clearly from your balance sheet that there's ample amounts of liquidity, there's ample supply of credit, but demand is probably being scared away by what central banks are doing.

And then secondly, you've got about $1.7 billion in property-related lease commitments. With the behavior change that's been accelerated by COVID, how are you thinking about your office property portfolio from a leasing perspective going forward? We obviously saw one of your peers take an impairment, which I presume was a break fee. If you could talk about your property portfolio and the longer-term impacts of working from home.

Shayne Cary Elliott
CEO & Executive Director

Sure. Yes, those are good. I'll get Michelle to talk about the property from an accounting perspective on the lease side. I'll give it a little bit of insight. Hey, look, central -- Matthew, you probably know what I'm going to say. Look, the central bank has got a job to do. That's for them to decide. All I can tell you is we have a really good relationship with both the RBNZ and the RBA. We don't always agree on things because we have different perspectives. We've got our job to do. They've got theirs.

In terms of liquidity, we've made that point very clear from our perspective. And given the things that we're trying to do, we don't need more liquidity. We've got more than enough. It is not in any way a binding constraint. And as you know, I'm not -- our view would be that money is essentially free today. And making it even more free doesn't really change anything. So we've shared our views. We've also shared the view that in Australia, for example, one of the interesting outcomes is that the bank levy, 6 basis points, has sort of become the marginal cost of funding, if you will, because with everything close to 0, that 6 points is a much bigger chunk of the marginal cost of a deposit than it used to be. And so that's having impacts. But anyway, we have those dialogues with them.

In terms of -- I'll just quickly -- in terms of the property portfolio -- I'll give it to Michelle to talk a little about accounting. Just in terms of our approach. So first of all, we've actually already been consolidating our footprint over a number of years. So I can't remember the numbers now, but in my time here, we've radically reduced our footprint. Most of -- our biggest single office is actually owned rather than leased. We've got -- we've had plans in place that continue to rationalize the number and the scale of our space. We do believe that the vast majority of our people will return to office work, perhaps not 5 days a week. But our planning at the moment, and we've had a dialogue with the people asking what they want and what we've -- obviously working on what we want, is that the majority of people will return to an office-based role for the majority of a working week.

So we don't see a significant shift, although you're right to point out, it is likely that our total sort of square meterage, if you will, on lease will reduce over time. But we've actually been really, really good at managing the property assets over a number of years. And in fact, you saw in today's result, in one of Michelle's pages, it was already -- the cost of property is already coming down. That was because of some really good work we did in our international footprint. But I imagine Matt's question is much more to do with the lease, the potential accounting element. Do you want to...

Michelle Nicole Jablko
Chief Financial Officer

Yes. I mean in terms of impairment, we did take a very small amount. And it was in the restructuring charges predominantly because of head -- we made some changes in our head office in New Zealand. And also, we've made some changes in our distribution network, which I spoke about. We will continue to look through it. I think Shayne covered it. We'll cover -- we sort of worked through it in quite a considered way, and we don't want to sort of jump ahead before we know how our people are going to work.

Shayne Cary Elliott
CEO & Executive Director

And that last point -- I think it's a point worth making that while the number of people being in office on any given day may be less, it is likely for some period of time, we will have to learn to work in a more socially distant way. So if you will, the average square meter usage per head will probably go up a little bit, and that will sort of offset some of that.

So we don't know. We got to work all that through. But we've got a pretty advanced plan. And one of the good things is with our New Zealand experience here a little bit further ahead in reopening the economy, we're getting really good data about how people feel about commuting and getting back to work and all of that sort of stuff.

Operator

Your next question comes from Victor German with Macquarie.

Victor German
Macquarie Research

Can you hear me?

Shayne Cary Elliott
CEO & Executive Director

Yes, we can, Victor. Go ahead.

Victor German
Macquarie Research

Yes, great. I just had a couple of questions, and I could really appreciate your earlier comment around difficulties giving guidance. But I just wanted to see if perhaps Michelle can just elaborate a little bit on margins outlook. And in particular, I was hoping to focus on 3 areas. One, we've seen the reduction in institutional loans. Obviously, this half, Institutional was a much lower-margin business relative to the overall portfolio. Just be interested to hear when that reduction has occurred and what impact on margins is it going to have.

The second part of the margin question is with respect to mortgages. There's obviously a lot of competition. You highlighted front to back book issue. But would it be fair for us to assume that incremental volume growth that you're getting in mortgages is actually incrementally positive or negative to your margins?

And the last bit on that margin question is the impact of -- the lower rate, you've given us 3 basis point impact. Is that pretty much the rest of -- has -- the rest of the lower rate impact has washed through, and it's just replicating the collar that's left?

Shayne Cary Elliott
CEO & Executive Director

Okay. I'm going to get -- Michelle is going to take -- so just before I do, Victor, it's a really good question. I was reflecting with the team earlier this morning. I remember when I first started as CFO, which is 8 years ago, one of the analysts on this call actually showed me the Australian chart for NIM over 30 years, and it was a straight line down. And look, the reality is that NIM has been falling for a long period of time with a short blip in the GFC. And there's lots of reasons why -- as you know, there's lots of reasons why that is the case.

Now some of it is that sort of Jeff Bezos' line, "Your margin is my opportunity." The reality is that -- the fact is despite things getting tougher, there's still good margin to be had, and that's driven a lot of competitive behavior as you've seen. And in fact, that you could argue is intensifying. And now we're also seeing the impact on low -- that low rates had.

So we don't sit here hoping for margins to somehow recover, et cetera. We sit here and assume that margins -- and I'm not just talking about next year. I'm talking about over the long term. We'll continue to be under pressure, yes, and that the right response for that is being much more selective about our mix of business, and you referred to that, and Michelle will talk about, making sure we get the right insto business and the right retail business. So getting the mix right and targeting that, and then equally importantly, making sure we get our cost base right and et cetera. So that is our approach. I think the days of volume growth offsetting it are also probably behind us given the outlook on system growth.

But Michelle, you want to just talk through those components?

Michelle Nicole Jablko
Chief Financial Officer

Yes. Thanks. And Victor, I think your questions, if I go back to my chart, they sort of relate to the asset mix, to sort of the asset pricing and to the rate impacts.

If I start on asset mix, I mentioned -- and I'll answer it a bit broader to the way you asked the question. I mentioned there were 3 reasons why we had a reduction. So one was the flow-through from the first half of more insto relative to retail and commercial business. That actually should -- given we've had more growth in retail and commercial, this half, actually, you might see that change into the next half.

We also had lower credit card spend. We have to see what happens in -- particularly around international spend, see what happens as the economies and borders open up. And we had sort of fixed versus variable home loans, and Mark spoke to that. And it does feel that right now, customers are choosing more fixed -- a greater proportion of fixed than they had before.

In terms of asset pricing and competition, I mean it's very hard to predict and give you a number. It is -- the market remains competitive. And my personal view is with more liquidity in the market, it probably stays competitive. But it's hard to give you an accurate prediction.

And then on low rates, in terms of rates being where they are, yes, the flow-through impact is just on the replicating portfolios. Clearly, if there are further rate changes, that will change again. So I hope, Victor, that answers your question.

Victor German
Macquarie Research

Yes. It sort of -- it conceptually does, but I'm just sort of specifically wondering, with respect to that institutional margin and the fact that we've seen a reasonably meaningful reduction in volume, your institutional margins based on the disclosure is about 50 basis points lower than the group margin. Am I right to assume that, that incrementally will be positive for margins in the first half '21?

Michelle Nicole Jablko
Chief Financial Officer

Yes, yes.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Victor German
Macquarie Research

Completely appreciate that there is a lot of competition. But I mean would it be fair to assume that the incremental mortgages you're writing today are better than 1.5?

Michelle Nicole Jablko
Chief Financial Officer

Yes, yes. That's right. Yes.

Shayne Cary Elliott
CEO & Executive Director

Yes. I think that's a very good point, Victor. And I think -- the way that Mark Whelan and the way that we've set in the institutional appetite, we are not chasing revenue for revenue's sake. We're very focused on risk-adjusted return and therefore on the NIM.

And like -- we haven't talked about, let's say for example, one of the areas you would have -- you'd have seen intense competition that's driven margins way down is in trade. Now there's all sorts of stuff going on in trade, as you can imagine, in this world. But there's just a massive wall of liquidity going into that market, and we're not going to do anything silly there.

And so by being -- we're supporting good customers and where we get good cross-sell. But you're right, the approach that Mark and the team have done in Institutional, we'll see, will be a net benefit to margins and will continue to be. So that is well managed.

Victor German
Macquarie Research

And Shayne, you mentioned a few times around when you were answering on the cost side, that you could easily sort of achieve your medium-term guidance by reducing investment spend. I'm assuming -- and I don't want to put words in your mouth. But I'm assuming that's not kind of the intent sort of, of you ultimately achieving that $8 billion target. I'm just wondering kind of as you look through in the next couple of years, where do you think the sort of the sustainable long-term investment spend is likely to settle for you guys?

Shayne Cary Elliott
CEO & Executive Director

That's a really good question. It's so hard to say -- I'm going to answer it. But it is so hard to say because pretty much every year, something new comes along that we -- you didn't think about. And the one that's probably that's one of the biggest impacts on this year and next year in particular is BS11, which is the regulatory change in New Zealand, which will end up costing us several hundred millions of dollars now. Now the good news about that one is that it stops at some point because it has to be done at a certain timetable. So that will peak next year and then largely disappear.

So though -- putting things like that aside, the big material sort of things, Victor, historically, our investment -- and I'm talking about both the amount we capitalize and OpEx, so I'm talking about the total, used to be sort of $1.2 billion a year, went to $1.4 billion. This year, it's $1.77 billion. Next year, it will be higher. Again, about 3/4 of it gets OpEx-ed.

We do think we're in a bit of a lumpy period for a couple of reasons. One is BS11, and other -- and there's some other things that we're doing on our own bet, some of that discretionary stuff I talked about, which is to do with data and some of the new technology that we're building for customers. But we think getting through this, a more normal, if such a thing exists, total investment state will be closer to sort of $1.5 billion, yes? So we do think we're at an extraordinarily high period of investment for now, and that will more likely settle down at $1.5 billion.

But we also have to be prepared -- and that's -- so when I work out my $8 billion number, I sort of assume that that's what that piece of it will be. Does that make sense? And then there'll be years when BS11's kind of stuff gets thrown at us, and we'll have to deal with that.

I mean you can backsolve, just -- sorry, you can backsolve, say $1.5 billion, 75% OpEx-ed, call it $1.2 billion or whatever the number is. Back that out, you're sort of saying we've got to get our run-the-bank costs down below -- they're at $7.4 billion today. They have to be below $7 billion. That's giving you a dimension of we think that won't be easy, but that's sort of what we're looking at because remember, a lot of that investment that we are making is designed to deliver that outcome. It is designed to reduce operating cost.

Operator

Your next question comes from Jonathan Mott with UBS.

Jonathan Mott
UBS Investment Bank, Research Division

Two questions if I could probably for the 2 Marks, Mark Whelan and Mark Hand. So first one for Mark Whelan. Just going to Page 61 of the result itself, which goes through the Institutional book, there are some moving parts here. I just wouldn't mind if you could explain that institutional risk-weighted assets down 10%, loans and advances both down 21, but average loan's up 2%. So I presume this is a lot of that liquid asset put at the end of the period, last period. They really -- did they just run off right at the end of the period, so the average was high, and then it just collapsed at the end of the period? Can you just give us a bit of a feel for that? And is that just a timing issue or why the average was high? And were you booking revenue basically through the whole period, which will make it much harder next period?

And the second one was more for Mark Hand, and it's to do with this question around brokers and distribution. I'll go to something that Shayne said, which one of the features -- the costs you need to work on digitizing distribution. But if you look at the -- some of the numbers that came out, 57% of the flow for the full year came through the broker channel, but it was only 49% in the first half, which would imply that more than 65% of all flow in the second half coming through the broker channel. It's an extraordinary number for the banks -- for a major bank. And are you comfortable with 2/3 of your loans coming through the broker channel at a time that you try to digitize it and change that...

Shayne Cary Elliott
CEO & Executive Director

So I'll give the flippant answer to that, and then we'll get Mark to talk about the details before -- so Jonathan, you're right. I mean we can talk about the maths. But I don't think that is surprising at a time when bank branches were closed, I mean -- and people did not want to venture outside their homes. So that was much more a COVID issue. There were no bank -- you couldn't go to the bank branch depending where you lived or you didn't want to.

And so yes, it was a spike. And of course -- so that was -- that has normal -- I hate using that word, but sort of normalized again. And Mark can give you some more current data about where those sort of flows are. But that was an extraordinary period. It was not a permanent shift in our mind. But Mark Whelan, do you want to talk about the -- his question on the liquidity, et cetera? I think he answered his own question but...

Mark Whelan
Group Executive of Institutional

Yes, yes, I think he did actually because I mean there is a lot of noise in there, Jonathan. So you're right. I mean if you look at the GLA results half-on-half, it's down $42 billion. And $9 billion of that was FX. So $17 billion was in lending, the lending book, which is consistent with what we saw in risk-weighted asset reduction in -- and CRWA in that half as well. And there was $16 billion, as you pointed out, in the market's reduction, which did come towards the end of the period.

So that is right. I mean obviously, that will have a drag on us in that market's piece in the start of this half, but that also just depends on where we land with those sort of assets in the second half.

Shayne Cary Elliott
CEO & Executive Director

I think it's fair to say, Mark, and you'd correct me if I'm wrong, though, but that liquids piece, while it will have a drag, that was not a massive driver of the market's performance in the first place.

Mark Whelan
Group Executive of Institutional

No.

Shayne Cary Elliott
CEO & Executive Director

So yes, it's a drag, but it's not really the driver of the result.

Mark Whelan
Group Executive of Institutional

No, no. I mean if you look at the market's results overall, I mean it really came through from, first of all, our customer activity. Customer activity was highly -- it was elevated, and that meant a risk distribution of that, which we call franchise trading, but the risk distribution off the back of that was where we saw 50% of the uplift in our market's results. This would be a very small portion -- the GLA piece would be a very small portion of that in our revenue.

Shayne Cary Elliott
CEO & Executive Director

Mark?

Jonathan Mott
UBS Investment Bank, Research Division

So the Institutional ex markets NIM should recover next half because you're running off a lot of the low-margin business effectively.

Mark Whelan
Group Executive of Institutional

Yes, that would be right.

Mark Hand
Group Executive Australia Retail & Commercial Banking

And just on the -- Jonathan, just on the home loan issue, so we've settled back to around 53%. And so that was an absolute feature of what's occurred in that people were not prepared to venture out of their homes. So brokers became much more focused. A lot more customers fixed, and that's traditionally not something that's happened a lot in Australia. And so a lot of them probably felt they needed to have that conversation.

And the other thing was with the lockdowns and people unable to, I guess, instigate renovations at the home, the part of our book that would often come directly to us is existing customers would come and get an extension on their facility for renovation. And that part of the market has settled right back. So it's more of a factor of good broker proposition for the time, but other parts of the book had also been offset.

Operator

Your next question comes from Brendan Sproules with Citi.

Brendan Sproules
Citigroup Inc., Research Division

Just sort of looking at collective provision, which has now hit $5 billion, that's actually close to the downside -- closer to the downside case in the base case that you showed us in May. I was just wondering how that unwinds next year as credit quality does actually come to fruition. Will we see it fall dramatically because you've got economic overlay, which you've also, as you've mentioned today, taken some specific overlays around certain industries. Maybe you can give us an indication of -- because it does seem like you pushed it up almost $2 billion from where you were pre-COVID. Is the expectation that we sort of burn through that $2 billion before we hit the P&L again?

Shayne Cary Elliott
CEO & Executive Director

I'm going to ask Michelle to answer that one, Brendan.

Michelle Nicole Jablko
Chief Financial Officer

So Brendan, if I kind of go through the components, if the economic outlook improves, yes, you'll get some unwind of that, but it may be replaced with risk migration coming through. So it won't be -- so the timing doesn't sort of work perfectly on those.

And then in terms of the overlays, I think we'll just have to assess them as we work our way through -- including those components I spoke about. We've got the deferral customers. If they come off deferral as we're sort of expecting, that might help. And so we'll just sort of have to play it through.

Brendan Sproules
Citigroup Inc., Research Division

And I just got a second question on the Institutional business. Obviously, you talked today about the trading income being quite elevated towards normal levels and obviously the falloff in the loan book. And as Mark said, there's going to be a continued push to reduce risk-weighted assets. Just in terms of the operating expense base here, are we going to see a big shrinkage in that as revenue comes down dramatically? Are we talking about a shrinking of this overall business?

Shayne Cary Elliott
CEO & Executive Director

So first, I'll ask Mark to give a little bit more color. So I think it's a really good question. I think the first thing to point out is that the institutional bank has done a magnificently good job on managing cost. In fact, while we've managed cost overall as a group in terms of flat, Institutional has had a series of halves where their absolute cost has come down. And so they've already embedded that sort of mindset, if you will, into the business, and there's a really good track record there.

And yes, it is part of our philosophy, that in order to be successful -- institutional banking is hard, and returns are more challenged than other areas. And you've got to be really, really tight and -- on everything. And I think the team has done a great job on many fronts. But there's still opportunity. And in fact, I talked about digitization and using new technology. In fact, our institutional bank is a step ahead of many parts of our business in terms of actually turning that into reality.

But Mark, do you just want to give a sense -- because it's a good question about how we think about our cost base relative to the revenue outlook and running of what is a complex business across many markets.

Mark Whelan
Group Executive of Institutional

Yes. Look, I think it's fair to say that the cost income ratio in institutional banks compared to retail banks, as you also -- you all know, is -- it's higher. Ours was significantly higher than it should have been, say, 4 or 5 years ago. So we have had 9 -- it's actually 9 halves now of absolute cost reduction. And we want to continue that trend.

How are we going to do that? Well, we still think there's opportunities in the property side of our business. We think there's opportunities in ensuring that we get further efficiencies through automation particularly because a lot of the investments that we've been making over the last 3 or 4 years in the business has been in our PCM business and our markets business to generate straight-through processing and a lot of self-service from our customer base. That takes a lot of operational costs out of our business. And the simplification of the business that we've had both in product and in customer and even in our international footprint has meant that we've been able to generate or take out a lot of support costs in the business. I think there is still more room for that. It will get -- it's getting harder. But that's where I think the automation investment that we've made will actually come to the fore.

So these trends will continue for us. But the other things that we're looking at, we are getting risk-weighted asset down, which will affect revenue, to your point. But the -- we're going after the risk-weighted assets that are lowest-returning. And we want to then ensure that we're getting a better capital outcome in the division plus a better expense outcome in the division while we're still trying to mitigate any drag on revenue. They're the 3 components for us.

And I should also say that the provisions part of our business, we've done a 93% re-rating of our book. Some stayed the same. Some customers were downgraded in our CCRs, and some actually went up. But we think that we're very well provisioned in the book this year. So while there'll be ins and outs, we still think that we can get the appropriate above-capital return next year.

Operator

Your next question comes from Brian Johnson with Jefferies.

Brian D. Johnson
Jefferies LLC, Research Division

I've got to start by congratulating Mark on a great result. I look forward to having them next year when those financial markets earnings come down.

Two questions if I may. The first one, Shayne, on the $8 billion cost aspiration, which you first enunciated with the first half '19 result, which would just seem to be progressively pushing back, I'm just wondering whether $8 billion from first half '19 is still $8 billion given the degree of software write-offs we've seen in the divested businesses. In fact, should we be looking to restate -- if it is truly like-for-like, what is the new rebased $8 billion? Or is it unchanged? And then I had a second one if I may.

Shayne Cary Elliott
CEO & Executive Director

Well, I don't -- look, again, Brian, if you go back to what I said at that first half '19, I did not start by saying the cost target was $8 billion. What I said is we want to simplify the business. And as a result of that, we think a well-run, lower-risk business that's more appropriate for sort of contemporary customer engagement would result in an $8 billion cost target.

You're right, there are some things that have helped, some of those software impairments. They're pretty small in the scheme of things, but you're right, they're tailwinds. But equally, I can say that there's been some headwinds. Didn't have total visibility over things like some of the other regulatory requirements we've had imposed on us that have put cost burden on it.

So it's a fair question. You're smart. You can figure out the pluses and minuses yourself. We're not going to stop when we get to $8 billion. It's really just -- it's an aspiration to say our philosophy here is that this business is going to get tougher, that there is going to be less growth, and therefore, we must be more focused on productivity and capital efficiency. And we know in the productivity area that there is a -- continues to be opportunity to do better, but not just to make the bank cheaper but to make the bank better. And that is our driving philosophy here. We want to make the bank better for customers and, in doing so, drive costs down.

But when we get to $8 billion, we won't be throwing a party and say it's over. We know that we'll have to keep going. So you can figure out for yourself what the right numbers are.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. Just the second one, if we have a look at where home loans are skewing, which seems to be increasingly the 2- to 3-year kind of fixed rate product, could you talk to us about the cashbacks, the amortization profile you're applying and also the broker origination costs? What are you amortizing over the assumed life on the new ones you're writing now? Is it -- for a 2-year loan, is it 2 years? Or is it an assumed life of 4 years? Could you just explain that for us?

Shayne Cary Elliott
CEO & Executive Director

Sure. I don't know the answer. Do you know the...

Michelle Nicole Jablko
Chief Financial Officer

I'm pretty sure it's over the life, so it's over the fixed life, yes.

Shayne Cary Elliott
CEO & Executive Director

So cashback for a fixed term, you amortize over the life of the fixed term, yes.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. And is that the same for the broker origination costs as well?

Shayne Cary Elliott
CEO & Executive Director

Good question.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Operator

Your next question comes from Andrew Triggs with JPMorgan.

Andrew Triggs
JPMorgan Chase & Co, Research Division

Just in terms of the cost -- follow-up on the cost question unfortunately. But...

Shayne Cary Elliott
CEO & Executive Director

That's all right.

Andrew Triggs
JPMorgan Chase & Co, Research Division

There look to be about $400 million worth of productivity savings for the year. Just some thoughts on whether that pace can be maintained into FY '21. And on the same line of questioning, the inflation looked to be about 1.5% of the cost base. Are they both realistic starting points for next year?

And then a question on asset growth. Mortgage growth has been very choppy for quite a period of time now for ANZ, either growing at some multiple of system or in some periods going backwards. And surely, that must be putting enormous strain on the network itself and does make you an inconsistent partner to brokers. Could you talk about some of the reasons for the volatility in your growth and what perhaps you could do to address this, please?

Shayne Cary Elliott
CEO & Executive Director

Yes. I'll get Mark Hand to talk about that. So -- and then I'll talk about the cost. So it's a -- I'll just comment on that second point first, Andrew. That's a fair point. I mean I think if you look over time, though, it depends on your time scale here, actually, it has been pretty consistent. We've actually, over -- if I look at 5, 6, 7 years, we've been growing above system pretty consistently.

When you talk about the volatility, it was really a recent phenomenon. And we sort of owned up to that, and that was at a time when responsible -- was around the Royal Commission responsible lending, we were very concerned about the potential risks associated with the responsible lending legislation and making sure that we didn't trip ourselves over inadvertently. We fessed up to the fact we probably went too hard on that, and therefore, we -- and we were too cautious. And therefore, we saw a falloff in our volumes. But we've sort of restored that. And that's the first point.

And the second point really is to do with the processing capacity, which we've invested in. So we've got much greater confidence now because as you know, one of the things that customers -- that influences customers is the turnaround times. And so we've got greater capacity in that area now, and it's more consistent than it was in the past. But -- so that's on that one.

Look, we don't -- one other thing. We don't sit here and -- we don't have a target around system. We don't sit and say, our plan is to grow at 1.5x system, 1x system, half -- whatever it is. We want good customers. And we -- our system is pretty non-discriminating. We want good customers, preferably homeowners, preferably people with a job and people who've got really good track records and all those other things as opposed to just, hey, we just got to keep booking the volume and feed the beast. That's not our approach. And we also want to make sure that we're getting appropriately -- we're getting the right returns for the risk.

In terms of the $8 billion, I mean Michelle can comment on the specific maths there. I think the inflation number you mentioned is -- that's as good a guess, as good a planning number as anybody else. So that's sort of what we've got. Yes, we can continue to do more. As you know, the benefits we drove this year were really related -- not all of it but a lot of it related to decisions that were made last year because there's sort of a lag. We -- if we make changes to our branch network, for example, or some process that we digitize, there's a bit of a lag. And so we know that in '21, we will get the benefits of many of the decisions that we've made in -- already, yes? And so some of those will flow through, and we just got to keep going.

And we have a very, very robust program now. We -- internally, we call it accelerated strategy. All of our divisions, including technology and risk and finance but all the businesses, we have plans around how to make the bank better and, in doing so, drive out unnecessary cost. That's very robustly managed. I meet weekly and fortnightly with every one of those streams, where we work through, what are we doing? What are we adding to the list? How have we gone? What investment do you need to do that? And measuring outcomes, not just in terms of cost but actually better customer outcomes, lower risk, and I mean operating risk as much as anything else, and financial benefits.

But Michelle, do you just want to talk through what you think about the cost forecasting?

Michelle Nicole Jablko
Chief Financial Officer

Yes. Yes, and if I -- so Andrew, if you start on productivity, I think Shayne's sort of covered it. The idea is we continue our productivity initiatives. Of the number you mentioned, most of it was productivity. There was some that was things like less travel, et cetera. And it's hard to know exactly how they'll bounce back. It's hard to give you a precise number because it will come down to timing of how we implement things. But we are on a trajectory to continue to reduce those sort of run-the-bank costs.

On inflation, I think, again, it's a little bit tricky with timing. But it is probably a reasonable assumption for now because just in this -- and it's a bit less-than-normal inflation, but I think that's probably reasonable for the moment.

Shayne Cary Elliott
CEO & Executive Director

And as you know, Andrew, and just for others, just the only -- to caution on inflation, just remember that our cost base is a global one. And so we -- it's not reasonable just to look at the Australian CPI number. And so that will be the major influence. We've got a lot of people sitting in India and the Philippines and those things, and they have different cost outlooks than at home.

Operator

Your next question comes from Richard Wiles with Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

In your opening remarks this morning, you said that in 2016, you set a strategy to prepare for lower growth and a wave of disruption. So given that foresight, I'm interested in your response to a couple of questions I have.

Shayne Cary Elliott
CEO & Executive Director

Sure.

Richard E. Wiles
Morgan Stanley, Research Division

The first relates to loan growth. In recent weeks, we've seen the market respond quite positively to proposed changes in responsible lending laws. We've also seen the market respond quite positively to the budget, which included the 100% asset write-off allowance for businesses. Do you think those 2 initiatives will have a meaningful impact on loan growth prospects next year or the year after?

Shayne Cary Elliott
CEO & Executive Director

Good question.

Richard E. Wiles
Morgan Stanley, Research Division

That's my first question.

Shayne Cary Elliott
CEO & Executive Director

Yes, fair enough. And just -- oh, can I answer them one at a time so I don't forget? Is that all right?

Richard E. Wiles
Morgan Stanley, Research Division

Of course, yes.

Shayne Cary Elliott
CEO & Executive Director

It's a fair question. And just to put it in context, when I was talking about growth, I was talking about revenue growth, so not just volume. But it's a fair question.

So asset write-off, isn't it asset write-off? Yes. We saw a very, very significant response to that. We saw it in the first announcement of that. And we would expect that they will -- that small businesses will take advantage of that because it's a very sensible option for people to take. So we would expect to see that. Now I have to put that into context, it's not a huge business line for us. But nonetheless, we would see that as being supportive of a little bit of loan growth.

Responsible lending, less so, and the reason is this. Our view that -- the responsible lending legislation, for us, if it is removed -- and there's still a big if there that whether this gets through. But if it is removed, from our perspective, it makes the operational aspects of it easier, but it doesn't fundamentally change our risk appetite. So at the margin, there might be some customers and loans that will get approved that wouldn't under responsible lending, but we think it's at the margin.

What will happen is that the process for borrowers will be faster and less invasive. So we won't have to ask the same level of questions on every customer. But actually, when you sit back and look at the process we have today, Richard, most of it's sensible. I mean of course, we want to understand somebody's income, and of course, we want to understand their financial position. And we -- of course, we want to understand their expenditure. But this will make it a little bit easier for us. So we think it is about operational efficiency rather than unleashing any sort of new loan growth. That's our view anyway.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. My second question relates to your views on disruption. Particularly, what's your view on Westpac's decision to provide transaction account capability to Afterpay? It's an organization that's got 3.5 million customers in Australia. It's got strong customer engagement. So if Afterpay can offer deposits, do you think that will affect ANZ' deposit growth prospects? And what do you think it will do for industry deposit pricing?

Shayne Cary Elliott
CEO & Executive Director

So I don't know the details. I only know what I read in the papers, so I can't really comment about what will happen. But what we do know -- and again, not at all being dismissive on it. Afterpay has been enormously successful in a part of the market. I think though, when you look at their customer base, and I accept it may change, I don't know that there's a high correlation with your existing customer base with the people that are saving for a home loan and sort of higher saving-oriented customers. Now as I said, that may change. But that's certainly not the -- that's not the customer cohort that we see today.

But the bigger question is -- I think hopefully, this -- I think beyond that, yes, there's going to be disruption. Yes, regulatory barriers are lowering. Yes, there is more technology solutions. Yes, banking is being disaggregated. So clearly, areas in -- payments in certain nonbank lending, asset finance, even in home loans, there are more and more new entrants offering better customer outcomes, easier ways of dealing with financial institutions or nonfinancial institutions. And so we're not at all dismissive of the impact of these.

We have a very large, mostly loyal customer base, but we absolutely can't take them for granted. And that's why I was talking -- when I'm talking about the $8 billion, I'm talking about investing. A huge chunk of that investment that we want to make and we are making is about having contemporary, competitive, engaging offerings for those customers, so they don't want to go and look at an Afterpay, Westpac to deposit or whatever that might be.

And that's -- I accept that we -- and I would hope, as I mentioned, in the first half to be more forthcoming about what some of those things look like.

Richard E. Wiles
Morgan Stanley, Research Division

Shayne, do you know how many of Afterpay's 3.5 million customers actually have their transaction bank with ANZ, that transact now with ANZ?

Shayne Cary Elliott
CEO & Executive Director

Yes, yes. Well, what we know is, we know when people who have a transaction account with ANZ make an Afterpay payment. So we do know -- I'm not going to share that number with you, but yes, we do know that. We also know the credit characteristics of those people.

And I'm not -- and again, I'll use Afterpay -- so forget -- just put aside Afterpay per se, but buy now, pay later. In fact, yesterday, at our Board meeting, we actually had a review of that whole -- we discussed that sector, its successes, and it's very -- it's engaging and the simplicity and the way that it attracts customers, but also what we understand about the ANZ customers who use them, what their risk profiles are and what might be the leading lagging indicators in terms of that cohort. So yes, we have really great data on it actually.

Operator

Your next question comes from Brett Le Mesurier from Velocity Trade.

Brett Le Mesurier

Michelle, a question for you. You were talking about the deferred loans you put into 4 categories and the most risky of those you put into Stage 2 for assessing collective provisions. I was wondering what the loan balances were of those risky loans that you put into Stage 2.

Michelle Nicole Jablko
Chief Financial Officer

I don't think we've disclosed them by customer. So I don't think that's in our disclosures, Brett. We talk about the average. But yes, so we haven't disclosed that. I don't know, Kevin, if you want to add?

Kevin Paul Corbally
Group Chief Risk Officer

The only thing, Michelle, that I would add to that is there's probably a greater proportion of the customers in categories. So basically, categories 3 and 4 were those that were, to use the phrase we use, higher risk. There's a greater proportion in that category than what we're actually seeing now in terms of those who are extending out of deferral. That's probably the best way I think I can describe it.

Brett Le Mesurier

And did that category have a higher proportion of small business than home loans?

Kevin Paul Corbally
Group Chief Risk Officer

When we -- if you were to look at small business versus home loans, the percentages that we had categorized in 3 and 4 were broadly similar. They're reasonably close. But what I would say, and Shayne alluded to it in his speech, what we're seeing is those small business customers that are actually seeking an extension, that's in the order of 9% of the book, and from a home lending perspective, it's about 20%. And both of those are less -- significantly less than what we had thought would be in categories 3 -- from our analysis, were in category 3 and 4.

Shayne Cary Elliott
CEO & Executive Director

Yes. And that's pre -- and sorry, just to be clear, and those numbers are pre the Victorian opening, which you would imagine...

Kevin Paul Corbally
Group Chief Risk Officer

Correct, that's right.

Shayne Cary Elliott
CEO & Executive Director

Would get better as a result.

Kevin Paul Corbally

Group Chief Risk Officer

Yes. And for what it's worth, 60% of the small business customers were in Victoria that have sought an extension. And as Shayne alluded to, over half of those are in basically hospitality and retail, which is not surprising either.

Brett Le Mesurier

And when I look at the Stage 2 collectively assessed provision in September '20 half, I see $549 million of bad debt charge. Can you give me a sense as to the proportion of that, that relates to those risky categories? Is it all?

Michelle Nicole Jablko
Chief Financial Officer

It wasn't -- no, it's not all.

Kevin Paul Corbally
Group Chief Risk Officer

No, it's not all of it. It's a combination of that. And I think Michelle also alluded to the fact that we looked at our small business cohort customers. And we looked at the security valuations, and we also looked at the risk rating, which Michelle had alluded to as well, right?

So -- and I think the other point that I just want to make clear is that the Stage 2 categorization that we've spoken about is for those customers that were in categories 3 and 4 that had sought a deferral and also anyone who actually had asked for an extension. So just to be clear in terms of who it was.

Michelle Nicole Jablko
Chief Financial Officer

And then on top of that, we look at the broader portfolio and make an assessment. And some of those customers also go into stage 2.

Kevin Paul Corbally
Group Chief Risk Officer

Yes.

Brett Le Mesurier

Just to finish up, could you give me a sense as to the loss rates you're assuming for those in the riskiest categories?

Kevin Paul Corbally
Group Chief Risk Officer

I don't think we have disclosed that. What I would draw your attention to, and it's in the pack, if you take home loans as an example, is at 60 -- the dynamic LVR on those customers is in the mid-60s. And also, Shayne alluded to, I think, in his speech that the small business customers, in excess of 70% of those who -- are fully secured as well.

Michelle Nicole Jablko
Chief Financial Officer

Yes. And maybe if you go back to what Shayne was saying in terms of the deferrals and how they're rolling through because that assessment was sort of made at 30 September. And what we've seen since then is actually quite a lot of customers come off deferral, including those in those sort of riskier categories as well.

Operator

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

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

Just some thoughts about next week's election. Who is better for business within ANZ, Joe Biden or Donald Trump?

Shayne Cary Elliott
CEO & Executive Director

I think the answer is yes. Look, interestingly -- so look, I don't know that there is a right answer to that other than we've got a really important international network. It's something that differentiates ANZ. We've -- what we're seeing as a result of all sorts of things, all sorts of changes in the world is more of our customers engaging with us about rethinking supply chain, where they're putting their factories, where they want to invest than ever before.

So -- and that's a good thing for us, T.S., because that's our job. Our job in institutional is actually to help people facilitate trading capital flow. And when companies are thinking about, well, maybe I should diversify away from China or maybe I should rethink India, maybe I should think about what I'm doing in Vietnam or in the U.S. for that matter, that's a good thing for us. And so we're actually getting a lot more inquiry, whether they're Australian customers or U.S. multinationals about that. So I think that's -- and I think that's a reasonably long-term thing.

And by the way, I don't think that's related to COVID. I mean some of that was -- that trend was already intact. We were -- I took my team to Vietnam last year. And part of the reason we did that was we were already seeing a lot of our multinational customers have a -- what they would call as a China plus 1 strategy. And it had nothing to do with COVID or any of this recent noise. It was really to do the fact that, hey, look, the world is changing and we -- that we see opportunity to put plant and open up new trade relationships with different parts of Asia. That's -- as I said, that's a good thing for us. And a lot of that capital is going into places like Vietnam or Thailand or India and Japan. And we've got a great franchise around there.

So to some extent, change is good for us. And as long as people are thinking about change, that's an underpinning -- that's a really good lead indicator for our institutional bank.

Operator

There are no further questions at this time. I'll now hand back to Ms. Campbell.

Jill Campbell
Group General Manager of Investor Relations

Thank you. Thanks, operator. We -- the IR team is around through the rest of the day to help with anyone who perhaps wanted another question or didn't get a chance to ask a question. Other than that, I'll hand back to Shayne. Thank you.

Shayne Cary Elliott
CEO & Executive Director

All right. Look, I just wanted to thank you all for joining us today. It's obviously a really unusual time. But as I said, in my 5 years of CEO, I'm not sure when it hasn't been an unusual time in banking. That means the environment itself changes.

I think the important point about what we're trying to get across here today is, look, despite the environment, we're in -- we feel we're in a really strong position to deal with this. We've got a really strong balance sheet. So we've derisked the balance sheet. It's more focused. It's more investment-grade. It's got a lot more capital behind it. We've got really strong credit provisioning for when and if things go wrong.

And now let's not forget that our underlying business continues to perform pretty well. Things are going to get a bit tougher, but that's okay because we're feeling really in a strong position. And that means not just dealing with COVID, not just dealing with the here and now but actually having an ability to talk about the future and think about disruption and think about that investment. And I'm looking forward to that. And we know that we will be back in the first half, and we want to be talking to you more about where we do actually see that opportunity for investment and what exactly we will get for it. And I take the points today that we need more forthcoming about the $8 billion cost and the timing and the road map. And I think that's only reasonable, and we will do so. But thanks, everybody, for your questions and your attendance today.