Question and Answer

Operator

[Operator Instructions] Your first question today comes from Jonathan Mott with UBS.

Jonathan Mott
UBS Investment Bank, Research Division

I just want to get a bit more detail on the rapid growth in institutional risk-weighted assets. You kind of talked about it a bit in the presentation, and there was a bit of FX movement. Can you go through a bit more detail on that and explain why it rose so quickly in the end of March? And I wanted to follow up as well. It sounds like with the business credit growth, most of the drawdowns and requirements for companies seem to have already happened. Is that your feeling? I know that one of your peers said that they expected business credit growth to be between 13% to [16%] this year, but it sounds like your view is that most of the drawdowns and requirements for your customers has already happened. So if I can just go through those 2 parts.

Shayne Cary Elliott
CEO & Executive Director

Sure. That's a very -- it's a very good question, and just I'll hand over to Mark Whelan, the Head of Institutional, just to run through what happened there. I mean, in aggregate, I think what you saw there from institutional customers was exactly what you'd expect to see, was as we entered the crisis, they wanted to sure up their own balance sheets and liquidity positions and quite understandably did so through their relationship bank, which is ANZ. But Mark, do you just want to talk through some of the maths behind that and importantly, to Jonathan's point, the subsequent behavior post balance date?

Mark Whelan
Group Executive of Institutional

Yes. Thanks. Thanks, Jonathan. Look, the -- just the composition of the -- $22 billion is a large number, and we recognize that. So I just want to give you the composition of that. So $6 billion -- you referenced it. $6 billion of that $22 billion was FX related, and actually, since then, where the currency is now trading, you would see most of that come back in the second half. $3 billion was risk migration. So we actually, in March, downgraded a handful or a number of customers to ensure that we had the appropriate risk rating against them, and that's obviously elevated the risk-weighted asset and obviously into capital. So $3 billion in risk migration and that's separate to, obviously, the economic overlay that was -- we put in at the end of the month. So it's an in addition to that if you like. And $3 billion was the growth in our derivative portfolio. That was a function again of the currency depreciation but also significant market activity, which has driven some very profitable growth for us in markets. So of that $22 billion, $16 billion was FX risk migration and derivatives portfolio, so that, hopefully, is clear.

The $10 billion volume growth that we saw, which was the residual, $3 billion of that occurred in the first 5 months so up until February. $7 billion of the risk -- I'm sorry, the volume growth occurred in the month of March. Now that was basically due to the fact that many of our customers, in preparing for COVID, decided that they required some additional liquidity lines. We want -- these are key customers of ours. We wanted to assist the customers, and we'll continue to do so. So we looked at each individual request. We priced it accordingly based on not only the current cost of funds but also the increase in margins that we'd seen since spreads have blown out across the curve with most names. We also priced into the facilities a mix of margin uplift and fees, so we got the appropriate mix. But importantly, we were pricing each of these facilities on a higher cost of capital than we had done previously. And I would also emphasize that we priced these on a stand-alone loan basis, not under the understanding that we would get additional cross-sell. So whenever you looked at this, we were pricing it for the appropriate return in the business.

Why did we want to do this? Well, it's the right thing to do for our customers. They're under stress. They were planning for their liquidity requirements through COVID. We felt this was not only an opportunity to build and deepen our relationship with customers, a system in a time when they needed it but also to get enhanced returns for our stakeholders. So that summarizes the decision we've taken.

Shayne Cary Elliott
CEO & Executive Director

Yes. I would just -- the only thing I would add to that, in terms of your point, what we've done right, what Mark led right from the beginning, Jonathan, was a much tighter approval process around extending credit, as I mentioned, in conjunction with the risk team, and we implemented very early on a step change in our cost of capital that is an input into the pricing models that they have. On day 1, essentially, that moved to 10% for Institutional, and very soon after that, we hiked that again substantially above 10% as a cost of capital input into that. So to ensure that we are getting the appropriate return for the risk that we're booking. Do you just want to -- in terms of -- the other part of the question was the activity since -- yes, since balance date.

Mark Whelan
Group Executive of Institutional

So since -- so I should add, but once we'd made those liquidity facilities available, they did draw down on them and most of them put it back on deposit with us, which is why you can see such an elevated deposit base right across our business. Look, going forward, our expectation is that this is going to moderate. There's no doubt that what we've seen in April, we saw a little bit of growth in risk-weighted assets as some others came to us, but we've also seen others where they've actually repaid some, and we're seeing this actually will moderate for the second half of the year. So don't take that $7 billion in March as reflective of ongoing growth. I think what you're seeing here is a pull forward based on the conditions there. And in the exceptional conditions that we have. So it's significantly less growth is our expectation in the second half.

Michelle Nicole Jablko
Chief Financial Officer

And the only other thing I'd add to that is quite a lot of it was very short tenor, less than a year of tenor as well.

Mark Whelan
Group Executive of Institutional

That's right.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Jonathan Mott
UBS Investment Bank, Research Division

So that means, you said, putting it all together, you're getting people draw down liquidity of risk-weighted assets, [slight] FX moves. That FX just come back. As these loans, the shorter term, get paid back, would you expect over the next 12 months your risk-weighted assets to fall with the exception of credit risk migration?

Shayne Cary Elliott
CEO & Executive Director

I'm not so sure that they'll fall, Jonathan. It's -- look, obviously, it's really hard to know what customer behavior will be over the period. What I can tell you is we've put in much more robust process around the approval mechanism, as I mentioned, in terms of also the hurdles. So we're very conscious of the fact that as a general rule, our Australian retail business is sort of self-funding from a capital position because of the returns available in that business. So this is not us taking capital away from the Australia retail and giving it to Insto, but we're very mindful that we have -- this precious resource of capital has to be rationed and appropriately priced. So what we've embedded, we've built a model and a governance structure that allows us to give some limits, if you will, or caps to Mark to work with them month-to-month to make sure that we get -- we can manage our capital allocation appropriately. We do think, as a general rule, that Institutional will have higher risk weight growth through the year, but we are going to be quite cautious about it, and we're going to manage it tightly.

Michelle Nicole Jablko
Chief Financial Officer

And it's pretty moderate in terms of what we're -- from here, what we're expecting. Yes.

Jonathan Mott
UBS Investment Bank, Research Division

With the exception that credit risk migration...

Michelle Nicole Jablko
Chief Financial Officer

Current, yes. Current lending, that's right. Yes.

Shayne Cary Elliott
CEO & Executive Director

Correct, correct. Yes.

Operator

Your next question comes from Andrew Lyons with Goldman Sachs.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Just a question on your CP scenarios. Just even if you move to your severe scenario in the second half, you'd still be profitable in the half. Now if we compare that to the 2017 APRA stress test, that stress test for the banking system, only about breakeven for 3 years. Shayne, you've spoken about the extent to which this is a once-in-a-lifetime event. Why is the scenario, even the severe scenario, not resulting in more downside risk than what the 2017 APRA stress tested?

Shayne Cary Elliott
CEO & Executive Director

Do you want to talk to this, Kevin?

Kevin Paul Corbally
Group Chief Risk Officer

Look, I think couple of things. One, I'd say, let's step back and have a think about what is it that we assumed in this stress -- in this scenario analysis that we ran. And if you think about it, what we've been asked to do on the accounting standards is to make our best guess, based on what we knew at the 31st of March, not just on what we knew today but what we thought the future was going to look like. And in doing that, we've set aside, if you look at it in our balance sheet, we've set aside $4.5 billion in reserve for that potential future activity. So that's significantly more than what we had at the GFC. We had $2 billion at the GFC set aside. And we go back to the early '90s, we had $500 million in reserves. So I think what we've done is prudently determined an appropriate reserve for us to protect ourselves in the future. And these scenarios that we ran through in our underlying base case, we think, is a really prudent case to run with a range of different factors in there, unemployment peaking at 13%. We also have GDP peaking at a reduction -- a contraction of 13%. And for context, that's the greatest contraction that this country has seen since the Great Depression. So we think we've actually taken a prudent approach in determining what those provision levels actually are.

Andrew Lyons

Goldman Sachs Group Inc., Research Division

But I just -- I still don't understand why that the outcomes of this are so much more relatively benign than what the APRA stress test suggested, particularly in light of the comments you've made around the unique nature of the depth of this potential slowdown.

Kevin Paul Corbally
Group Chief Risk Officer

I mean I still believe that the stress test we've undertaken is a prudent approach. And in terms of comparing it to the APRA stress test previously, I think the provision levels that we've set aside are appropriate relative to that as well.

Shayne Cary Elliott
CEO & Executive Director

I think the other thing that I would say, Andrew, to that, and it's probably worth going back and having a look and doing a bit of a line-by-line review of that, what that APRA stress test did not envisage was the level of government support, and let's not diminish that. That is 10% of GDP that the government is supporting. And to give you the context of that, in the 1990 recession, the government support was only about 3% of GDP, and that happened over 5 years. Yes? In the GFC, government support was about 6.5% of GDP over about the first 8 months. In this particular crisis, the government's already committed 10% of GDP within literally 2 months. And so I think that is a -- that was not part of the scenario plan that APRA put to us, so -- and I don't -- we can't diminish the impact of that support program.

Michelle Nicole Jablko
Chief Financial Officer

Yes. And not all stress tests are equal, I think, is the other point here, and I think Jonathan referred to this as well. You've got the -- talk about the P&L impact here, but it's actually the credit risk migration that you've also got to focus in on when you look at capital. And I made some remarks about that in my presentation as well.

Operator

Your next question comes from Jarrod Martin with Crédit Suisse.

Jarrod Martin
Crédit Suisse AG, Research Division

So yes, Michelle, you made some comments on risk-weighted asset inflation. And I suppose, to one extent, I'm a bit disappointed that there's actually not a slide within the pack that actually details it, but you just actually spoke to it. You look at every bank around the world, and they're reporting and they have a slide on it. So I would encourage you -- because I'm going to ask you a couple of questions on it, but I would encourage you to actually put something out. So my question is you've said the base case was 110 basis points cumulative impact to 2021. What is the number for downside? And what is the number for severe, so the market can then make its own view of where that would likely be?

Michelle Nicole Jablko
Chief Financial Officer

Okay. Maybe the way I would explain it is, as you say, I said -- around 110 basis points could be the answer if you apply the base case. Now there's a lot of assumptions in that, but -- so take that as the starting point. To give you a sense of what's in that, within that, we've assumed around a 40% increase in retail customers that go past due, and basically, across the wholesale portfolio, we've downgraded customers in the way we look at it, so in our sort of internal credit, by a notch. If it was double that on both those measures, roughly, it would be double the impact of that is how I'd think about it.

I also spoke to you about the fact we ran a very, very extreme scenario where the whole economy in Australia and New Zealand goes into a 6-month full lockdown, so all businesses locked down for 6 months.

Even in that scenario, while we'd go into our -- we would go further into our regulatory buffers, we'd still stay above our regulatory minimums including the capital conservation buffer, and probably well above.

Jarrod Martin
Crédit Suisse AG, Research Division

What's the number, Michelle?

Michelle Nicole Jablko
Chief Financial Officer

Well, we haven't disclosed that yet.

Jarrod Martin
Crédit Suisse AG, Research Division

But banks around the world are disclosing that. Why can't you disclose it and so the market can then put their own probability on those scenarios and come up with their own view?

Michelle Nicole Jablko
Chief Financial Officer

Well, Jarrod, I think I've given you some dimensions that you can estimate it on. The reason we haven't disclosed it is there's a lot of -- there are a lot of assumptions that go into it. But anyway, I'll take on notice your point about whether we put a slide out or not, and we can think about that.

Jarrod Martin
Crédit Suisse AG, Research Division

I'm happy for you to sort of put those assumptions out there, and everyone can then go, okay, that's...

Shayne Cary Elliott
CEO & Executive Director

Well, I understand that you're happy about that, Jarrod. I get your question, and it's a fair one, and we'll consider it. We'll take it off-line, and we'll consider about whether we make further disclosure about it. You've made your point. I totally get it, and we'll think about that.

Operator

Your next question comes from Victor German with Macquarie.

Victor German
Macquarie Research

I sort of have a couple of related questions to what have been asked before. Maybe just on the stress test scenario -- and I appreciate that all of those scenarios are just sort of scenarios. But even not the APRA assessment but more the bank's assessment led to fairly significant losses across the system. And I appreciate that you're not really talking about losses, you're talking about provisions, and there is a distinction. But given the current accounting methodology, I would have thought that provisions have to be very forward looking. So I would just be interested in sort of -- just a bit more insight in terms of how you think this thing sort of unwinds over the next couple of years, and the movements within provisions and impairment charges. Also keeping in mind that obviously as we get out of this on the other side, the provisions can go back to 0. And so presumably, I'm assuming you'll have to manage that through the P&L. And also on capital, sort of following from Jarrod's question, I guess your starting point is 10.8 and, Shayne, you talked about that you're not expecting fairly massive changes in risk weightings from a balance sheet growth perspective. Assuming base case scenario, 110 basis points, as that plays out, I mean why do you think 10.8 is a reasonable starting point given everything that you're seeing in front of you?

Shayne Cary Elliott
CEO & Executive Director

So I'll answer the second question, and then we'll ask -- run back. It's a good question, Victor. And obviously, we've had to think about that pretty materially in terms of whether -- and the Board has considered and has a responsibility to ensure that we have sufficient capital given the plans that we have but also the various scenarios at foot. And what we've done is throughout the stress tests that we run -- and I think it's important to make the point that it's not like we run a stress test. We run literally dozens of different stress tests based on all sorts of scenarios. We need to make sure that we can operate safely and soundly through that within some sort of operating boundaries.

What I tried to refer to in my commentary was that the way we've set those boundaries is to accept that there may be times that our CET1 will dip below 10%. Now dip below means -- and for short periods of time. And dip below means exactly that. It's not a decisive step below for long periods of time, but we would dip into that over a quarter or a half period. So whichever way we run our scenarios are not necessarily in the most severe, but in the sort of normal course of business and the base case, looking into downsides, we are comfortable that the starting point of 10.8 gives us sufficient flexibility to run the bank, doing the things that we want to do to support customers, to grow cautiously and prudently and still maintain reasonable levels of capital through the cycle. So that's sort of the way we've been thinking about it. But Michelle, do you want to talk about the math on the first part?

Michelle Nicole Jablko
Chief Financial Officer

Yes. And focused on...

Victor German
Macquarie Research

Sorry to interrupt. I just wanted to -- in your understanding from obviously your discussions -- you obviously have a lot more discussions than we do with the regulator. If you were to sort of go down that path around capital, is your understanding that you'll still be able to pay the dividend?

Shayne Cary Elliott
CEO & Executive Director

That's a good question. Our understanding -- obviously -- and sorry, there's a bit of echo on the line. Obviously, making a decision around the dividend. The dividend is clearly -- there's sort of -- in a very simplistic term, there are 2 ways of thinking about -- well, there were 2 tests. One is just your affordability at a point in time. Can we -- do we have the ability and capacity to pay the dividend and maintain our ratios? And secondly, the forward looking, our ability to regenerate capital. So our understanding, and I don't want to put words in APRA's mouth, that there is no absolute rule that would suggest if we were below unquestionably strong that somehow that would necessarily restrict our ability to pay a dividend. It would absolutely depend on our plans and the business plans that we would have. We would submit a capital plan to APRA, which would obviously have some assumptions about profitability and other things in capital usage.

So I don't believe it's a black-and-white rule, that's my understanding. I -- and -- but neither can I give you assurance that says, hey, if we're below 10.5 that we would absolutely be able to pay a dividend. That would depend on the scenarios and the situations that we would be in.

Michelle Nicole Jablko
Chief Financial Officer

Yes. I agree with that, Shayne. But it is -- I think the greater weighting will be given to the forward-looking view, but we'd have to work with the facts as they are at the point in time.

In terms of the collective provision, as I said, there is a big forward-looking component of that. Now on that economic -- on the economic component, we could change our view. So we could change the scenario weights, for example, and clearly, that would move it. The other thing that could happen is we could have changes in the mix of the portfolio, or we could have customers move between different stages. So any of those could change the provision balance going forward. I think it's also important to emphasize that you got to look at the balance and say, is that balance enough, not just focusing on a charge in any one period or not.

Kevin Paul Corbally
Group Chief Risk Officer

Can I also just add to what Michelle said? I think the factors that we would take into account in making those decisions would be things such as the duration and the severity of the lockdown, also the duration and the severity of the economic downturn that would result from that, and also how effective the various government and central bank fiscal and monetary stimulus packages actually are including the repayment holiday. So they are sort of factors we've taken into account in making that decision.

Michelle Nicole Jablko
Chief Financial Officer

And also what our customers have done, we've had a whole lot of customers that have actually reacted to the crisis. Some of them raised capital. Others have cut costs. There's been quite a lot of change. It's not static. So you've got to continue to assess it with the environment.

Operator

Your next question comes from Andrew Triggs with JPMorgan.

Andrew Triggs
JP Morgan Chase & Co, Research Division

A couple of questions, please, both of which really relate to the institutional bank. First one, just a follow-on from Jon's earlier question. I just wanted to, I guess, take apart the growth that you saw in the institutional bank between risk-weighted assets and gross loans. So my understanding was a lot of the drawdowns given credit conversion factors shouldn't really have an impact on RWA growth but should have an impact clearly on gross loan growth. So that's the first question.

And then the second question just in terms of the repricing that you've seen. Obviously, you talked, I guess, more about front book repricing, so it's a new facility for customers at better, higher cost of capital assumptions. Is there any prospect of being able to reprice back book customers on the institutional franchise?

Shayne Cary Elliott
CEO & Executive Director

It's a really good question, Andrew. I mean -- and Mark's sitting in the room here. I'll get Mark to answer those. I think on the second part, it's probably worth -- probably the best experience we have of that, and I'm reflecting on my own experience here when I joined ANZ, and it's during the GFC, was the repricing that we saw through that GFC, if you sort of took a 3-year BBB standard, it was quite material actually. And we can provide some charts on that, that show that. That's probably not a bad guide, I would suggest, to what may happen. What we do see there is there is real ability to reprice institutional. It does take a little bit of time given the maturity cycle of debt there.

But Mark, just want you to talk through those, so the...

Michelle Nicole Jablko
Chief Financial Officer

And the tenor's quite short.

Shayne Cary Elliott
CEO & Executive Director

So the first one is about the gross loans, RWA reconciliation. And the second, the repricing, which is already happening, but...

Mark Whelan

Group Executive of Institutional

Yes. Good. Thank you. Look, with regards to the difference between the gross loans and the credit risk-weighted assets, the first thing I'd say is that in the gross loans, I'm looking at an NLA number here now, but we had about $29 billion in growth in NLA. $5 billion of that was FX, so similar to what the explanation I gave around credit risk-weighted assets. So that left $24 billion. $14 billion of that number was markets growth, okay? And that was due to an increase in HQLA, and it was also due to the fact that we had an enormous amount of cash flow in not only from our customers but also from government around the world, which we then deployed into highly liquid government assets predominantly. And the balance, therefore, around the loans, specialized finance area is about $15 billion.

So if you compare that to the $10 billion of risk-weighted asset growth that we had in the period, that -- part of that number in the $15 million is drawdowns on existing facilities. Obviously, we've already been holding capital against those. And obviously, that also picks up the new lending that we did, which was associated with that $10 billion that we had over the -- in credit risk-weighted asset growth over the period. So that sort of gives you sort of the ratio, if you like, of how these relate to each other. And remembering all of that -- majority of that growth, both in the NLA number versus what we saw in the credit risk-weighted asset growth really came in the March period -- in the March month. So that's the sort of reconciliation I'll be looking at. Does that answer the question?

Shayne Cary Elliott
CEO & Executive Director

Yes. Just -- I would add one other thing, Andrew, before we ask Mark to talk about the pricing. The other thing that you probably see is there's obviously a shift in there as well. So you're seeing trade loans diminish, understandably, with just trade volumes down. Now they're generally shorter tenor, but they're at much, much lower margins. And the growth has obviously been -- while not long-term loans, it's obviously been longer tenor than trades. So you're probably seeing a bit of a mix shift in there, that will see the tenor and so just extend just a little bit, but margins will be higher as a result of just that mix issue alone. But just want to -- before we get...

Mark Whelan
Group Executive of Institutional

Yes. And on the pricing side, I mean, obviously, we priced the new business based off the current market conditions. Any -- that's on new business, new request. Any rollovers that we're seeing at the current period, obviously priced under the same dimensions of what the market is showing us today for the appropriate returns for the risk that we're taking. And on existing, if you like, back book, we do have some provisions in our loan documentation to allow us based on certain movements, whether it's in loan grade or economic conditions, to go back and reprice. We're currently working through that, but a lot of those are bespoke, so it takes us some time. I can't give you a real general idea of what percentage of that is of the back book, but we're working through that as we speak.

Shayne Cary Elliott
CEO & Executive Director

I think the principle there is as loans come up for rollover, we relook at pricing, and we will price appropriately.

Mark Whelan
Group Executive of Institutional

Yes. It won't be priced in the past. It's priced...

Shayne Cary Elliott
CEO & Executive Director

Yes. That will take time to roll through.

Michelle Nicole Jablko

Chief Financial Officer

I just might add 1 point on capital, which is to the extent there's an FX movement in risk-weighted assets, it doesn't have a material impact on capital because we hold capital in offshore subsidiaries as well.

Andrew Triggs
JP Morgan Chase & Co, Research Division

Yes. Sorry, Michelle, just to clarify, so those drawdowns of those uncommitted and undrawn facilities, that's not impacting capital.

Michelle Nicole Jablko
Chief Financial Officer

No. That's right. That's right. But if it's a new facility for an existing customer, it will. Yes.

Mark Whelan
Group Executive of Institutional

And if there are uncommitted facilities that move to the drawdown or move to committed, we would pick up the capital, and that's been part of the CRWA growth.

Operator

Your next question comes from Richard Wiles with Morgan Stanley.

Richard E. Wiles
Morgan Stanley, Research Division

I have a couple of questions. The first one is on the dividends, and the second one is on your credit quality. I can totally understand why you're taking prudent approach on the dividends. But I think investors would like to know what needs to happen for dividend payments to resume. For example, do you need loan losses to have peaked? Do you need capital to be above 10.5%? Do you need unemployment to be trending down? What are the conditions? So my first question is, will you realistically have a clearer outlook on that in August? And what comfort can you give investors that the dividend won't be deferred at the full year as well, given the high level of uncertainty we have in relation to your loan loss cycle, your capital and the economy more broadly.

Shayne Cary Elliott
CEO & Executive Director

All right. I'll answer that first before we -- can I answer it first, Richard? But just to -- and then we'll get to your second question, so just to be clear. So it's a really good question. This is not a matter of the Board sitting down and saying that we have a bunch of variables or metrics to say if this, then that. It's not -- and I know you appreciate it, it's not as simple as that. There are a range of variables here. What we're saying is, let's not forget that this crisis, from an economic sense, only really hit Australia and New Zealand 6 weeks ago. We are right in the heat of this. And it just feels through a quirk of history that this is the time that we make decisions on dividends. It's just a really unfortunate time for that to be happening. And we don't think that in the heat of the moment, when there's so many things changing, including government policy, where -- to make such a decision. And let's -- and again, I know you know this. This is a significant decision. This would require us to write a check for a few -- $1 billion or so. So it's not something we should take lightly.

And the last thing we want to do is have a volatile situation where we're writing checks to shareholders 1 day and then asking for them back in some sort of capital raise later. So what we've done is we've just said, let's defer the decision. Now you're quite right. Clearly, in August, things may or may not be better. We may or may not have all the answers, but what we do know is we'll have more. We will know more about how this crisis is affecting the economy. We'll know a lot more in August. We'll know a lot more about how it's affecting our customers, and we're going to know a lot more about the government's approach and regulatory approach to the future.

So we think that time is sufficient. We debated a lot about whether we should even put a date on there about August. The reality is that the Board can make a decision on the dividend pretty much at any time. And I don't want people to say we're just going to down tools and suddenly have a meeting in August and make a decision then. We'll be constantly reviewing this and constantly seeking information. Clearly, as we mentioned before, it's all going to rest around the forward outlook for our business and our views around the capital strength and the ability to maintain capital for the long term. So I know that doesn't really answer your question. All I can do is say it will be an ongoing discussion. We review all of those things. We'll be doing that every month through to that period of time. You're right. I cannot give an assurance about what that decision will be in August. The decision in August could be to pay a dividend of some amount, not to pay a dividend at all, to ask for more time. Those are all options on the table. And I'm sorry that I can't give any greater clarity on that other than we'll be monitoring all of those metrics. But we are confident we will have much more information than we have today.

Richard E. Wiles
Morgan Stanley, Research Division

Thanks, Shayne. That's a helpful answer. My second question relates to credit quality. The new impaired loans increased by about $0.5 billion during the half. It was predominantly in the institutional bank. In today's release, there is a reference to some single name exposures. This creates a bit of a sense of déjà vu for ANZ. So can you give us some idea what the exposures were? Were they driven by the initial impacts of COVID-19? Or would it have happened anyway?

Shayne Cary Elliott
CEO & Executive Director

So I'll start, and then I'll ask Kevin to give a bit more flavor. We're very mindful of the fact that the market will be cautious and perhaps cynical about our ability to manage the institutional business through this. And so we're very mindful of that. And I think in this particular case, when you look at the individual provisions in institutional impaired assets, the reality is this is not related primarily to COVID or in terms of an early sign of the crisis. In fact, it's largely unrelated, and we see it as more of an isolated incident. It does not mean it's not real. Obviously, it has a very real cost and impact for shareholders and for the company. But no, it's not something that we would think that anybody should be extrapolating or feeling as the first early signs of COVID. But Kevin might want to give a bit more flavor to it.

Kevin Paul Corbally
Group Chief Risk Officer

Yes. What I'd also add to what Shayne said is that the principal reason for the increase in the impaired is actually one large exposure. And it's been well publicized. And I would say that there are unique set of circumstances around that particular customer. That's not a reflection on the credit quality of the broader institutional book whatsoever.

Richard E. Wiles
Morgan Stanley, Research Division

Okay. So Kevin, could I just confirm, on the single -- I think in the release it says a small number of single name exposures. You're suggesting that it relates primarily to one exposure, which I assume is a Singapore-based one.

Kevin Paul Corbally
Group Chief Risk Officer

Yes, that's correct.

Shayne Cary Elliott
CEO & Executive Director

Yes, that's correct.

Kevin Paul Corbally

Group Chief Risk Officer

It's predominantly that. It's predominantly that. That's correct.

Operator

The next question comes from Ed Henning with CLSA.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Most have been asked. But just firstly, just to clarify on what you said before, Michelle, on the risk weight migration, that doubling of 110 basis points, was that just the severe side or the downside or just -- you're just saying...

Michelle Nicole Jablko
Chief Financial Officer

No. I'm just giving you a sensitivity because we can apply all sorts of different scenarios here. What I was saying is if I take, for example, on the base case, we had a 40% increase in retail customers that went past due, more than 30 days past due, if you -- and then some assumptions around the wholesale book across the whole book. If you said it was twice as bad as that, and that's just -- that's not the downside case. It's actually worse than that. I'm just saying, if you said it was twice as bad, then broadly double the impact.

Shayne Cary Elliott
CEO & Executive Director

I mean another way saying that is it's large -- it's more linear in terms of that relationship than geometric, yes? And obviously if you get to extremes, it will become more geometric. But moving from base to a downside will be more of a linear relationship, that's what I think Michelle was trying to...

Michelle Nicole Jablko
Chief Financial Officer

Yes. If you go to the really extreme case that I talked about, your actual -- because the -- we talk about a reduction in GDP, immediate reduction of 24%. Your actual losses come on much faster. So you're not building as much in terms of risk weight.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay. And just the second one, obviously, the trading result was very, very good, sales and trading. Can you just talk about the current conditions you've seen in April and the outlook you see for trading?

Shayne Cary Elliott
CEO & Executive Director

So I think, yes, it continues to be strong, and the conditions, in many ways, are ideal for our markets business. And I think one of the things that differentiates us from our peers and others is the diversification in our markets business. So first of all, geographic. So this is not just an Australian business. And in fact, increasingly, it's much more international than it is even in Australia and the diversification around the asset classes as well. So these are -- volatility is reasonable. It's high, obviously, and it's reasonable. But even -- so we are seeing good results there. But I wouldn't undermine the fact that we're also seeing really good customer volume happening as well. So this is not just trading is doing well. Our customer volume, our sales franchise, if you will, is also doing much better through this period of time as well as customers seek to hedge their positions, et cetera.

So all over -- around, and the strength of that business has actually been kind of smooth, if that makes sense. So what we're saying is we're actually seeing there's a -- while activity is elevated and profitability is elevated, it wasn't spiking 1 week, really high, 1 week down. It's been actually just a generally high level of activity and a high level of profitability through that business.

So we're really pleased with that. And it's also being done at a time where we're not taking on increasing levels of risk. So it's still being managed within our risk appetite and the current limits. We have not approved any extra limits or capacity in there. It's just -- it's sort of it's the right time for that business, if you will. And look, our view, and Mark and I and the people that run that business, our view, and it's hard to say, is that those conditions are likely to remain for some period of time, not forever, but this is a bit of a golden period for that business.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Okay. And the customer volumes, as you said, haven't dropped off. They still remain elevated.

Shayne Cary Elliott
CEO & Executive Director

Yes, they still remain elevated.

Kevin Paul Corbally
Group Chief Risk Officer

End markets.

Shayne Cary Elliott
CEO & Executive Director

End markets. End markets, yes. Thank you.

Operator

Your next question comes from Brian Johnson with Jefferies.

Brian D. Johnson
Jefferies LLC, Research Division

I'd just really like to reiterate Jarrod's point, and I think it's a general theme. You guys have done such a good job on disclosure of some stuff. But the stuff on Slide 23 is clearly inadequate. But I just wanted to run you through some math, and perhaps you could correct me if I'm wrong. If I have a look at the size of the collective provision overlay you booked today, I'm suggesting -- and you've said today, the upside and the severe, you haven't really factored very much in. So that's really more telling us it's probably 80% of the base case and 20% of the 100% downside. When I actually have a look in the slide, I can't see what the downside scenario is. And also, when I look in basically Page 87 of the release, I see a lot of stuff about the base case but I still don't see what the downside is. That's something that really you should be putting out there. But in any case, if we were to take basically that the base case is 110 basis points of the core, and we would double that, which I think is what you said today, on the downside, that's 220. Then that...

Michelle Nicole Jablko
Chief Financial Officer

No, Brian, that's not the downside, sorry. That's more -- I was just giving that as a sensitivity. That's more extreme than the downside. Yes. But go on.

Shayne Cary Elliott
CEO & Executive Director

Go on, Brian.

Brian D. Johnson
Jefferies LLC, Research Division

What's this downside impact on the core? And what is the 220 basis points? I mean the problem that we've got is presumably you'll be speaking wins/losses this afternoon, and this is a critical piece of information. Can you just tell us what are the numbers?

Shayne Cary Elliott
CEO & Executive Director

Which numbers are you talking about?

Brian D. Johnson
Jefferies LLC, Research Division

The 110 basis points, I'm sensing is the base case downside in the core equity Tier 1 from risk-weighted assets.

Michelle Nicole Jablko
Chief Financial Officer

Yes, that's correct.

Shayne Cary Elliott
CEO & Executive Director

Yes, that's the cumulative downside of payout -- to the end of 2021. That is correct, yes.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. And what is the 100% downside impact on the core equity Tier 1?

Shayne Cary Elliott
CEO & Executive Director

We're not disclosing that.

Michelle Nicole Jablko
Chief Financial Officer

We haven't disclosed that.

Brian D. Johnson
Jefferies LLC, Research Division

Well, you're going to be asked a lot about it this afternoon.

Shayne Cary Elliott
CEO & Executive Director

I understand that, and the answer is we're not disclosing it. And we've taken it on notice. Jarrod asked the question. And it's a fair question. I'm not dismissive of it. But on this call, right now, we're not going to answer it. We'll think about that. And if we need -- if we think it appropriate to make a broader disclosure around it, we will. But that's what we've disclosed. I think the important thing is the base case scenario here, Brian, is pretty grim. I mean let's just put it into perspective here. The base case -- it sounds very dismissive to say base case sounds like happy days. It is not. It is 13% collapse in GDP, right, pitfall. That is the worst performance in this country since the great depression, right? And we're talking about a 13% unemployment, much higher than in the GFC, much higher than in the '90 recession, et cetera. So this is pretty grim. And then on top of that, we are waiting -- and I think you heard both Kevin and Michelle said, are waiting, significantly towards the -- we don't have a big weighting towards an upside. And when we talk about upside, it's upside from that, not upside from today. And so -- and your estimate that the base case is somehow 80% of -- it is absolutely not 80%. It is much lower than that. And there is a weighting much heavily towards the base and the downside and with some weighting towards, not insignificant, towards severe.

So I think we've actually been pretty prudent in this. I understand that -- don't get me wrong. I understand the desire, you'd all love us to give you the math and how it all reconciles. We are concerned that, that in itself could actually be misleading and confusing. But I take it on notice, and we will give -- we will give it serious thought about whether we need to add some disclosure to that.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Kevin Paul Corbally
Group Chief Risk Officer

I think, Shayne, if I can also add...

Brian D. Johnson
Jefferies LLC, Research Division

That's price difference.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Brian D. Johnson
Jefferies LLC, Research Division

The thing that I really don't get is that when we have a look at the decline in property prices under your base case, we've got over the next 2 years effectively a 6% decline on what you'd say as pretty glum scenario, which is really just back to where we were not that long ago. And this is where most -- what sits in the balance sheet.

Shayne Cary Elliott
CEO & Executive Director

It's 12%, Brian. It's 12% -- the view is that by the end of calendar '21, it would be a 12% cumulative decline in residential pricing. Now you can argue whether that's right or wrong. That's obviously your prerogative. But that's what we've -- so it's a cumulative -- the numbers on that page are cumulative. So it's 12%.

Michelle Nicole Jablko
Chief Financial Officer

And the fact -- we've had some growth before this year as well.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. And then the next one is just a little bit of confusion here, is that if we go back to 2 things that were said at the last result, one, things vary -- we're going to lower our assumed cost of capital to 8.5%.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Brian D. Johnson
Jefferies LLC, Research Division

Now today, we're finding out that, in fact, it's probably gone back up to where the other guys, which is around 10%. As a result, you basically were guiding us to be something like $150 million to $220 million of cost inflation, for reasons -- if this only genuinely happened in March, how much -- what happened on the cost trajectory? And what happened about the institutional loans that you basically put on when you're assuming a lower cost of capital than basically the end cost of capital that you've assumed...

Shayne Cary Elliott
CEO & Executive Director

Yes. Good questions. Those are very good questions. So in terms of the cost of capital, you're right. We -- at the time, we made an assessment that the right cost of capital at a group level was 8.5%, and we went, I think, at pains to explain that, that does not mean that every division of the bank had a cost of capital of 8.5%. But that was a group number, and that we believe that booking -- using that was a reasonable and appropriate benchmark as an input into our pricing models. That did not mean that we were happy booking deals at 8.51%, yes? But it was a reasonable assessment of our risk appetite. Very early on, in terms of institutional -- and again, the Australia business, as a general observation, is well above that. So whether it's 8.5% or 10% doesn't really change the business that we're booking in the Australia division or New Zealand for that matter. Clearly, the area that is most impacted by those decisions is institutional. And what we said is that very early on in this, so not last week or -- so we straightaway move that for them. We added 150 basis points to their cost of capital. And since then, we've added a similar amount again. So we're well above 10% today in terms of -- and what Mark pointed out was the other part of that equation was, it is a marginal -- so we priced marginal risk using that. So that's what we've done, and we'll continue to adapt our cost of capital as -- to the environment.

In terms of the cost, that's also a good question. The reality is that a lot of that cost inflation was -- the guidance that we gave last year was an assumption or a prediction around the spend that we needed to remediate some of our home loan and business processes here in Australia. And so a lot of it was related to investment, if you will, and recognizing the fact that, remember, we don't capitalize a lot of our investment. We've got a $20 million threshold. And so a lot of our stuff that we do is in the OpEx line. So Michelle sort of guided towards that number. Actually, what we found is that we were running better than that. And that just through normal -- there was a little bit of a slowdown in the economy anyway pre all of this. We sort of all forget pre crisis there was some slowdown. And we had already started to make appropriate decisions around our cost base to pull back on some investment areas, to change our prioritization, to cut back on some business as usual expenses. And so that was already coming through the numbers.

But you're right, as we got into this crisis really eventuating, we were able to put the brakes on a bunch of discretionary spends and other bits and pieces, as you would imagine, as I imagine that you've all done in your own businesses. And that enabled us to come in a lot better. And I think what that shows you is the sort of operating leverage that we have in the business is much greater than it was in the past. And what we've said here today is we imagine that business-as-usual costs. So just sort of putting aside the need for extra investment. So business-as-usual costs, we think they will continue to fall in the second half for exactly that same reason, the operating leverage that we have. And in the scheme of things, Michelle guided towards 150, I think.

Michelle Nicole Jablko
Chief Financial Officer

150 to 200.

Shayne Cary Elliott
CEO & Executive Director

Yes. And in the end, we ended up at sort of 30 or 40. So it's a lot. It's 100, call it, but in the scheme of a $8.5 billion cost base, it's not huge.

Michelle Nicole Jablko
Chief Financial Officer

Yes. And Shayne, I was just going to add back on the cost of equity point that actually, Brian, just remember, most of the growth, as Mark spoke about, was in March, and so that was revised hurdles. And actually, the revenue to risk-weighted assets was probably around 1.5x in March what it was for the rest of the half.

Brian D. Johnson
Jefferies LLC, Research Division

So Shayne, can I go back to an observation I made 6 months ago when we had this exact same discussion? Is -- you might recall, 6 months ago, I was saying, I just don't understand why you guys are so big in institutional banking given that you had a subcycle loan loss charge, and you still probably weren't earning your cost of capital to use your long-term loss rate, whereas we look at the results today, we've had yet another single name blow up, and it's had a material impact. And these things just keep on happening. Should you be reassessing how big you are in that business?

Shayne Cary Elliott
CEO & Executive Director

Yes. And we constantly reassess all of our businesses on that same basis. And it would be also equally wrong to have a knee-jerk reaction to short-term issues that happen. I'm not for a minute dismissing the fact that we're very disappointed in that loss that you're referring to, which is really what tipped the result here. I mean I don't want to take that out, but -- and I know it sounds dismissive. But if you were to remove that single name loss, actually, the business is performing above our cost of capital and on a consistent basis. But you are right, of course, the nature of that business is a little bit more prone to some larger surprises. This particular case, and I don't want to get into it on the phone, is -- I think, as Kevin said, is a unique set of circumstances in terms of the nature of how this company failed. But it is disappointing. Of course, we review the size and scale of our businesses.

We've been much more active in terms of capital allocation than any of our peers in terms of the willingness to exit businesses and to reallocate capital. It's an ongoing thing. It will continue to be an ongoing thing. We are comfortable with the size of our institutional business today. I'm comfortable with the level of management that's there. I'm very comfortable with their risk approach. But of course, it's always going to be under review. No different than the Australian Retail business or the cards business or New Zealand or anything else for that matter.

Operator

Your next question comes from Brett Le Mesurier with Shaw and Partners.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Your level 2 common equity Tier 1 was 10.8% at the balance date, but the level 1 ratio was 10.6% at the balance date. Isn't that the more relevant ratio when you come to think about what the interim dividend you may or may not be paying? And also, the gap between those 2 numbers increased by 11 basis points during the half. Should we be expecting that gap to widen further in the second half?

Michelle Nicole Jablko
Chief Financial Officer

So the reason for the gap, Brett, was because New Zealand didn't pay a dividend to the group. In effect, that's timing really because if New Zealand's building capital for future requirements that we've got sort of now 8 years to get to, it becomes a timing question. So I think while it is a relevant number, and it's not that far off the 10.8% level 2 either, it does become a timing question. And we had planned -- we had actually planned -- even before all of this, we had planned for New Zealand not to pay a dividend this half as it would be building towards that -- those future capital requirements. So that's the big driver of our decision.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Will it be paying dividend in the second half?

Shayne Cary Elliott
CEO & Executive Director

Well, we don't know. I mean the reality is at the moment, the Reserve Bank of New Zealand has essentially required that the banks don't pay a dividend, so I don't know, Brett. But there are -- the New Zealand business remains very profitable. It's a sound business. You can retain earnings for periods of time. But at some point, there will be dividends paid that will resume. I can understand the prudence of a reserve bank. They're not alone. Reserve Bank of New Zealand is not alone in that decision, in asking banks to be incredibly prudent. I mean APRA have essentially asked a similar thing here. It's perhaps slightly less directive. But those retained earnings will be available to shareholders at some point in the future. And they will -- and the RBNZ understandably has not specified a time frame for this restrictive approach. I can understand that. They're also just like us, they're monitoring the situation and waiting to see how this thing unfolds.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

So do you know when the gap between your level 1 and level 2 will close?

Shayne Cary Elliott
CEO & Executive Director

Well, I think it's a...

Michelle Nicole Jablko
Chief Financial Officer

I don't know that it closes. But I think given what I said that this is effectively a timing issue because New Zealand now has 8 years to build to the new capital requirements, I don't think that gap is the binding constraint on us right now. And we'd expect to run level 1 a bit below level 2 right now.

Operator

[Operator Instructions] Your next question comes from Matthew Wilson with Evans & Partners.

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

A question on where the vulnerability in Australia really is with this episode. It's squarely in the household given the level of debt that is there. And we see that manifest in the level of deferrals that have come through, that was about 10% at NAB, 14% at your guy -- at you. Can you talk to us about the human behavior element that's going to sort of manifest here? At some stage, in 3 to 6 months, you're going to expect a large wave of your customers to begin repayments again. How do you do that and change that behavior? And then secondly, if this does sort of transpire into a household credit issue -- it's very easy to deal with bad debts in corporate land, you take the keys and control and sell the assets, et cetera. How do you work through foreclosure on moms and dads and on voters?

Shayne Cary Elliott
CEO & Executive Director

Yes. It's a good -- that's a fair question. So we're very mindful of the fact. So the 14% number for us is in value terms. It's about 11%, I think, of the number of customers. I don't think that we should be terribly surprised by that. A couple of things to note. That number surged very early on when the deferrals were made available. That was right in the heat of the crisis, right at the beginning. People are scared. The banks have come out, done the right thing and said, look, essentially, if you're current, if you're up-to-date in your mortgage, we will give you this deferral more or less on a no-questions-asked basis. Well, a lot of people took that option. A rational thing for many people to do. What we've seen is that subsequent to that, once the job keeper in particular came out, that has really calmed down. And the number of people applying today has radically reduced. And so we started -- and I think there's a chart in the summary, starting to see that curve flatten out.

So look, it might change. It may jump again. There might be a sort of second wave, to use that analogy. We don't know. But it seems to have settled down. When you stand back and think about does 10% feel about right, I'd say it probably does. I mean we know that if we think about -- well, it's not a perfect correlation, the number of people who have either lost their job or seriously at risk of losing their job, we've put a number out there in terms of a base case and other economists is sort of somewhere between 7% and 15%. I know that's a wide range. So it's probably not surprising that 10-plus percent of our people have said, hey, I'd like that deferral to buy some time.

You're quite right, there is a bit of an issue here in terms of the entire industry granted these deferrals more or less at the same time, which means that a lot of people will come to that anniversary of having to start repayment, your point about behavior, more or less at the same time. What we're doing, as is the industry, we've agreed that we will have a 3-month check-in. So after 3 months, so literally in about 2 months, we'll be contacting all of those customers to see how they're going and make sure that they understand that they're going to have to get ready to start paying again. And so we're already preparing operationally for that, like just how are we going to do that operationally, contact 100,000 people and make sure -- and what -- how exactly we're going to assist them. We're happy to go into that if you want to, in terms of questions. And then we'll be in constant contact with those customers, reminding them, hey, when that 6-month deferral period is over. And the other thing I would say is that what we don't know is how the economy is going to look at that time, and we don't know what the government will be doing either. Now I'm not hanging our hope on it, but yesterday, I believe the Prime Minister started -- had made some comments about the job keeper could be extended, now, I don't know.

So I think we're prepared operationally. We've got a plan in terms of how to do that. And we've also got a plan that assumes that there is no extension of government support and that those people are being asked to come back and repay. All else being equal, and that's a massive statement in a scenario -- in the environment we're in today. But all else being equal, some of those people will not be able to resume payments. Some of those people will have lost income permanently and will be unable to repay. And without further accommodation from the government or APRA, those customers will move into a past due situation with us, I'm looking at Kevin here, and move into a sort of an impaired situation and potentially hardship and all those processes that we have available to help customers through that.

Do you want to add?

Kevin Paul Corbally
Group Chief Risk Officer

Can I add 2 things, Shayne? I think one point I would add is that one of the things that we did is we made a conscious decision to actually ask our customers as to whether they wanted to opt in to this arrangement. So we know who the customers are. We understand their position. Not everyone did that, but that's the view that we took. We felt it was best for the customer to have that ability to opt in themselves. And the second thing is, in determining our collective provision charge for the year, we factored in a significant increase in delinquencies in the future on the assumption, as Shayne alluded, that not everyone would actually be able to get through the other end of this. And that may or may not prove to be right.

Michelle Nicole Jablko
Chief Financial Officer

And as I said, that's sort of implicit in that 110 basis points of risk weight migration we spoke of.

Shayne Cary Elliott
CEO & Executive Director

The only other thing I would add to that, Matt, and I don't want to overstate it, but at the margin -- what we have seen that's interesting is while people initially grab that safety net because they were scared, actually, there have been customers who have come back and said, "Actually, on second thought, I don't need the deferral. Actually, my job is secure, I'm feeling better about the outlook. And actually, I'd rather go back to paying." And so that's starting to be an emerging trend. Again, I don't want to overstate that because that is certainly not a majority of people. But I think people are feeling a lot more comfortable today that the government's got their back, that the banks have got their back, and that it's -- the economy looks like there will be some sort of gradual opening, and people are a little bit more confident about their ability to restart payments.

And then there's obviously the stats now, and I'm not going to repeat them, about let's not forget that 90% of people still have jobs and are paying. And actually 76% of our home loan customers are ahead on their repayments. So...

Michelle Nicole Jablko
Chief Financial Officer

There are some customers who have actually been wanting to increase...

Shayne Cary Elliott
CEO & Executive Director

So it's not -- I don't want to diminish the issue. I totally agree with you. It is an issue for the industry, for us and for the broader economy particularly given the sort of coincidence that all of this sort of happens within a month period.

Kevin Paul Corbally
Group Chief Risk Officer

The good thing, Shayne, is that as an industry, we are working together to come up with what an appropriate solution might actually be here as well when the 6-month happens.

Michelle Nicole Jablko
Chief Financial Officer

Matt, the other thing that's important is to go into the -- if I call it, the COVID pause. You needed to be -- your account needed to be in "good order" which in our case meant less than 30 days past due. So the customers that have gone into the pause have gone into the pause in good condition. And you can see in the pack some figures that we've given you on, things like LVR, et cetera. So notwithstanding the state of the economy, I think it's important to think about how they went into this and not assuming that everybody in that bucket has difficulty when they come out.

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

Yes. Can I just ask a second question? And then perhaps a comment. Firstly, the uniqueness of the Singapore default, do you think an insurance recovery probably likely there? And then secondly, the comment is on the dividend, I think what you've done is good, but you could have refined it a bit better and said, why don't we just pay $0.05 or 0 and remove the uncertainty and leave the calibration to the full year.

Shayne Cary Elliott
CEO & Executive Director

That's a fair comment. That was something we considered. As I said, everybody will have their view on what's the right thing to do. But it was a collective decision at the Board that the deferral was the better. But that is not to say we did not consider that amongst other options.

In terms of the situation in insurance. Look, we've taken a really prudent approach in terms of the provision we've provided. It's extremely large, sadly. And there's a long way to go on that through a court process and essentially receivership. So it's not going to resolve itself quickly. I would be -- and I would imagine that it's possibly going to get more complex in the coming weeks and months. But actually, where we feel today is we -- I think we are very well provisioned for that. And I don't expect to see any massive change to the level of provisioning anytime soon on that one. Are there any more questions?

Operator

The next question comes from Azib Khan with Morgans Financial.

Azib Khan
Morgans Financial Limited, Research Division

A couple of questions from me on the margin outlook. So on Slide 17, you've called out a 6 bps NIM headwind in the second half from lower rates. Can you please tell us how much of that relates to reductions in the U.S. Fed funds rate and the Bank of England's base rate? Also, are you starting to see a reduction in competition for institutional deposits across North America, Europe and the U.K.? And last question on margins. It sounds like you are anticipating an improvement in margins going forward in institutional. Have you started to see your withdrawal of offshore banks from the Australia and New Zealand institutional markets?

Shayne Cary Elliott
CEO & Executive Director

I'll answer the 2. You can, Michelle, talk about the 6-point question. In terms of -- look, it's early days. We haven't seen an increase in competition for those deposits. I think what's different to this, it is interesting to compare this to the GFC in particular, is the real difference here is that the massive amounts of liquidity that are in the market today as opposed to then, which was a liquidity crisis. And so there's huge amounts of liquidity out there. So we're not really seeing competition for that. There is still a sort of flight to quality, and Australian banks including ANZ are seen in that quality bucket. So I imagine that it's hard to imagine that changing, but it could.

In terms of foreign bank activity here, yes, that as we see in any crisis, there tends to be a return to home. That's an understandable position. And that is certainly again early days, but that would seem to be the case here as well. Yes. That's true in both lending and deposits, by the way. Just in terms of activity, that's true. Yes. Michelle, do you want to...

Michelle Nicole Jablko
Chief Financial Officer

In terms of that 6 basis point sort of headwind I spoke about, most of it is Australia than New Zealand. The other, offshore, the Fed's about 1 basis point of it.

Operator

And your next question comes from Zach Riaz with Banyantree Investment Group.

Zach Riaz

Just a question regarding payments on the hybrids. Obviously, the dividends have been deferred. Does the Board have any position on interest payments on the hybrids?

Shayne Cary Elliott
CEO & Executive Director

It's a fair question. Michelle?

Michelle Nicole Jablko
Chief Financial Officer

The coupon payments on the hybrids, I think, stay as previously advised, yes.

Shayne Cary Elliott
CEO & Executive Director

So there's no change is my understanding, yes.
Thank you. Is that the final question? Hey, look, that seems to be the final -- look, I really -- thanks to everybody's tolerance in terms of today and the new process. We're all learning new skills. Thanks very much. And obviously, we'll have time to talk to you all. I take the -- again, I'll go back and repeat what Jarrod and BJ said, and we take that seriously. We will go and have a discussion about that. I appreciate

the suggestion. And thank you for your questions today, and I wish you all a -- that we -- hopefully, next time, we actually get to see you in a room next time at later in the year. Thanks, everybody, for your time.