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JILL CRAIG , GROUP GENERAL MANAGER INVESTOR RELATIONS, ANZ BANKING GROUP LIMITED : Okay, thanks everybody. Good morning everyone, I'm Jill Craig , I'm the Head of Investor Relations for ANZ. Welcome to those of you joining us in Sydney this morning, watching on the web or listening on the phone to today's presentation of the ANZ 2014 full year financial results.

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Our CEO, Mike Smith and CFO, Shayne Elliott will present for around 40 minutes and then we'll go to Q and A and I'll talk about the procedure for that then. Thanks Mike.

MIKE SMITH , CEO, ANZ BANKING GROUP LIMITED : Good morning everyone. After Monday, you might have thought that I could shorten today's briefing a little bit, but I'm actually not going to because we have released a good set of numbers today, in fact about 142 pages of them. So there is plenty to talk about.

Cash profit for the year, as many of you have guessed, was up 10% to AUD7.1 billion. Earnings per share were up 9% to AUD2.603 per share, return on equity continued to increase up 10 basis points to 15.4% and our capital position strengthened with the common equity Tier 1 ratio up 30 basis points to 8.8%. The highlight here was our performance in the second half, which saw us generate AUD3 billion or 84 basis points of organic capital. Now obviously there is a dividend impact in the second half which is not captured in that figure, but this is a very strong performance.

The fully franked final dividend is up 14% half-on-half to AUD0.95 per share and that will see us pay out a total of AUD4.9 billion to shareholders for the year. This is another good and clean set of numbers that I think demonstrates very consistent execution of our super regional strategy, which shows strong growth in Australia, in New Zealand and in Asia and indeed further progress against our 2016 cost and return targets.

We're also well positioned ahead of the new DSIB and wealth capital changes with our CET1 ratio already in the high 8% range, well ahead of those changes coming into play. It's a result that demonstrates that we're creating a better bank for our customers, whether big, small, retail or corporate and indeed a better bank for shareholders.

Before I get to the results, I'd like to take a step back to highlight that our performance isn't the result of just one year's work, it's the outcome of consistent execution of the strategy. In the six years since the GFC, we've actually transformed ANZ into a bank that is more customer focused, more regionally diversified, more efficient and indeed more sustainable.

We strengthened our position in our major domestic markets through consistent market share gains and in New Zealand, through the transformation of our business which is now a source of real positive differentiation. These gains highlight just how much investment we are putting into the growth of our Australian and New Zealand businesses. They are core to our strategy and they are receiving every dollar of capital they need to grow.

The concept that I've heard that we are somehow starving our core franchises to feed investment in Asia is not only misleading, it's patently wrong. We have invested our excess capital in our business in Asia to establish a unique competitive position for ANZ and that business is now really humming. It's also producing a return above our costs of capital with growth rates which are well above those experienced in Australia or New Zealand. I'd also like to highlight here that we've been pretty disciplined with our payout ratio. We've kept this in the range of 65% to 70% because we have opportunities, investment opportunities here in Australia, in New Zealand and in Asia that we believe will create longer term shareholder value.

We're also creating a leaner, lower risk bank, with higher quality earnings and we're a stronger bank with more capital, more liquidity and a much better funded balance sheet. What's pleasing is that the bottom line is that we've outperformed our peer banks over this five year period and looking forward, I believe we're also better placed to perform in a changing **business** and indeed changing regulatory environment.

So let me give you a snapshot of how we see the outlook and how our strategy and **business** settings are positioning us to perform in this environment. First the environment in Australia and New Zealand is going to be one of low system growth while Asia continues to create strong regional opportunities. We've anticipated this constrained domestic environment by setting performance targets and indeed prioritising activities that drive our costs to income ratio below 43% and to improve returns with ROE above 16% by the end of 2016. Now we know these targets have become tougher due to increased capital requirements, but they're an important message to the management team about the standards that we aspire to.

Second, we expect to see a continuation of the benign risk environment certainly in the short term. At present, that's playing out in two ways. Lending spreads have been coming down because there is lower risk in the market, but that's been offset by lower bad debt charges. We're also continuing to reduce risk in our portfolio. While this has the effect of amplifying raw margin compression, particularly in institutional, risk adjusted returns have performed better and we are seeing benefits in terms of lower levels of impaired assets.

Third, we expect to see a shift in the orientation of domestic growth in Australia and in New Zealand from the consumer to the **business** segment. To be frank, we've expected to see this start during 2014 but I think **business** confidence is taking longer to recover than we anticipated, however we believe that conditions are in place for this shift to now occur.

The final point to make here is that I think that this environment really plays to ANZ's strengths. Our ability to continue winning share in retail, our traditional strength in **commercial** banking, our positioning at both ends of the regional trade and investment corridors and our focus on productivity and capital efficiency. I actually believe we're now at a tipping point where our strategy positions us to take full advantage of the big shifts that are redefining the global economy and are changing our customers' expectations of us.

Turning to the result, let's start by looking at the first pillar of our Super Regional Strategy, which is building strong domestic businesses in our traditional heartland, here in Australia and in New Zealand. We have now delivered 18 consecutive quarters [clears throat] excuse me, if I believe the AFR that's my Ebola kicking in. I sincerely hope not. Yes, be the last meeting you have.

We have now delivered 18 consecutive quarters of above system home lending growth in Australia. We've done this by having the leading home lending proposition and by investing in our channel capacity and indeed our sales capability. We've used the same customer insights to grow above system in small businesses in Australia with the strongest lending growth of all the major banks. This has been done and this is important, this has been done without compromising credit standards.

In wealth we saw a 13% increase in the number of wealth solutions **sold** through ANZ channels and in New Zealand, we're really motoring. We grew market share in all key segments. In home lending, for example, we have now had five consecutive halves of above system growth and that has included a strong performance in Auckland. We've also had further share gains in **commercial** and again have been improving the quality of the overall portfolio.

For me, a key measure continues to be that more customers are choosing to bank with us. Over the past 12 months we've added 106,000 net new customers across retail and **commercial** in Australia, while our wealth division has added another 390,000 customers. We also regained the number two position in customer satisfaction in Australia, and in New Zealand ANZ **brand** consideration is at a historic high.

We're also more efficient. In the Australia division the underlying costs to income ratio was down a further 60 basis points to 37.2%. That is truly world class. In New Zealand, the cost to income ratio improved by almost 2.4 percentage points to 41.1%, and since 2010 we've cut it by 7.3 percentage points.

In global wealth we also made good progress with the cost to income ratio down a further 3.8 percentage points. At the same time we're also investing in the digital and mobile transformation of the **business**. In short, our focus on strong domestic markets has again seen us provide more products to more customers in more market segments.

As you know, the second pillar of our strategy is profitable expansion in Asia, through an integrated network that connects customers with the faster growing capital trade and wealth flows of the region. We have seen double digit revenue growth for institutional Asia up 18%, driven by strong performances in **transaction** banking, in global loans but particularly in global markets. Asia is now a powerhouse for ANZ, accounting for 27% of institutional revenue. That's up 3 percentage points and it now accounts for 29% of global markets revenue which is up 6 percentage points.

We're also working hard in Asia to emphasise high quality growth and improved returns. Return on risk weighted assets was up 17 basis points and as we move out of the initial investment phase of our Asia build the cost to income ratio fell a further 4 percentage points. We have maintained our focus on high quality investment grade clients. This has seen us deliver strong growth in the balance sheet and investment grade clients continue to account for three quarters of all lending in Asia.

The key measure for me is our customers. Our regional connectivity is delivering significant outcomes through a greater share of our client's financial institutions wallet and growing numbers of multi-country clients. Once again we were ranked as the top four corporate bank in Asia by Greenwich Associates . In Australia we were rated the number one lead bank by Peter Lee Associates, our strongest result since 2009. In New Zealand we were also rated number one lead bank by Peter Lee with a substantial and actually growing gap over our peer banks.

The final pillar of our strategy is our enterprise approach to delivering more control and greater efficiency that has seen us deliver double digit productivity growth in operations, it has seen us give better customer service, and it has created a stronger risk and control environment. In 2014 we absorbed transaction volume increases of around 8% while reducing operational expense by around 3%. This helped drive the Group cost to income ratio to fall a further 94 basis points to 44.3%.

ANZ is now delivering a sustained productivity story and frankly there's more gas in this tank. Our current expectation is that our approach to operations should give us the ability to continue to improve productivity for some time to come.

Okay, now let me hand over to Shayne to look at the Group and divisional results in more detail.

SHAYNE ELLIOTT , CFO, ANZ BANKING GROUP LIMITED : Thanks, Mike. Good morning, everybody. It is my pleasure to stand before you with these results. We've got a great headline number here that really shows that the growth that we're seeing in our revenue line is continuing in through the year at 6.5%, strong growth but importantly at a headline level also not at the expense of return. We've seen the ROE, as Mike mentioned, again improve year-on-year.

But of course, we're here today a little bit also to talk about the second half. And at a headline level second half performance continued that growth although there's clearly a moderation at a headline level in terms of the growth numbers we've seen, both at a revenue level and certainly at an earnings level.

But really the story is a more nuanced one than that and actually when we talk about a few of the one-offs and timing impacts the story in the second half is a very, very good one and that's what I want to take you through.

As you know our business is heavily impacted by foreign exchange movements in terms of translation gains, that's an outcome of our super regional strategy. This year the foreign exchange benefits were a net benefit of around AUD83 million bottom line. That was more a first half impact than it was a second half impact.

We also had two disposals of businesses that we highlighted during the year, and these were both in the second half. One was the trustees business, that generated a gain on sale of AUD125 million in the wealth business. We reinvested those proceeds. What we did with those, we put roughly a third, or almost essentially exactly a third, back into the wealth business, to drive further productivity initiatives. A third went into the IIB business, again to fund some productivity initiatives. And a third went into the Australia division, which was actually a mix of some productivity initiatives and some growth initiatives.

The reason we're calling out those spends, some might say they're a kind of BAU expenditure, is they are actually one-off in nature. So they're above the line, they're there, you can treat them as you will, but we want to call them out because they are, in a sense, not repeatable going forward.

Then of course, right at the end of the second half, we did dispose of our shareholding in Saigon Securities. That was actually resulted in a slight gain on -- in terms of against book value, but of course there was a currency loss there. We don't hedge those investments, and so that resulted in a small AUD21 million loss.

So if we just put those three changes aside for a second and really look at the underlying performance of the bank, if you will. Revenue growing at 4%, right on target. I stood here a year ago and said we expected revenue to grow 4% to 5%, we hit the 4%. Expenses we'd expected to grow at 2%, we actually came in marginally better than that, I think that's a really exceptionally good result at 1.8%. And so the NPAT -- core NPAT growth of 8%.

What was the operating environment that we worked through during the year? None of this should be a surprise. We've had very low interest rates right throughout the year globally, excess of liquidity and of course very low trade volatility in our markets business, which is an important business for us. If you think about the bank in two parts, and essentially it's almost 50/50, about half of our businesses are in the retail -- servicing retail customers, so that includes the wealth division. And about half are in corporate, and there I include everything from small business through to institutional.

The environments in the retail business, critically here in Australia and New Zealand, was a solid housing market, strong savings demand and essentially improved system growth in both markets. That, in turn, drove good credit growth for the system and for ourselves, but strong competition in both markets, margins reasonably stable but provisions remaining low. And our intentions in that sector, and we highlighted this last year, was to invest. These are businesses we like, these are great return businesses, businesses with the opportunity to grow share. So we invested to grow share responsibly and a lot of that investment was really about improving the customer experience.

On the corporate side of the business, quite a different story as Mike mentioned. Weak confidence, mostly here in Australia, stronger in New Zealand and Asia. But corporates having very, very low -- maintaining low levels of leverage and actually very low demand to change that. And so that meant we were in an environment with slow credit growth, falling loan margins. Now the outcome of that is that there's some balance sheet trading opportunities which we were able to take advantage of, but there's a lower demand for hedging products because of that low volatility, but also feeding that low provisions and bad debts outcome as well. So our focus in those areas was really on capital efficiency, really driving returns, managing productivity and diversifying revenue.

So what actually happened? I think this is the most important slide that I have because it really talks to the trends within the business. So just taking that through again, what happened in those retail oriented businesses. Well revenue growth was reasonable through the year, but importantly the momentum actually improved quite significantly. So revenue growth in the first half around 2% and actually doubling on a like-for-like basis to almost 4% in the second half. So really strong momentum coming through, which we'll talk about as we go through the divisional performance. Expenses in those retail, really tightly managed in the first half. We continued to invest though and picked that up a little bit in the second half, to support growth.

Now the corporate business is -- I think it's important to look at it excluding markets because we've talked many times about the seasonality in markets. I'm just going to put that aside for a minute and talk about that corporate sector, excluding the markets result. As we mentioned with those falling margins and the weak credit demand -- actually the first half saw revenue in those sectors down -- very slightly down, 1%. But we managed expenses accordingly and kept them almost flat at 0.5%.

The important story here is that the second half has really been a turnaround. And we've seen that not -- we've seen that across the board in our businesses. We're now actually seeing moderate, but some, growth starting to emerge in the corporate sector across our markets. And you'll see there, we'd prepositioned ourselves on the expenses to actually keep -- those expenses actually came down in the second half. So I think that's a really good story for the underlying momentum and the outlook that we have for the businesses.

Of course markets is an important part of the Bank, but there is a seasonality impact. Typically we see a second half about 10% weaker than the first half. I'll show you some material later, and that was again what we experienced this year, and that's what kind of overrides those underlying results in retail and corporate so [you] see the Group numbers there.

So from a divisional perspective, what drove the profit? Actually we had really good results here, Australia driving 8% earnings growth across the year, IIB 9%, New Zealand 10%. Wealth, actually there's some ins and outs in the wealth results there, that are important to take note of. So while the headline number is essentially flat, actually when you strip out those one-offs, there were some tax one-offs that we had last year, essentially you end up with a underlying wealth performance is actually also up around 10%, 11%.

So all of the businesses growing very high single digit or low double digit. But again it's a story of the two halves. First half the growth very much driven by our IIB and New Zealand franchises, really strong growth there. Second half, that growth baton being passed to Australia and wealth which kicked through the growth into that second half.

So digging down in a little bit more detail. Australia division, this is a really pleasing result, just ongoing high quality growth, half after half. We've now -- as you can see here, strong lending growth. In fact the second half of this year was the strongest growth we've had over the last three years, and importantly, not at the expense of margin. Actually margin improving really healthily in the retail business here in Australia. So that's a terrific outcome.

Similarly on the commercial side, we're getting growth, there's a slight element of seasonality in commercial where we tend to get the growth in the second half. But importantly, looking at that chart there, showing that actually it is not at the expense of credit quality. In fact the credit quality there is held and marginally improved. So the good results on the underlying demand side and quality, and of course we're getting -- that's giving us a real productivity dividend there. And you can see the CTI , Mike mentioned the CTI , numbers continuing to improve for Australia division and also looking at revenue per head as another measure of that. So net net outcome, very strong operating leverage and a great result for the Australia division through the year.

New Zealand actually a very similar story, similar chart, slightly different numbers. Ongoing market share growth in New Zealand retail, which has been terrific, and actually a reasonably marked improvement in margin over that period of time. The same story in **commercial**. God solid high quality growth in terms of asset levels and the quality indicators there actually improving over that time, as we've restructured the book a few years ago and now we're getting the benefits of that on the quality side.

Productivity, an outstanding result, really a payback from the New Zealand simplification investments we made some years ago and pretty strong improvement in CTI and also revenue per head also delivering that similar strong operating leverage there for New Zealand as well.

Global wealth, our whole strategy in wealth is really to increase the cross-sell and connectivity of wealth with our core franchises, but also to improve its efficiency. And the team here have done a great job. As Mike mentioned, significantly more customers with a wealth product today, 25% growth in that over the year. Which is really an outcome of the investments we've made, not only in innovative product but also in innovative distribution channels.

Good results on the lapse rate so we've shown that we continue to manage the life book incredibly well and had better experience than most on lapses, and we're sharing in the general market trends towards higher net flows on FUM. Wealth has also contributed on the productivity side, as Mike mentioned, with some good -- and improving there and that CTI coming down closer and closer to the **group** average. So yet again, another division with strong operating leverage and an underlying very good result.

IIB, as you know, we've -- there's really a focus of the super regional strategy. Just to kind of talk you through a few highlights on this one. First of all the Australia and New Zealand franchise, broadly flat over the year. That doesn't really show you the fact that there's been a quality improvement in that profit result. Clearly that margin decline that we've seen, that weak demand, has effectively hurt the Australia **business** more than others. But what's great is that those divisions have been able to replace that earnings with other sources of revenue and other sources of profit and keep their profit flat on there I think is a pretty good outcome in the environment.

Asia really powering through and 30% growth for the year. It's a significant part of IIB, it's a significant part of the **Group**, and that was really the powerhouse for growth for the year. And when we look at where did that growth come from, from a product perspective it's nice to see that it's broadly based. So you look to the top graph there, markets 8% growth, cash management 6%, trade 3%, exactly where you would want the growth to be given our focus on trade and capital flow into mediation.

Productivity, obviously important given the focus on returns within institutional in particular. But there's been a gentle increase in the CTI and revenue per head. And then we look at, I think, that bottom chart there on cash profit is a really important one. Again it speaks to the fact that we've been very consciously managing the balance between growth and return. And this is a division that is getting moderate [grow] through and it's managing its return, it's getting that balance right. And that return on risk weighted assets, actually the highest it's been, and improving, I think that's a great outcome for shareholders.

So digging into that a little bit deeper, looking at Asia in particular. Asia are delivering growth and improving returns. That growth is broad based. It is coming across from a customer perspective, whether it's multinationals, large locals, financial institutions, et cetera. All of that kind of high single digit growth during the year. Growing faster essentially than average GDP across Asia, which is important, we're picking up share there. And when we look at the sources from a product perspective, markets has been a big driver of that, as you would expect given our focus on intermediating trade and capital flows, and clearly hedging is a big chunk of that.

Cash management, that's really starting to get the payback from the investments we've made and transacted and building up that platform. I think that's a very credible result in terms of a 13% increase, which is really essentially through a flat interest rate environment, to be able to drive that is great. Trade, a bit more moderated growth this year, and that again I think speaks well to the division's discipline in saying, we're not going to -- we're going to manage that trade-off between growth and return.

A lot of that growth came in the first half, second half essentially flat, because we chose not to play the game on price and just hold back in terms of risk appetite there, and focus elsewhere. And I think that's served us incredibly well from a risk and return point of view. So productivity in Asia improving fairly dramatically over the two years, and again that same story, really good cash profit growth from Asia and an improvement in the return on risk weighted assets, which is exactly what we've promised you.

Now of course markets is an important **business** and it does have an impact. Here we see the year-on-year growth remains very solid, low double digits, 10%, 11% growth over the last couple of years. This seasonality -- and I remember standing, I think it was here, somewhere, two years ago, talking about the seasonality that we were experiencing, and it's played out almost to the decimal point. We see exactly that 10% lower second half than first half, and that's what happened again this year. But the underlying annual growth very strong.

And it's also a terrific story here in diversification of that revenue, and where is that revenue growth coming from? Increasingly, it's a more diverse **business**. Asia, two years ago, driving 20% of the market's **business**, today almost 30%. Then if you look at that bottom chart, it says where is that coming from? Again, it's broad based. You would expect to see a big chunk of that coming from the money centres of Singapore and **Hong Kong**, and it does, but it's more than that. Singapore almost tripling revenues over that period of time, which is our largest markets **business** in Asia. Second largest, **Hong Kong**, almost doubling. **China**, the third largest, more than doubling. So really strong broad based growth in the Asian markets **business**.

Of course, that's all the front side. None of that's possible without having a world class operation and technology capability. Mike has talked about the operational leverage we're getting from here, and we've talked about it in previous years, so I just want to spend a little bit of time talking about how we've generated that.

Essentially, we're getting more productivity per person. So of our **operations** FTE we're getting more **transactions** for FTE going through our hubs, and the average cost of those FTE coming down. Again, that's not a one-time thing, that's just a continuing trend of getting that cost down as we move more of that work to our centres of excellence.

I think what's really pleasing is that is absolutely not coming at the cost of quality. In fact, it's the reverse. As a result of the strategy we're actually getting a massive increase, a very rapid increase, in quality. That, of course, feeds through not just in terms of costs -- the cost of rework et cetera -- but actually a better customer experience, and that's obviously supporting the revenue growth. So you see that operating leverage is right across the **board**, and it is coming in all of the divisions, so it's a really, I think, a hidden strength of the **Group**.

But, of course, **operations** is not the only part of the Bank that's focussed on expense, discipline and productivity. Here, if you just look at the businesses, so putting aside the FX piece for a minute, we grew our expenses 1.8%, a very low number. What was it? Technology was the single biggest driver, an increase of AUD67 **million**. That's just in reflecting investments we're making to drive some of that productivity and the improved customer experience. Not all of that is repeatable. Some of it was some one-time costs in there, but that's the number one.

Second, depreciation and amortisation, again, reflecting the investments we're making in the **business**. Other than that, we're talking very small numbers. Total cost of people, including bonuses, essentially, flat on the year.

To the credit portfolio. Very -- continued improvements here, no surprise there. Gross impaireds continue to come down. I think what's important there is to look at the large end of town there. Gross impaireds above AUD100 **million**, almost non-existent in the book today.

Total provision charge, we've actually had three years where that total provision charge has been about AUD1.2 **billion**, AUD1.3 **billion**. This year it took a step down to below AUD1 **billion**. It's important to note there that that step down was really driven by IP. It's not through any release of management overlays or any significant release of management overlays. And we think that's a new level for provisioning, going forward.

Looking into that CP balance, (inaudible) has come down, but that bottom chart showing there that we've had about 5%-ish growth due to lending, but it's really just the risk, the quality of that book improvement, that's driven it down. Management overlay release for the year was a net AUD49 **million**, a very small number with -- not terribly significant in the scheme of things.

Risk weighted assets, as you know we had an unusually large risk weighted asset growth in the first quarter of the year. That was due to some -- remember, there was a big lot of refinancings that were happening, particularly here in Australia, taking advantage of rates et cetera and market conditions, so that drove a lot there. And there were some model changes we had with our regulators, but what you see here is that really was very much isolated to the first quarter. Since then we've had almost no RWA growth.

And that shows we're being able to fund good quality credit growth, and we're being able to manage the RWA very successfully. That's really a range of things that we're doing across the Bank. I mean if I think about last year the big cultural shift, if you will, at the Bank was this big focus on returns, getting the balance right. And this year it's really been -- we've driven it to the next level and a focus on capital efficiency. Right across the bank we're seeing this taken much more seriously and really driving a great outcome on RWA net usage, which in turn is leading to the strength we've had in capital generation for the year.

Strong result, obviously, from cash NPAT. And the dividend, obviously you can work those out for yourself. In terms of the other there, those 15 points really comes down to three things. It's literally a third, third, third. A third of that is a dividend, essentially, from the investments we've made in data. So just getting better data, higher data integrity is driving some benefits on capital.

Secondly, there are some benefits from ongoing investments we're making to improve models. Within both of those drivers around 10 points of that are repeatable. Maybe not exactly basis point for basis point, but there's more work to be done there. The third third is really just to do with some accounting noise in statutory profit. Those are swings and roundabouts that come and go. You can't count on that for the future. So a strong performance on capital.

So, in summary, we've done what we said we would do. We've strengthened our core markets, grown share in Australia and New Zealand, maintained returns, increased the cross-sell of wealth products. We've really delivered, I think, in terms of profitable Asian growth. We're getting profit growth in Asia and we're improving the returns.

And as Andrew and the team mentioned on the Asia Road Show, now, with those returns above our cost of capital and improving, so that's a terrific place to be. And as I mentioned, this enterprise approach, I think, are possibly not really understood, but real strength of the Bank, being able to get benefits from working together, doing things in one place, one way, has paid off pretty significantly for the **Group**, and will continue to do so, as Mike mentioned.

So the point of the great strategy, we feel good about that but is it producing results? And I think the reality [is it is]. If we look at the five year compound growth rates -- looking at our peer **group** we've clearly outperformed in terms of revenue. That is our promise. That is what we are as a Bank. We're a growth stock. We've delivered that. We've grown at 7% compound. This year, again, we grew at 7%, significantly higher than our peer **group**.

We've grown our PB -- yes, we've spent a little to get there, but our PBP is right at the top of our peer **group** comparative **group**, and we've been the least dependent on provisions in terms of driving the earnings growth. So we've outperformed in cash NPAT over that five years. That's a terrific result. And again, it has not come at the cost of return. We've improved return markedly and, again, in the upper bands of that peer **group**. I think that's a terrific result, and there's more to come from that.

Thanks, Mike.

MIKE SMITH : Okay. Many thanks, Shayne. So, as you've seen, this is another good performance that demonstrates consistent execution of the super regional strategy. Let me say though that the macro drivers of growth in the sector are easing, and the environment is more challenging.

So we have been acting to get ahead of the game. In simple terms, in the environment we have been in, and the one that we're expecting, we have been focussed on geographies and industries that we like, on customers that we know and on products where we feel we have a competitive advantage.

This, I think, is an important discipline in the -- and as a contributor to the improved credit performance. It means that in a tough environment we're well positioned to maintain our momentum and to deliver peer leading EPS growth and TSR outcomes for shareholders over the medium term.

Now, the other uncertainty which I know is concerning investors globally is regulation and the outcome, particularly, of the Financial System Inquiry here in Australia. So let me make a few comments on this. First, everyone in the economy benefits from a strong and well managed banking system. Customers benefit, shareholders benefit, indeed, taxpayers benefit. We also need to recognise that regulatory settings have already been significantly strengthened since the GFC, and this has built on what was already a very sound, well regulated and well supervised financial system here in Australia.

I believe that an approach is needed that focusses on the principles that are needed to guide policy and, on a holistic approach, to system stability, to determine the required level of capital and, most importantly, loss absorbency. It just cannot be in Australia's interest to place the financial system at a globally competitive disadvantage. Indeed, we're already globally well positioned with the implementation of Basel III.

The thing that I think is under-appreciated in some of the discussion that I've seen on capital and loss absorbency is that Australia already has a low risk banking system. I can categorically say the major Australian banks are now stronger and safer than ever. And this isn't just a matter of equity capital, but thinking much more deeply about our full loss absorbency capacity.

An example I give here is ANZ. That loss absorbency amounts to around AUD56 billion, which is based on profit, provision overlays, equity capital, other Tier 1 capital and Tier 2 capital. Of course, there are many other factors other than loss absorbency which underpin the strength of our system. Stress tests conducted by APRA and others show Australia's system is already sound, benefiting from strong profitability and provisioning, a conservative retail and commercial banking business mix, strong legal protections and capital levels which are already more conservative than global standards.

Together this means we already have a very low risk banking system for Australia taxpayers, who are rightly concerned about the too big to fail issue. But we need to think very carefully about importing other people's solutions to other people's problems. Frankly, Australia deserves a better debate on this issue that we've seen to date.

We need to understand that there is a real cost to regulation and policy settings that are too conservative and too restrictive. Higher capital costs will come at a cost to customers, who will pay more for home lending. It will come at a cost to business, who will pay more for loans to grow their business. And it will come at a cost to the economy through lower growth, fewer jobs and lower tax revenue. There are those who dispute these impacts but, frankly, these are simple economic facts.

Okay, let's go back to the results. That was all pretty clear, hopefully. ANZ has produced a good high quality result for customers and for shareholders for the result for 2014. I would like to thank all of ANZ's 50,000 people for their hard work in delivering those outcomes.

Now let me pass back to Jill, who will open it up for questions. Many thanks indeed.

Questions and Answers

JILL CRAIG : Thanks, Mike. I know you all know this off by heart, but let me try it anyway. We're going to take questions from the room first, if you can wait for a microphone, announce who you are. We'll then go to the phone and Motty surely because that hand went up so quickly, you can start.

JON MOTT, ANALYST, UBS : Thanks Jill, Jon Mott from UBS . Two very quick questions, firstly Australia had a very good margin outcome in the second half, up 5 basis points. I just wanted to get a bit of a feel for it, [253 basis points] also a very good number for a margin.

The second one was on Asia. If you look at the geographical profit down 20% in the second half and I know there's some seasonality in there, so conscious of that, but did you meet the cost of capital for your Asian business in the second half, or do you really need that strong markets revenue in the first half to get that cost of capital?

SHAYNE ELLIOTT : Okay maybe Phil can answer a little bit more colour on the margin, but the margin outcome in Australia was actually a lot to do with also really good performance on the deposit side of the business. So I don't know if there's really much more to add on that, Phil.

I think it's essentially what we saw in the first half, actually this is true across the Bank. First half NIM, and there's a slide in the pack there somewhere, we're very much driven by asset competition and that level of competition actually had very similar impact in the second half, but the second half had the benefit of a pretty significant offset, almost 100% offset from funding cost and better deposit pricing coming through.

In terms of the geographic half-on-half, there's really three things that drive that. One was just FX impact, that was about AUD21 million FX impact between the two. Two, the first half had the benefit of some legacy write backs from the RBS acquisition, so AUD40 million, AUD50 million of that, which is -- that's finished. The third was actually just some internal expense true ups between Australia and Asia around AUD25 million. So those are the kind of technical reasons.

Your question though, Jonathan, you're right in the sense that markets obviously is an important part of the Asia business, that's part of our strategy, so its performance, because it's generally higher return, has an impact on it. The business is above its cost of capital for the second half, but not as much as the first half obviously.

JILL CRAIG : Jarrod and then Brett.

JARROD MARTIN , ANALYST, CREDIT SUISSE : It's Jarrod Martin from Credit Suisse . Mike, not going to let's get away with one or two slides on the capital, we're going to have a bit of a friendly sparring match on this. It's all well and good saying that the Aussie banks are well capitalised and they do look reasonably well capitalised at this point in time, but it's a point in time measure and Aussie banks have got to the Basel III requirements before the rest of the world. The rest of the world are accumulating capital.

So if we fast forward two or three years' time and the Aussie banks just stand still in terms of capital, they will look relatively lower on capital than they do today. The fact is that the Aussie banks still rely on global markets to raise funds, therefore isn't it right that the Aussie banks need to equivalently raise more capital over the next couple of years to be in that top quartile versus the global peer **group** so that they can actually raise those funds?

MIKE SMITH : Look I'**m** not going to talk about what the results of the inquiry are or whatever, but let's assume that we conform with global standards (technical difficulty) and last week, you know, there was this article on what the inquiry was going to create. If you want to follow those ideas and say, okay that's the amount of new Tier 1 capital we require, that's going to be the adjustment to the mortgage book and whatever, if you were to actually adjust Tier 1 capital by that amount, it would increase every loan in Australia in terms of its pricing by 50 basis points, a little bit over, okay? If you were to achieve the same result by actually increasing Tier 2 capital, the cost of that loan in Australia would be 3 basis points. It's an amazing difference. So there is a smart way of doing this stuff and that's what I think regulators have to now concentrate on.

The actual level of safety, though, is something which is a moot point. I have never seen a bank fall over because of capital. They generally fall over because of the liquidity problem. So I really do not see the obsession.

JILL CRAIG : Brett.

UNIDENTIFIED PARTICIPANT: Thanks. Shayne you've got a slide in there, the return on risk weighted assets in Asia. Does that include the profit from the Asia partnerships?

SHAYNE ELLIOTT : Yes.

UNIDENTIFIED PARTICIPANT: I noticed in the 4E there's no risk weighted assets for the Asia partnerships, so there's no risk weighted assets in that calculation for the Asia partnerships, would that be right?

SHAYNE ELLIOTT : I'll just check, is that right Adrian? Yes, it's capital reduction. But the point is it's the same year-on-year right? So the point is the trend is improving.

UNIDENTIFIED PARTICIPANT: Yes, so the absolute level is that you've got a number in the numerator but you don't in the denominator.

SHAYNE ELLIOTT : For the return on risk weighted assets, absolutely right. Obviously we're not disclosing the ROE, I accept that. We've given this as an indicator, as the best indicator we can publically or we feel comfortable disclosing to show you that there's a trend. Actually the trend, not to the basis point, is consistent with the trend that we have in ROE, okay?

UNIDENTIFIED PARTICIPANT: The investments in associates shown in the back of the 4E, the deduction against capital, that would be the reasonable number to put against the profit for the Asia partnerships, wouldn't it?

SHAYNE ELLIOTT : In terms of just trying to understand the profitability of the Asia partnerships?

UNIDENTIFIED PARTICIPANT: Relative to the capital employed.

SHAYNE ELLIOTT : Yes, that would be a return on our investment, yes, it's a return on capital employed, sure.

UNIDENTIFIED PARTICIPANT: And that number is increased about, more than 10% in the -- I think it's increased 13%.

SHAYNE ELLIOTT : Yes.

UNIDENTIFIED PARTICIPANT: Seems to be a greater effect than currency.

SHAYNE ELLIOTT : No, I mean the partnership's performed well. We had a good return on the partnership.

UNIDENTIFIED PARTICIPANT: Just (inaudible) the change in that deduction is purely about currency?

SHAYNE ELLIOTT : Yes. The point is that the returns that we get on our partnerships are good, they're above our cost of capital as a portfolio and they've actually been improving. What isn't seen in those numbers, wherever you look, is actually the market value of those. They're obviously at cost or thereabouts and so you're not getting the mark to market benefit which is reasonably significant on that portfolio.

JILL CRAIG : James.

JAMES FREEMAN, ANALYST, DEUTSCHE BANK : James Freeman from Deutsche Bank . Just on the bad debts and asset quality side, obviously a good result, but just having a look on page 9 and the graph you had on Asian lending, it shows that the institutional component -- it seems that investment grade's gone from 75% down to 70% in the last couple of years.

If I look at your bad debts to gross loans, it's now actually at the highest level of the peers given what we saw out of NAB yesterday. Just trying to get a bit of an idea, you say you've de-risked the Bank and granted your bad debt charge is a lot lower, but just in a relative context, do you think you guys are running a higher risk profile than your peers are and if not, should your number come down to where the peers are?

SHAYNE ELLIOTT : No, I mean we're clearly not running a higher risk profile that our peer **group**. Part of that is to do with the **business** mix between retail growth and the smaller end of town **business** investment grade. It's actually not, you're right, that the statistic shows that it's declined a little bit from 75% to 70%, but the number's here, it's a reasonably small impact. The quality of the book remains very high and it's higher than the home book that we have in Australia.

UNIDENTIFIED CORPORATE REPRESENTATIVE: Actually Shayne, I think that legend's wrong, I think the investment grade is across to 74%, I think that that's the tenor that's (inaudible).

SHAYNE ELLIOTT : Oh you've done it the other way, yes.

UNIDENTIFIED CORPORATE REPRESENTATIVE: I think that's -- it's an error.

SHAYNE ELLIOTT : It's the other way.

UNIDENTIFIED CORPORATE REPRESENTATIVE: So actually the investment grade's --

SHAYNE ELLIOTT : I mean, so the investment grade's dropped a percent --

JILL CRAIG : You're having a big week.

SHAYNE ELLIOTT : 1%.

MIKE SMITH : Yes, I was going to say, it's about 75%.

JILL CRAIG : James is having a cracker of a week for error pick up. Victor.

UNIDENTIFIED PARTICIPANT: Thank you, Victor (inaudible) from Citi Equities. Question on markets income, at the risk of asking for some outlook comments, given that you mentioned Mike that we're running or we are in a benign risk environment, do you think in this sort of environment we can actually see markets it can grow year on year?

I understand there is seasonality obviously half-on-half, but when we look at it on a year-on-year basis and maybe secondly, more broadly, given that risk environment and given that you're consistently trying to rebalance the Bank more towards less risk, does that, in the near term, put you at some disadvantage because you're less reliant on BDDs and more reliant on things like markets income?

MIKE SMITH : No, I don't think it puts us at more risk. I mean in terms of the global markets income, I think what's important to understand is that 75% of that income is flow **business**, it's customer driven **business**. Now there is no doubt that increased volatility in markets means there's more customer activity in terms of people wanting to hedge, et cetera. But in terms of trade, that's a fairly constant revenue stream and the foreign exchange **business** that comes off the back of that.

Volatility, look it's a difficult one to read. I mean if you look at the way bond markets react, well a couple of weeks ago, that was really quite extreme and you have to wonder why that happened. Because really the actual provocation or the touch point to create the volatility was the announcement that the Fed was pushing out its tightening and why was it that it created such an extraordinary reaction? I think it's because actually a number of the major money centre banks have actually just pulled in the balance sheet, the Deutsche 's, the UBS 's, the Morgan Stanley 's, the Goldman's, JP Morgan 's and whatever, there just isn't the liquidity that there was before and therefore this volatility, I think, is just going to be a little bit more extreme than we've seen before.

So overall, I feel very comfortable with the way that we positioned our global markets **business**. I think it's been remarkably successful. It's been building up and as you saw, the influence now of the Asian **business** or the Asian component of that is really very significant.

SHAYNE ELLIOTT : I think there's two points of that, there's two ways to grow that **business**. I think your comments would be right if we were in a mature level in terms of our customer penetration and we were reliant on the same number of customers year after year, but we're not. I mean we're growing our customer franchise really importantly and that's what that diversity has seen through Asia.

I mean it's interesting to note that if you look at our share of global foreign exchange three years ago, we were number 42 in the **lead** tables and now we're number 20 and that's really -- that's both from more customers and more volume, so we can grow. I think the interesting point is, though, that won't be without investment. We can't grow with not -- we need to continue to invest in terms of systems and product capability.

MIKE SMITH : Do you want to say something Andrew?

JILL CRAIG : Richard.

RICHARD WILES , ANALYST, MORGAN STANLEY : Richard Wiles from Morgan Stanley . I've got a question for Shayne and a related question for Mike. Shayne on capital, the common **equity** Tier 1 ratio has gone from roughly 7% to 9% in the last five years since the end of the crisis, but the leverage of the **Group**, the simple leverage of the **Group** has remained relatively steady.

I wonder if you could give us a rough idea of how much of that has been driven by change in mix or how much has, in terms of the increase in the ratio, the common **equity** ratio, how much has been driven by a change in mix, how much has been driven by de-risking and how much has been driven simply by the move to advance to accreditation and the risk optimisation or the RWA optimisation that we hear so much about?

SHAYNE ELLIOTT : Yes, frankly off the top of my head I couldn't give you those balances. It's a good question, I'll work it out and come back to you.

RICHARD WILES : Okay and my related question to Mike, let's forget Murray and the Financial System --

MIKE SMITH : I wish we could.

RICHARD WILES : -- Inquiry for a moment. In the seven years you've been in Australia you've always commented on developments in global banking and you've tended to be a little bit ahead of people who are more domestically focused.

So I'**m** interested in your views on the G20 and the Financial Stability **Board** . They're very vocal at the moment on risk weightings for advanced banks. The FSB is chaired by Carney, who is clearly well respected around the world. So I'**m** interested -- what do you think they are likely to propose at the G20 meeting? What do you counterparts in banks in Singapore, **Hong Kong** and other regions think will happen on risk weighted assets for advanced to credited banks?

MIKE SMITH : The FSB at the moment is not so concerned around the issue of risk weighted assets. It's priority is to get the TLAC issue for the G-SIBS in place. So that's what will happen at the G20. And that is quite advanced now, in terms of where that will land. Quite clearly there's -- it's not only, they're looking at the complete TLAC. So what will -- what that will include is an element of statutory bail in for example, fully funded deposit schemes et cetera. And of course it will be different in various countries.

The other thing of course is the issue with derivatives, and they want to get that one cleared up as well, in terms of -- to sort that out. But going back to TLAC, that is purely -- and they've made this very, very clear -- this is purely for G-SIBS. It is not about D-SIBS, or any other bank. Now we can assume that once the TLAC is agreed for G-SIBS, it's a matter of time before they start to look at that, but that could be 2 years, 3 years out.

The issue on RWA is more from -- coming through the Basal Committee, and they're looking at how they get better alignment, and better understanding. And I suspect that we will end up with something which is somewhere between where we are right now, between the advanced and standardised. Is what I think will probably emanate. But again they're talking, 3 years, 4 years, 5 years in advance. But the thing that they do want to try and do there is get a proper correlation that the asset that we would have on our balance sheet is the same as that asset that say JP Morgan would have on the balance sheet. Quite clearly that is not the case right now.

And that's their main worry. So there is a degree of concern that -- and this is where the US have got a problem with the whole concept of RWAs, because it relies on banks' models. The argument of course is that well banks have to get approval from the local regulator to impose those models, so really the regulatory environment has to get more coordinated as well here. But I actually think we all have to work together on this one to sort it out. But I think it's quite a few years out, and this is just going to be an ongoing thing.

Regulation is not coming to an end, I guess would be my message here. It's like the babbling brook, it will just go on forever.

JILL CRAIG : Shayne, nothing? Okay. Michael.

MIKE WIBLIN, ANALYST, MACQUARIE **GROUP**: Mike Wiblin from Macquarie. Mike you mentioned that there's still some productivity improvements to come from here. You gave us a target last year. I was wondering, maybe just some colour around?

MIKE SMITH : Well we haven't met our next one yet. So when we've done that I'll give you a new one.

MIKE WIBLIN: FY15 I need something for my model. Can you give us a feel, I mean Shayne sort of mentioned 1.8% and maybe next year it looks like that -- I mean is that where we're heading?

MIKE SMITH : Well you've got the target. It's out there.

SHAYNE ELLIOTT : So the target of 3.16% was that CTI would be at or below 43%. I'd say straight line extrapolation is not a bad approach for that one.

MIKE WIBLIN: And on page 67 of the 4E, there's AUD58 **million** in impairment in retail, in Asia Pacific. Can you just talk a little bit about what happened there?

SHAYNE ELLIOTT : Do you want to do that Nigel?

NIGEL WILLIAMS , **GROUP** CHIEF RISK OFFICER, ANZ BANKING **GROUP** LIMITED : So Nigel Williams , CRO. If you look there [debts] in our credit card portfolios, largely in Indonesia and in Singapore. In Indonesia there's a change in behaviour in one of the cohorts there and so then that flows through, changes the origination models, changes the collections models and that shouldn't be repeating.

JILL CRAIG : Andrew.

ANDREW HILL, ANALYST, MERRILL LYNCH : Hi, Andrew Hill from Merrill Lynch . Can I just ask a question about the RPA institutional **business**? The returns on risk weighted assets in that **business** have been hovering around 1% for a few periods now. A little bit of volatility from the global markets **business** this time round. But I'**m** just wondering, do you see that as a steady state return on risk weighted assets for that **business**? Or do you see that tracking higher, and if so what are the drivers?

SHAYNE ELLIOTT : Do you want to do that one, or do you want me to? I -- look, I think it's dangerous actually to think about the **business** and try and silo things into APEA and Asia and Australia et cetera. That's not how we run the **business**, it's an integrated **business**. We do things in APEA for the benefit of Asia, we do things in Australia for the benefit of Asia or whatever. And so there's a danger in doing that, and particularly when you start getting down to kind of ratios around return.

Our target is to get a decent, acceptable return for the **business** overall in IIB. And Andrew maybe you can talk about the specifics in that one. Clearly (inaudible) markets is an important part of the IIB **business**, it's a relatively more important part of the Asia growth story, not necessarily APEA, but the Asian piece of it, because that's our whole focus around trade and capital flows.

Markets generally by definition is a higher return **business** than others, not all but -- than others. So the more weight we have towards, the more successful we are with that market strategy in Asia, the higher generally the returns will be in Asia. And actually then that will feed through to the IIB **business** overall. Do you want to add anything?

ANDREW GECZY , CEO INTERNATIONAL AND INSTITUTIONAL BANKING, ANZ BANKING **GROUP** LIMITED : I guess I would just add the point around the fact that our markets **business** is still 75%, [70%] customer flow **business**. And you know if we take a look at how we're trying to connect customers across our quarters, it's about trade and foreign exchange which really drives that. Our foreign exchange **business** is one of our higher returning businesses from a product line perspective.

So that's really what we've been building over the last few years and that has been the success that you've seen flowing through in those customer relationships. So I think we'll continue to see that. And we continue to believe there will be an improving trend associated with our returns.

JILL CRAIG : Might take a call from the phone please.

OPERATOR: Thank you. The first phone question comes from Matthew Wilson from JCP Investment Partners, please go ahead.

MATTHEW WILSON, ANALYST, JCP INVESTMENT PARTNERS: Yes good morning. Given your leadership in the resources space, could you talk us through the impact of soft commodity prices on your balance sheet. While we've been worrying about David Murray the **iron ore** price has obviously slid somewhat and **coal** continues to be very weak.

MIKE SMITH : We'll give that to our CRO.

NIGEL WILLIAMS : So Nigel Williams , CRO. The -- on **iron ore**, the **iron ore** price is still above the stress levels that we've actually modelled most of our exposures on. So we're quite comfortable where **iron ore** prices are currently. On **coal**, clearly a number of those businesses are under some cash flow pressure and our portfolio tends to be in the lower quartile, sorry lower half of the cost curve. But profitability in that sector is pretty poor. So as long as **coal** prices don't go significantly from here, we're not expecting any material provisions.

SHAYNE ELLIOTT : He asked about softness as well.

NIGEL WILLIAMS : Soft -- I think there's a really good news story if you look at the way we've dealt with our soft commodity portfolio. If you look at our agricultural exposure in New Zealand, we changed our credit criteria there several years ago and you saw that our portfolio reduced. So we've very much focussed on the long run price, so we were not factoring in a **dairy** payout price of [NZD8] in New Zealand, it's gone down to [NZD5], so we see a very good portfolio performance through the cycle there. As with some of the customers with more leverage chose to refinance over the last few years.

JILL CRAIG : Take another call please.

UNIDENTIFIED PARTICIPANT: With the investigation currently under way into foreign investment in **residential** real **estate**, are there any potential operating risk concerns that may be exposed at ANZ?

MIKE SMITH : Sorry who is that from?

SHAYNE ELLIOTT : No there is nothing material from that. No.

UNIDENTIFIED PARTICIPANT: But if you funded a foreigner to **buy** an established **property** which (inaudible) hasn't approved, are you inadvertently funding an illegal **transaction**?

NIGEL WILLIAMS : If you're looking for that sort of story then it's probably better to go and look for some of the non-bank providers who I see have been providing up to 40% to that sector. Our flow there is de minimis.

JILL CRAIG : Thanks Matt, if we could take the next caller please.

OPERATOR: Thank you the next phone question comes from Craig Williams from Citi. Please go ahead.

CRAIG WILLIAMS , ANALYST, CITI: Yes good morning and sorry I couldn't be there in person although by the sound of your earlier reference to Ebola that may be fortuitous. Notable was the slowdown in loan growth in Asia, I think 4% half-on-half and 15% year-on-year. And risk weighted asset growth. How much of this was a reflection of prudence given regulatory uncertainty, how much of this is a realisation that there are parts of the Asian **business** where growth was available but not suitably profitable?

I note that contraction in absolute balances of trade and **transactional** loan balances by a couple of per cent in the second half, where ROE on the lending in isolation must have been low single digit I would imagine. And excluding regulation changes, sort of -- how much change can we expect to see in risk-weighted asset growth profile seen this half. How much of that is an anomaly, the sort of slowdown in risk weighted asset growth?

SHAYNE ELLIOTT : So to your question about the asset growth in Asia, all of it was to do with our own prudence, our own decisions around the risk reward trade-offs, and those businesses who we want to book and we see decent returns from. So that was a conscious decision.

In terms of the RWA growth going forward, clearly you know the last 9 months keeping essentially flat is an extraordinarily good outcome. We think however that -- so if we assume that RWA growth through the cycle kind of 4% to 5% ongoing, we should be able to continue to get RWA offsets to that through those data improvements and other things. Not -- but it won't be Craig, it's unlikely to be 100% offsets going forward. That's true. But we see it -- essentially RWA growth will be lower than our net lending growth.

CRAIG WILLIAMS : Thank you.

JILL CRAIG : Thanks if we take the next call.

OPERATOR: Thank you the next phone question comes from Andrew Lyons, from Goldman Sachs . Please go ahead.

ANDREW LYONS, ANALYST, GOLDMAN SACHS : Thanks and good morning just a related question to Craig's one. I just note that within your global institutional **business** your risk weighted assets from the global loans part of the **business** still contributes nearly half of your risk weighted assets and it's been broadly flat over the last couple of halves. Just wondering if you can give us a bit of a feel around how you'd expect that RWA growth to actually shift just within the various parts of the institutional **business**.

And then just on related point, slide 63 you highlight the fall in your credit risk weighted assets to EAD ratio just outside of potential changes that may or may not come from macroprudential and the FSI.

Can you maybe just talk about the extent to which you see further opportunities just on that front and where exactly they're likely to come from?

SHAYNE ELLIOTT : Okay in terms of the underlying growth in institutional I think it's fair to say, first of all our book continues to be heavily weighted towards Australia. We still see exactly those trends I talked about earlier on, which is relatively low levels of confidence, low levels of leverage, no real borrowing demand.

Particularly as we come to the end of the **mining** investment cycle. It's hard to see that there would be a significant lift in RWA growth in the institutional **business** in Australia. And the **business** that tends to get written elsewhere tends to be extremely high quality and therefore low, from risk weighted intensity.

In terms of the trends around the credit risk weighted assets to the **Group** exposure at default. Look, we've been grinding that lower over time. In terms of -- again, putting all that -- so, given what we know today et cetera, we think there's further room for improvement there. Don't really want -- obviously not going to put a number on that. Why do we think that?

Because obviously we know our own models and data and systems essentially ourselves and know that there's opportunities to do better on that. That's partly the investments we've been making in those risk systems. Plus we also can compare ourselves to the -- to our peer **group** and know what's achievable. So we're confident that we can continue to grind that slightly lower over time. But you wouldn't expect to see a big step down in that.

MIKE SMITH : No. But there's much more we can do. Maybe it's worth just talking about some of the technologies (inaudible), Nigel.

NIGEL WILLIAMS : So there's a couple of things on that. There's a lot of focus or uninformed focus that it must be optimisation about the mortgage model. It's not about optimisation of the mortgage model. The opportunities I think are in our other portfolios. As you build out these models and as you build out the data that you actually have, there's a lot more pricing for risk.

I think that banks have yet to adjust. We've done a lot of work on actually pricing for risk at different points across the curve. I think there's still plenty of opportunity in somewhere around secured portfolios and some of our **commercial** and corporate portfolios.

JILL CRAIG : One more call on the phone.

OPERATOR: The next phone question is from Brian Johnson from CLSA. Please go ahead.

BRIAN JOHNSON, ANALYST, CLSA: Good morning, gents. I had a few quick questions and I'd like to go through each one of them individually with the answer if I may? The first one is a question to Mike. Mike, if you have a look in Australia at the moment, housing very, very profitable, deposits probably not so much. Surely if you would increase the capital requirement it wouldn't necessarily flow through on the housing. Wouldn't it make sense to actually re-price everything else up more?

MIKE SMITH : No. I see where you're coming from. I mean, I think -- and this is one of the things that people don't seem to understand. If you were to allocate more capital against housing it doesn't mean we'd do less housing **business**. It's still a profitable **business**. We'd probably have to do something less somewhere else -- you know, small **business** or something. That's the trade-off.

But actually really it hasn't been about -- as Shayne said earlier, it actually hasn't been about housing where we've had that increase in **business**. It's actually about the re-pricing of deposits. Deposits have actually been more of a benefit to us than mortgages.

BRIAN JOHNSON: I understand Mike that they've been a positive move. But you can walk around town and get a deposit rate well above the cash rate.

MIKE SMITH : Yes.

BRIAN JOHNSON: So it seems to me that if I was to fund, for example, a home loan through the branch with wholesale funding at the moment I'd probably get a 60% return on equity. The whole point is that there's a lot of stuff that you could re-price over and above housing if the capital requirement across the board was to go up.

MIKE SMITH : Yes. I think I need to employ you Brian if you could get that. But I think that you have to look at it at a portfolio basis. You can't just allocate one piece of wholesale funding off against one asset. So it's not quite as simple as that.

But I understand where you're coming from. I think that the business mix going forward is appropriate. I think there -- I mean, the thing that we have is a smaller market share in retail and therefore we see that as an advantage to us because we can take -- we can increase that.

BRIAN JOHNSON: The second question for Shayne if I may. Shayne, you equity account the minority interest the Asia partnerships. So what happens is they generate earnings. There's no risk weighted assets as Brett was saying. But when they generate earnings the investment goes up which creates capital deduction.

But then you pay out a 70% dividend payout ratio across the Group. So you're paying out earnings. The capital goes up -- the capital deduction goes up. The capital goes down. Now, in the last year in 2013 I reckon that made the capital go down by about 14 basis points across the Group. Is there something wrong in that logic?

SHAYNE ELLIOTT : There's nothing wrong in your logic. There might be something wrong in your maths. But I don't -- the logic is sound. But I'll work out the --

BRIAN JOHNSON: So going with what Brett said isn't this thing where we put the return on the risk weighted assets including the APEA investments isn't that really a bit of a nonsense?

SHAYNE ELLIOTT : No. Look, the earnings -- the equity accounted earnings from the partnerships is quite small in the scheme of things, right? So yes, you're right. Does it flatter return on risk weighted assets? Yes.

Does it imply the dividend payout ratio might be slightly understated (inaudible)? Yes. But we're talking a small number here. By the way, even though it's been growing, the marginal growth if you (inaudible) in dollars is actually completely immaterial.

BRIAN JOHNSON: Okay. Shayne, the next one is during this result could you just update us if there was a move in the CVA or the [FEA] over the period? Positive or negative? How much was it?

SHAYNE ELLIOTT : It was immaterial. It was almost nothing, yes.

BRIAN JOHNSON: Okay. The next one. Shayne, you guys from memory don't have a GRCL. So when we actually switch across to this new accounting standard, mechanically what does that mean for your capital position?

SHAYNE ELLIOTT : Do you -- I'm going to -- I'm looking at my brains trust at the back.

BRIAN JOHNSON: Shayne, you are the brains trust mate.

SHAYNE ELLIOTT : Yes, right. I'm a very good delegator. Is there any -- do you want to -- can you get a microphone, Shane? Go on, you can answer on the capital -- on the credit.

SHANE BUGGLE , DEPUTY CFO, ANZ BANKING GROUP LIMITED : Thanks. It's Shane Buggle here, the Deputy CFO. Hi Brian. If we increase -- if we adopt IFRS 9 and we're still working through when we'll do it -- we may do it not this coming -- this year we're now in but maybe next year -- if we increase the provisioning it will reduce the capital. So it will reduce our book capital to improve our ROEs. From a regulatory capital basis it has to -- we'll come back to you on that.

BRIAN JOHNSON: Shane, it chews up capital. If I just ask a final one. Matt Wilson got in and asked about the iron ore price. I know that you guys hate to talk about individual stocks or exposures but when you have a look at WICET with basically the coal price where it is, can we just confirm what the approach is theoretically on large infrastructure projects that are exposed on this where you probably haven't yet handed out money, but we're probably staring at a loss on the undrawn commitment? Could you just run us through mechanically what you do in that situation mechanically?

MIKE SMITH : Well we could, Brian, but I think it'll bore everybody else on the phone. The -- we're not going to talk about that individual client, but in that sector on **iron ore** we are very comfortable with our position on there. On **coal** on the infrastructure assets, at the moment that is a comfortable position.

Some of those infrastructure assets have take or pay agreements worth a majority of investment grade customers and as bank guarantees for the non-investment grade customers for the first period of their take or pay commitments. So I think it's too early to go into a very detailed discussion about that.

BRIAN JOHNSON: Okay, thank you very much. Thank you.

JILL CRAIG : Okay, we'll come back to the room. Scott.

SCOTT MANNING, ANALYST, JP MORGAN : Scott Manning from JP Morgan . Firstly just in answering Brian's question, I suspect the capital impact would be neutral because you'd have more eligible provisions so the regulatory expected loss gap would be smaller so the deduction would offset it.

UNIDENTIFIED CORPORATE REPRESENTATIVE: We can also get a job (inaudible).

SCOTT MANNING: My actual question is more around the institutional bank where, you know, talking about de-risking the book, improving returns, but the fact is the net interest margins are still going down there. So good performance domestically, good deposits for all the rest of it.

So to what extent do you look at the **Group** margin and **Group** capital generation versus the ongoing slide in margins in the institutional bank and is there effectively a line in the sand where this margin in the institutional bank starts to kind of normalise, given the rollercoaster in ANZ's reported margin around mix of **business** in this area?

SHAYNE ELLIOTT : So we think about it at both levels. Obviously we think about it within the divisions. They kind of have to wash their face and make sure they've got decent financials themselves, but we also have to look at it in terms of the whole portfolio in the **Group** then as well, right? So we do both, Scott. I think -- so the reality, what's really happening in institutional in a sense is an exaggeration or an extreme of what's happening right across the **Group**.

Loan -- in particular though you're seeing that loan margins are coming down because of the benign risk environment. That tends to happen at the big end of town more than anywhere else and how far can that go, who can say, but we're certainly not at the bottom of -- history would suggest that that can go lower. We know that, if you go back pre-GFC.

The other thing that's driving margins lower is just the absolute level of interest rates. That's actually been a significant driver. We kind of -- we all focus on the loan margins, I understand that, but actually an equally big driver has been the fact that interest rates have just been low. Now it's unlikely, I would suggest, that they can -- the rate of fall will continue. They may not go up but it's unlikely they're going to continue to fall.

So institutional margins, loan margins, interest rates would suggest that they still -- they can still come down a little bit and what we're doing is really focusing on diversifying the revenue, growing other forms of revenue streams like foreign exchange and cash management and those things to offset it. Not because it's just NIM management, because that's our strategy. It also speaks to what we're trying to do with customers.

UNIDENTIFIED CORPORATE REPRESENTATIVE: I think risk adjusted margin is the (inaudible).

SHAYNE ELLIOTT : Yes, you can talk about risk adjusted margin, Andrew.

ANDREW GECZY : I think that what you see in the institutional numbers is exactly that. Well lending margins have been coming down and then we've been filling that gap with additional earnings through our foreign exchange **business**, through our **transaction** banking **business**, whether it's the cash that goes through the cash **business** and the trade **business**. So that's really what's been happening.

Now hopefully what that's going to happen is it's going to flatten out at least and start -- the rate of decline will flatten down and that means that if we continue to serve our customers the way we've been doing it, we should continue that growth in the other parts of the **business**. So that mix of NI and [OIs] has been improving and that's what we've been doing, is been changing that mix of what we've been doing with our customers by growing those other types of earnings that we've got. So that's how it's been playing out.

We expect that the lending margins will certainly slow down in their rate of decline, but there's still a little bit ways to go, but that growth part is the thing we have to focus upon, in changing that mix.

JILL CRAIG : And the change in your risk adjusted margin's been much less, yes. Richard and then I think we're almost ready to finish.

RICHARD WILES : Richard Wiles from Morgan Stanley . Mike, there's been some media reports suggesting that you might look to be selling your **stake** in AmBank. Previously you've said you can (inaudible) control there. It's also been a very strongly performing bank. I think profit was up 20% in the last year and I know it was strong in 2013 as well. So could you give us some comment on your thoughts regarding AmBank?

MIKE SMITH : Look AmBank has actually performed very well for us. We've been pleased with it. There is a regulatory issue in terms of us obtaining full control there and that has been something that we, you know, we've been waiting to see what happens. I think we're still in that waiting mood.

I'**m** in no hurry about AmBank. I would like to get even more of it and if we can't longer term then we would have to consider what to do with it because quite clearly, just sitting on that **stake** in terms of the [capsule] treatment now is much more difficult. I don't think we've in any particular hurry. Things will happen. We have to wait and see which way the cookie crumbles.

JILL CRAIG : Okay, I think we're done. So with that, thank you everybody for coming today and we will talk to you over the coming weeks.

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