Question and Answer

Ross Brown
Executive General Manager of Investor Relations

Good morning. Our usual protocols, I'm sure you're familiar, if you can wait for the microphone, state your name and the organization you represent. First question from Victor, please.

Victor German
Macquarie Research

Victor German from Macquarie. Two questions, if I may, one on capital and one on expenses. Your capital, obviously, you were able to meet unquestionably strong or you will be able to meet it once you do your partially underwritten DRP. Just be interested in the key considerations going forward, given that you know you're going to have an impost from New Zealand and how you're planning to address that. And maybe Phil, you can make some comments with respect to how Board thinks about capital being at the lower end of peers, particularly given some of the comments you provided on the outlook from an economic perspective.

And second question on costs. Gary, obviously, when you started this journey, you did anticipate, as you've highlighted, $350 million of additional costs that are coming through. And given the comments from some of your peers that reported earlier, they are seeing quite significant growth in expenses in the current environment. Just be interested in your observations, whether sticking to that cost guidance is having short term in the business for the sake of meeting those targets. Or do you think there is something that differentiates NAB to peers in terms of ability to deliver costs?

Philip Wayne Chronican
Independent Chairman of the Board

Okay. I'll handle the capital one and pass to Gary for the cost question. In terms of capital, we're about 10.38%, I think, at 30 September with the DRP. That takes us up to around 10.75%, so quite comfortable over the 10.5%. Gary indicated that our organic generation -- with the lower dividend, our organic generation each half is around 20, 25 basis points. And last year, there were a couple of tailwinds in terms of some of the accounting volatility issues that may have the potential to reverse. And an important point is the way in which the remediation provisions are treated. So the tax deduction doesn't occur until the money is actually disposed of. So at the moment, that future tax asset is a capital deduction. All of which says is that, in addition to being at 10.75%, we'll have quite a number of tailwinds to our capital position during the course of next year. It mean that's a build to up and around 11%, and in fact, it's quite foreseeable, which means that relative to the peer group and given the steps we've taken, we don't see there's any differentiation at all.

In terms of New Zealand, clearly that's a point of some uncertainty. APRA's treatments through 111 didn't have any impact on us in the end. Whether the New Zealand changes go through and what form, obviously, we won't know until December. What we are aware of is that the RBNZ is looking at both the timing, so over what time frame that would be rolled out and what instruments would be eligible for capital. And once that's done, we'll assess how much capital we have deployed there and the attractiveness of deploying more capital there. I think what we've tried to be clear on is that it's not just a question of saying everything about our business stays the same and we put in more capital because the returns on various activities will change. And that's not just us. It will be the industry as a whole. So I don't -- it's a dynamic that you have to model through, but the -- just adding on additional capital is probably the worst possible case and a highly unlikely one.

Gary Andrew Lennon
Chief Financial Officer

Yes. Phil, I'm just adding one point on that. It does definitely feel that Reserve Bank in New Zealand have been open to a genuine consultation. So they've got a lot of feedback around maybe not the ultimate quantum but the shape, and that does matter, and as Phil mentioned, the timing. So there is -- we do have a few options around New Zealand that could have an impact, or it might be quite benign. It's really got to -- we really got to see what the shape of those final requirements are.

On the cost question, Victor, and you're right. And I suppose it goes back to any plan or any transformation plan. It never works out quite exactly as you planned it out. And we didn't plan to have an additional $250 million of compliance rate and risk-related costs when we kicked this off, but that's been the reality. What we also didn't plan, and we -- is the benefits that we have achieved thus far and we'll continue to achieve through a whole bunch of other things in our in-sourcing strategy. So that was a strategy where we thought we might do some in-sourcing, but we're getting double benefits from that. By bringing critical technology functions back in-house, we're building capability at a reduced cost. So that is something we didn't envisage to get that degree of benefit.

In terms of third-party spend and the ability to get that third-party spend down, that has been greater than we originally thought we could achieve. And as we continue to go through the transformation, whilst 2020 is going to be tough for the reasons I think that we and others are laying out, because we do see a further uplift in risk and compliance costs into 2020, there is still no shortage of opportunities we see around waste across the organization and no shortage of inefficiencies that, if we put in the right end-to-end process investment, there are still significant opportunities. So whilst the shape of the plan is nearly entirely different, we are able to lend. We've been able to manage all those different changes and get to an outcome that is reasonable.

It doesn't understate the challenge for 2020, though. So we've committed to those targets, but we're cautious of what might come at us from the risk and reg standpoint, and we're very mindful that this is all about setting up the business and transforming the business for the future. This is not just about hitting a short-term goal. So we'll not compromise that through the process. And if it gets to the stage where we're compromising customers or we're compromising the longer term, then we'll have to reassess because that's not what we're about. So it's not a achieve goal at all cost. It's -- but we still very much see a path currently.

Ross Brown
Executive General Manager of Investor Relations

Andrew Lyons?

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman. Just 2 questions. The first one on the NIM. You said the net impact of the 3 cash rate cuts to date for next year will be a 3 basis point headwind to the NIM. Just based on your disclosures, particularly around the replicating portfolio, it would appear as if that entire impact is the impact of the replicating portfolio. And that does suggest that you are able to fully reprice the impacts of the cash rate cuts that have been done today. Is that correct?

And then a second question, just on business credit growth. Good relative momentum in the year at 3.5% growth. But I think from memory, that number was at 5.8% in the first half, suggesting there was a bit of a slowdown in momentum. Just 2 parts to the question: Firstly, in light of that, how much comfort do you have around the recovery in forecast growth from your economics team? But also, do you think you can continue to keep strong momentum versus your peers in business lending?

Gary Andrew Lennon
Chief Financial Officer

In SME, right. In terms of the first one, we don't -- we tend not to isolate and just look at the impact through one lens and one headwind. So the numbers we have provided is a blended, which has those multiple impacts. So there's low-rate deposits, what that ultimate impact is, what's the benefit we get from the hedge, we look at that, and then what we think we're getting back on the SVR repricing and sort of view that as a -- in total impact. And that's how we tend to plan and manage it. So it's not a specific that we pointed one action against one element.

In terms of the -- how we're feeling about SME growth, it's -- there's no doubt even in the second half, it was slowing. The economy was slowing and the -- our -- you can see it through the numbers. The absolute growth of our SME portfolio was slowing albeit it's still ahead of peers. It really goes to Phil's comments about the outlook and the state of the economy and how do we get business confidence and business credit up not only just for our book and for the sake of NAB, but as we all know, that confidence in that SME segment is going to be critical more broadly for the economy.

So [Alan] continues to be bullish at some of these benefits flowing through. We can all have a debate with that. We will wait and see at the end whether [Alan's] right. It's -- there is definitely some rationale and logic that is at play for his forecast next year, but he missed this year.

Ross Brown
Executive General Manager of Investor Relations

Maybe pass it to Brendan. Thanks.

Brendan Sproules
Citigroup Inc, Research Division

Brendan Sproules from Citigroup. I just had a follow-up question just on the capital position. So this year, you've called out 63 basis points of kind of one-off hits being remediation, and obviously that gets the hit on the capital -- sorry, the tax treatment but also some APRA measurement changes. We just sort of read into today's size of the raising that you don't expect those sort of size material impacts on the capital as APRA start to sort of finalize their unquestionably strong treatment.

Philip Wayne Chronican
Independent Chairman of the Board

I think that's right. We're not expecting issues of that magnitude.

Ross Brown
Executive General Manager of Investor Relations

Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Credit Suisse. A question for you, Gary, seeing you're here at the time. 2 years ago, when you announced the transformation program, you announced a net reduction of FTE of 4,000. At that time, your spot FTE balance was, call it, 33,500 FTE. Your spot balance today is 1,000 higher, 34,500 FTE. You've already reduced, net reduction of 2,500, so you've got 1,500 to go of that 4,000. And then even if the temporary and in-sourcing don't count, that's around 1,500. So that's 3,000 reduction from the elevated level, which looks as if you're going to be around about 2,000 shy of where you expect it at the beginning of the transformation. So this question really comes down to now FY '21 expenses. And really, is there going to be that billion dollars of productivity savings flow through at all to the bottom line?

Philip Wayne Chronican
Independent Chairman of the Board

So can I -- before I let Gary loose on the answer, the FTE is ultimately a -- quite a confusing number. As you know, as we reduce expenses by bringing things in-sourcing, it changes FTE. Irrespective of where the FTE are, accounts as one, no matter whether we're paying onshore/offshore rates. So I think the focus -- there's a lot of noise coming after FTE. The real question is the question you're asking, which is what's our cost trajectory, because that was what it was all about. So I'd encourage people not to obsess over FTE because we've been hiring and bringing people on for temporary work here and elsewhere and contractors here. So there will be a lot of noise in the FTE numbers.

Anyway, Gary?

Gary Andrew Lennon

Chief Financial Officer

And given I'm taking the lead from our new Chairman, I'm not obsessing about the FTE over what number it's going to be. So you pointed a few things. So in terms of where we thought we'd be in year 2, we're just a little bit behind, but we're not massively behind. So in terms of on track for a net 4,000 number, I'd say we may be a couple of hundred behind where we thought we'd hoped to be. And a lot of that is the additional staff where that's not really a growth issue. It's additional staff we've had to bring on around sort of control and risk activities. So that's what the first point.

As you've said, the gross numbers are up because of those other categories. We had a big ramp-up in investment in '19, and that has come with FTEs. And increasingly, as part of that fat ramp-up in investments, we are using our own FTEs rather than consultants. So again, that's another -- whilst we haven't called that out as in-sourcing, it effectively is where we're using more of our own people to do the projects rather than bringing in consultants. So that tends to bolster up some of those project FTE numbers. And also included within those project numbers, which is dealt within different provisions because you can't separate them from an FTE standpoint, are all the FTEs we've brought in to work on the remediation and all the FTEs we've brought in to work on the Wealth separation. So it is somewhat inflated in terms of the underlying. And yes, the intent is that many of those FTEs will disappear in due course. And then you're left for the final category of in-sourcing, which I've already touched on.

The key point, which I think where you're going, is that why it's important we keep vigilant to get there or thereabouts on that net 4,000 number. It certainly helps to achieve flat costs for '20, but as you say, the most important part of that is the trajectory into '21. So that's why we continue to press on to that to see what are the sustainable efficiencies we can keep driving out to set ourselves up the best we possibly can for the future year without doing -- without pushing it too hard and being sensible in the current year.

Ross Brown
Executive General Manager of Investor Relations

Can you pass the microphone to Andrew, please?

Andrew Triggs
JP Morgan Chase & Co, Research Division

Andrew Triggs from JPMorgan. Just a couple of questions on capital, please. First one, on the Level 1 CET1 ratio. I mean some of the other banks saw a good accretion to capital Level 1 through retaining some of the earnings in the New Zealand subsidiary. Is that a timing issue? Or is that related to the very large size of the remediation provisions this year and the need to pay the group distribution?

Gary Andrew Lennon
Chief Financial Officer

It's the second point.

Andrew Triggs
JP Morgan Chase & Co, Research Division

Okay. And the second question around the interest rate risk in the banking book RWA. So again, Westpac saw a very large reduction in that figure, close to 0. It's still about a $6 billion odd or even number for NAB. Is that a timing issue as well?

Gary Andrew Lennon
Chief Financial Officer

It obviously goes to the size, shape, tenure of your book. The thematic that was driving the decrease in Westpac, we had a similar thematic. So our embedded gains increased with rates moving the way they have. It just wasn't anywhere near as substantial as the Westpac one. So it's -- we're just -- we're down -- I think it's about $1 billion half-on-half as a result of the same driver, just not as large.

Andrew Triggs

JP Morgan Chase & Co, Research Division

And the outlook from here for IRRBB, if the current swap rates remain as they are?

Gary Andrew Lennon
Chief Financial Officer

I think it's -- that's one of the categories that's incredibly difficult to forecast, but I think the current spot is as good as any.

Ross Brown
Executive General Manager of Investor Relations

Okay. I think we've got a couple of questions on the phone. If we could take them now, please.

Operator

[Operator Instructions] Your first question comes from the line of Matthew Wilson from Evans & Partners.

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

Matt Wilson, Evans & Partners. Andrew Thorburn sort of started and led the narrative. Ross McEwan has been front and center at -- in the U.K. for the last 6 years. And Canberra is watching closely. Could we get your perspective, Phil, or the Board's perspective on the mortgage book/back book quandary? Because when I look at the average balance sheet of the sector, mortgages are yielding 4.26%, and I could walk into any branch today and get a mortgage close to 3%.

Philip Wayne Chronican
Independent Chairman of the Board

Well, I can promise you one thing. The front book/back book difference is nowhere near that large. So there must be a large element of fixed-rate loans in the back book numbers you're looking at. The -- one of the things I have known not only in this role but in previous roles I've had is that the transmission mechanism from the front book to the back book is rapid because of the -- both the turnover in home loans and the propensity of customers to refinance. I think a previous piece of work I did said there was about 2.5 years. We took about 2.5 years for the front book to become the back book. So I've been concerned that the front book/back book issue was ultimately futile for the industry as a whole. And that's one of the reasons why I've endeavored to ensure that at least we keep the lowest -- as low an SVR as we can because at least it minimizes, relative to our peer group, where that disparity is, not for any reason other than the front book will be the back book in 2 years' time.

Operator

[Operator Instructions] Your next question comes from the line of Brett Le Mesurier from Shaw and Partners.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

A couple of questions. Firstly, you commented on the expected reduction in revenue in the banking business, but you didn't talk about the expected reduction in revenue in the Wealth business. The revenue there fell over $100 million over the year. Do you think there will be a similar decline from 2019 to 2020, assuming you've still got the business at the end of 2020?

Philip Wayne Chronican
Independent Chairman of the Board

Not of the same -- there's obviously a full year effect from changes that have been made during the course of the year, but I'm not sure that's going be another $100 million. I think it's materially less than that. I'm getting a nodding here from [Geoff], so I'll take that as a -- as true. Obviously, the key challenge for us in the Wealth business is to stabilize the underlying volumes and make sure that we've got pricing that's fully competitive with the market because that's the best route to having a stable and growing business that's in a good shape for being released to any new owner.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

The other question I had was on deposits. You focused on the $80-odd billion, which is not sensitive to interest rates being that it's at a negligible cost. Can you comment on the $191 billion where you're paying more than 1%, the sensitivity of that to changes in interest rates?

Philip Wayne Chronican
Independent Chairman of the Board

Yes. That's -- I mean it's interesting. That's -- and I'm glad you touched on that one, Brett. But at the same time, as we're concerned about the compression on those low balance or low rate deposit categories, we are dealing with the conundrum of the pricing distortion that ceases paying above the RBA cash rate for many categories of deposits. And that's a product of the various liquidity rules that have been put in place over the years. That remains a reasonably competitive part of the market, but it's certainly one that we're acutely focused on.

Do you want to add to that? Or...

Gary Andrew Lennon
Chief Financial Officer

No.

Operator

Your next question comes from the line of Azib Khan from Morgans Financial.

Azib Khan
Morgans Financial Limited, Research Division

Phil and Gary, how much of the step-up that's coming through in risk and compliance spend relates to the CGA issues raised by APRA? And second part to that question is, when do you hope for the op risk overlay to disappear?

Philip Wayne Chronican
Independent Chairman of the Board

Which issue is that?

Gary Andrew Lennon
Chief Financial Officer

Well, I'll try to interpret all of the gap, Phil. So the self -- yes, that's the CBA self-assessment. There is some, but it's probably not the lion's share. Where a lot of the uplift in risk and compliance spend is coming through is areas like cybersecurity, areas like AML, incorporating some of the new back-end processes we're required to do around mortgages. So that's probably the bulk of where a lot of that compliance spend is really focused in more recent times.

And sorry, what was the second part?

Azib Khan
Morgans Financial Limited, Research Division

When do you expect the op risk overlay...

Gary Andrew Lennon
Chief Financial Officer

Oh, the operation risk overlay. Yes. Well, that's -- so the op risk overlay is clearly being linked to our ability to respond to our self-assessment, and we work very closely with APRA on that. They have seen our detailed plans, and the expectation is that as long as we execute well on those plans and close the risks that have been identified to their satisfaction, then we do get to release that overlay. But in the end, it's going to be of APRA's pleasure as to when they get to release it. All we can do is put our best foot forward and try to mitigate all the concerns that they have within the short of -- shortest period possible. Look, it's going to be 12 months. It's probably a reasonable estimate, or it might drag on a bit longer depending on how good our progress is.

Ross Brown
Executive General Manager of Investor Relations

Okay. We might take some questions from the [real beers]. Jon, do you want to take the mic?

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Business banking is becoming more and more political, and you're seeing the politicians getting involved in this whole topic. And you can see business bank credit growth is slowing very rapidly in this second half. I think seasonally, it's usually stronger. It's one of the weakest second halves you've had for a long time. You mentioned it a little bit before, but following on that, are you seeing fewer applications from business customers actually wanting to borrow credit? Is it that you're rejecting more loans for various reasons, be it responsible lending or anything else? Or are business customers actively paying down their debt and deleveraging?

And a follow-on question, more on the housing side. You said 77% of customers haven't changed their repayments. I think that's interest-only -- sorry, P&I for owner occupiers. CBA and ANZ have said 93%. So they've had a lot fewer customers than yours actually do it. So I wanted to check, is that because your customers are rigging up and asking to have their repayments reduced? Or do you automatically do it? And why is it the case also that you're seeing your mortgage arrears rise much faster than your peers? And are you actually saying that your mortgage customers are more stressed, wringing out and going into arrears?

Philip Wayne Chronican
Independent Chairman of the Board

There's a lot in there, but let me just answer one important part of it. We don't have one mortgage offering at NAB. So it's an answer which varies depending on who you're speaking to. So for our core NAB mortgage portfolio, the numbers are well up into the 90s. However, we have different practices in the loan books that have come through our Advantage platform and our UBank where there is a more automatic flow-through. So the number that we have reported here is a blend of different portfolios.

I'll come back to the business banking question. I think it's fair to say it's predominantly a slower flow of new applications. We're not rejecting any more from credit reasons. I do think we -- the process has slowed, so with both the responsible lending obligations and with the new code of banking practice -- or banking code of practice, I'm sorry, that was being renamed. That has included a range of additional steps that have complicated the process. But in -- you may be familiar about the bank code of practice puts particularly stringent conditions around the use of guarantees, which is quite a common feature of business lending. And therefore, there's a lot more steps that you have to go through to meet it. So I think it's less the case of us turning down loans. It's just taking longer to get them processed and a slowdown in applications, which is why we're encouraging business investment both, in our words, 2 businesses but also to Canberra to find things that can be done to improve the confidence and appetite for businesses to invest.

Gary Andrew Lennon
Chief Financial Officer

Right, totally. And just to add a couple of things. So it's clear that there is a confidence issue. So there is a confidence issue about where the economy is going, and a lot of small businesses are choosing to deleverage rather than asking for more credit. And as Phil sort of went through in some detail, the process is now for a small business to get credit where it's backed by a mortgage, and then you have to comply with responsible lending rules that are really designed for consumer mortgages. And that is a problem that's being well flagged. And I think there is a genuine engagement with government, APRA on -- and ASIC on how to address that.

In terms of the mortgage arrears and that trending up, when you look at all of this at current levels, it's reasonably in line. Movements can tend to move around half-on-half. But certainly what we're seeing, which I think everyone is seeing in varying degrees, is the conversion issue still continues from interest-only to principal interest. What we are observing, and it may be different to peers, is that customers are remaining in arrears for longer. And that really goes to practices around how long do you want to support a customer, and we have been very supportive for our mortgage customers as a general rule, and that may differ from others.

And the third point, which I did mention previously on -- there is just the calculation aspect to that where you have lower front book growth and you have arrears coming through from previous that impacts the ratio.

Ross Brown
Executive General Manager of Investor Relations

Richard?

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. I just have a couple of questions on capital and the dividend. The Level 1 CET1 is 10.5%, and I assume with the [payout pay], it pushes towards 11%. Phil, you've said today that APS 111 doesn't affect you, and that's certainly the case on your current investment in New Zealand. But assuming the RBNZ rules don't get changed too much, you're going to need more capital in New Zealand and any future investment will be a deduction at the Level 1 entity. So does this limit your ability to continue to recycle New Zealand earnings by paying a dividend into the Level 1 entity and then reinvesting into New Zealand? Does that mean that you will actually need to retain earnings in New Zealand in the future?

And then on the dividend, can you -- you've mentioned, Phil, a couple of times today, you've reduced it to a sustainable level. Can you remind us what you think sustainable is? What sort of payout ratio are you talking about?

Philip Wayne Chronican
Independent Chairman of the Board

Well, as for the second part first, the payout ratio, if you look at it on a -- excluding one-off notable items charges, is around 70. And that's -- and at that level, we generate surplus capital. So sustainable, we can model it. But for any given level of risk asset growth, sustainable is going to be a number in the 70s, and we're at the low end of that. So I think that answers that one.

I'm going back to my comments on New Zealand, which is that it's highly unlikely that the response to any regulatory change on capital in New Zealand is that we simply hold more New Zealand capital. And I say that because it's not just what we choose to do. It's the way the market reacts. There will be some assets that, for example, if New Zealand domestic banks have to hold twice the level of capital on a corporate asset to what a foreign bank lending from outside New Zealand has to hold, that business will disappear out of the New Zealand banking system. So there are a whole range of corporate dynamics that are going to happen on pricing, on the level of gearing, in various parts of the economy. So I think it's just -- it's far too simplistic a view to say that we're just going to -- banks are just going to have more capital there. It's going to change the nature of banking in New Zealand.

Richard E. Wiles
Morgan Stanley, Research Division

So your view is you'll shrink the banks significantly in New Zealand. Because you've said on the current metrics, it's $4 billion to $5 billion. What you're now telling is you don't want to put any more capital in New Zealand.

Philip Wayne Chronican
Independent Chairman of the Board

What I'm saying is that it's far too simplistic to say, "The impact is $4.5 billion -- $4 billion to $5 billion. Therefore, we'll just put $4 billion to $5 billion in." Even if we just felt that was the right thing to do, the market will change. Because the returns -- if you take some of the highly geared sectors and you reprice for that level of capital, those sectors will no longer want to be as highly geared. So the credit demand won't be there. So I'm not saying what we'll do. I'm saying what's inevitably going to happen to the structure of banking in New Zealand. It will change.

Gary Andrew Lennon
Chief Financial Officer

And Richard, in terms of what we'll do in the end, we need to get the final rules, and it will probably be a combination of a whole bunch of things. So we'll be looking at a whole bunch of -- and we've done a huge amount of work. And the New Zealand market is already starting to change around this where there's repricing occurring. So we're seeing it, and Angie is seeing it on a nearly weekly basis.

But there is -- as a result of these changes, there is pockets within our New Zealand business that fall well below the cost of capital. And you get why you're in that business for where we'll be constraining capital. So -- and that work has well and truly commenced. So that's sort of one. Then we're clearly most likely repricing opportunities that we saw in Australia. So the whole market will sort of reprice some of the risk.

And thirdly, which you haven't -- you didn't quite pick up in terms of the 111. So the 111, we're benign on first blush. But as some of the other banks have said, and we do exactly the same thing, we have a lot of internal additional Tier 1 that we will externalize. And that gives us -- that will give us, as we progressively do that, additional Level 1 capacity to deal with 111 and also the RBNZ changes. So there's other mitigants we can bring into this to try to minimize the overall impact in New Zealand.

Richard E. Wiles
Morgan Stanley, Research Division

Would it be fair to say that if the Tier 1 target is 16%, and you don't want to put an extra dollar of capital into New Zealand, you need to shrink the risk-weighted assets by about 20%, 25%?

Philip Wayne Chronican
Independent Chairman of the Board

So if any of that was true, yes. But that's not what we've said.

Gary Andrew Lennon
Chief Financial Officer

But that's the calculation.

Philip Wayne Chronican
Independent Chairman of the Board

Yes. We -- that's what we published. So we've said that. So it's somewhere between putting that amount of capital in and reducing the risk assets or some combination of the 2 with repricing. That's what we've seen at the half.

Gary Andrew Lennon
Chief Financial Officer

And Richard, what's critical with that 16% is the shape. So the original requirements came out was all common equity. Where it -- the consultations have been around is that sensible. So what they come out with, it'll be what they come out with, but it's certainly possible there's a component of additional Tier 1, say, that's eligible. And that changes the game a bit.

Ross Brown
Executive General Manager of Investor Relations

Brian?

Brian D. Johnson
Jefferies LLC, Research Division

You're right. They are miserable. Two questions. And I've got to say it's rare that you get the opportunity to see the ex-IR guy, the CEO, the incoming Chairman, the new CEO. So you can work out how you answer these questions, which of those roles.

First one, Phil, as the incoming Chairman, because when you come on to these briefings, everyone says, "Ah, that's the Board's decision." You're the Chairman. When you think about the dividend, and we think about separating MLC, should we be thinking that when you -- is victory keeping the dividend flat for the separated -- for NAB plus the separated vehicle? Or is it holding the dividend steady? And if I could add into that, can you tell us what the separation of MLC would do to the ROE?

And then the second question, and there's a lot of them, but there is a second one. If I go to Page 74, the result under the contingent liabilities, there is a reference to an AML problem there. And the context of that is that when we have looked at the CBA and it first came up, it didn't seem like a big deal. It ended up being quite a big deal. Can we just get a feeling? If you could just let us know, should we be not worried about a civil penalty? If we are, what impact would that have on the capital?

Philip Wayne Chronican
Independent Chairman of the Board

Okay. I mean MLC 1, obviously, the answer is different depending on the form of sale. But you correctly identified that if you take a stream of earnings and park it over here, then there's a dividend implication of that. And we haven't addressed it because we haven't got to the point-of-sale yet. So I don't have an answer for you, but I understand the question. And it really depends on the nature of the sale. And if it's a trade sale, it generates capital. If it's a spin-off in kind to existing shareholders, then obviously there's a dividend flow that is associated with the spin-off. Until we finalize the structure of the sale, we're not in a position to make that assessment.

Brian D. Johnson
Jefferies LLC, Research Division

Sorry, Phil, can I just go back to what I asked about?

Philip Wayne Chronican
Independent Chairman of the Board

Yes.

Brian D. Johnson
Jefferies LLC, Research Division

Sorry, can I just go back to what I asked? If it is the spin-off that's been flagged, but I've noticed there is some flexibility around it, should we be thinking that basically a flat dividend is flat on the headstock or flat for the new vehicle plus NAB from the Board's....

Philip Wayne Chronican
Independent Chairman of the Board

The way you asked the question initially was what would constitute victory, and victory is not what we're seeking to do here. Shareholder value maximization is. So look, I don't -- I just don't have an answer for you, Brian, because it will depend. I just don't have -- because obviously, the dividend is going to be a function of what we think is the sustainable position going forward post any separation, and we'll address that issue at that time.

The second question which is around the contingent liability note on AML, can I make it very clear? That note is substantially the same as it was 2 years ago when we published our annual financial review. So we observed 2 years ago off the back of the initial CBA issues, that we had reported a number of breaches to AUSTRAC. I think we have subsequently reported some further breaches. We have been working with AUSTRAC on those. And we've been very cooperative with AUSTRAC in making sure that not only do we meet the letter of the law but we meet the spirit of the law by alerting them to a range of issues even we're not strictly required. So at the moment, there's nothing new I can say other than we've been reporting issues to AUSTRAC now for a reasonable period of time. And nothing has changed except that we're continuing to work with them.

Gary Andrew Lennon
Chief Financial Officer

If there's anything to add to that, it's just the relationship, Phil, as you know, is very strong. And the partnership to actually identify potential criminals and the contribution that we're making is very appreciated by AUSTRAC. So we're actually working very closely with a pretty important purpose.

Brian D. Johnson
Jefferies LLC, Research Division

And the net and the most [recent separation] ROE effect?

Philip Wayne Chronican
Independent Chairman of the Board

From memory...

Gary Andrew Lennon
Chief Financial Officer

Again, it's going to depend, but ...

Philip Wayne Chronican
Independent Chairman of the Board

But at the moment, I think, yes, I think it's fair to say that the business has a relatively low ROE. But...

Gary Andrew Lennon
Chief Financial Officer

It will be accretive.

Philip Wayne Chronican
Independent Chairman of the Board

So it would be probably prima facie accretive. But obviously, that's a function of what happens to the capital structure afterwards. But I think the other point to make here is that obviously, with the passage of time and as we've trimmed parts out of the business with the life sale and so on, the scale of the impact is not that great either.

Ross Brown
Executive General Manager of Investor Relations

I think we have the last question from Ed.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

Just Ed Henning from CLSA. Two questions for me. One, just on the weaker markets' performance today in treasury and end markets. How much was that was just lower rates? And how much can it potentially rebound going forward for customer action?

And secondly, just for you, Phil. You've talked a lot about today about the economic outlook and potential government intervention. What do you think they can do? And realistically, what do you think they will do if trends continue the way they are?

Gary Andrew Lennon
Chief Financial Officer

So on the first one, the dip in markets in particular was rates and trading-related. A lot of the sales volumes have continued to hold up, albeit margins are getting tighter. But higher volumes, tighter margins, but sales continues. So the decrease was primarily trading-related, which you would hope they could have a better half year next year. Is that right, [David]?

Philip Wayne Chronican
Independent Chairman of the Board

In terms of what governments can and might do -- look, there's a lot of things governments can do, and I know that some people are questioning whether maybe bringing forward some tax cuts might be of benefit. I think somebody are speculating that there might be some changes in some business tax to encourage investment. I think if you go back to the end of 2014 when we had house price growth at levels that were causing concern on the upside, there was a concerted action taken through the Council of Financial Regulators to align all the policy instruments across various bodies to achieve a national macro outcome. So that resulted in APRA initiating some macroprudential restrictions on housing, and investment and property lending involve ASIC tightening its regime around responsible lending. It allowed the Reserve Bank to, I guess, play that duality of not having to push up interest rates to address the housing market cycle. So my feedback to government at this point would be that if the primary -- if we agree on the primary diagnosis which is that there's adequate business investment to generate growth, then maybe we need to have a concerted action across all arms of government to identify all of the barriers to business investment and business credit.

Ross Brown
Executive General Manager of Investor Relations

Okay. Thank you for your questions, and we'll wrap it up there.

Gary Andrew Lennon
Chief Financial Officer

Thank you very much. I'll just make one announcement, a very important announcement. So firstly, this is Ross Brown's last results announcement. Oh, I was just -- I was curious of response. Was it going to be, "Aww" or "Hooray"? But it is his last. He's been a great support to all of us and hopefully to all of you as well, and we do wish Ross all the very best in the future and welcoming Sally, who I think is in the room there who will be taking over Ross. You'll be seeing Sally next half, and we're delighted to have Sally on board. So that was my announcement, Ross.

Ross Brown
Executive General Manager of Investor Relations
Thanks, Gary.