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HD **NAB could lose top talent amid reduced bonuses, rising accountability**

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BONUSES one day; resignation the next. It's a bankers' twist on the old Queensland tourism motto of "beautiful one day, perfect the next" with particular reference to National Australia Bank, which will hold its annual meeting in Brisbane today.

Executives at the nation's worst-performed major bank collected their bonuses yesterday, triggering a level of dismay that suggested some cheques might have been in Russian roubles. One senior banker said constant adjustments to the entitlement system over the last few years had halved his bonus, despite an unchanged performance ranking.

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The biggest tweak came with the August 1 CEO handover to Andrew "Energiser" Thorburn, who has made it abundantly clear that he wants to smash the bank's culture of entitlement and lack of accountability, which has stubbornly resisted a decade-long slide in performance.

In an 8.30am dial-in on the morning of NAB's November 3 annual profit announcement, Thorburn told his top 200 managers that the bonus pool would be shrunk by 40 per cent for general staff, 60 per cent for group executives and 80 per cent for the CEO.

The bank's workers would therefore line up with investors, sharing the pain of a 10 per cent slump in cash earnings to $5.2 **billion**, most of it due to product mis-selling and conduct issues in Britain. Sure there's been a series of major cock-ups in Britain. But the question raised back home was why local bankers, who were innocent bystanders, should suffer as a result of some poor conduct over the other side of the world.

Thorburn was adamant. "A bonus is not an entitlement; it's something you earn if we deliver for shareholders," he said.

Now that bonus day has come and gone, the mood has only darkened. As much as the market likes accountability, particularly for serial underperformer NAB, it also has its costs. There were warnings yesterday of a significant outflow of talented staff. It remains to be seen if the threats made by some are as shallow as their account balances.

Impact from **oil** slide RESERVE Bank governor Glenn Stevens presented the upside earlier this month on the 40 per cent plunge in the **oil** price since June, but the downside is now starting to get a lot more airtime.

While bad news for producers, Stevens said the exact opposite was true in a broader context.

"Historically, low **oil** prices have been good for the global economy," he said. When it comes to our banks, there's further good news in that the sector's exposure to the **oil** and gas sector is minimal.

ANZ, as well, learned the hard way in the 1990s that trading in Russian **bonds** was not a particularly sensible use of shareholder funds. It was a lesson well-learned on Tuesday, the worst day in Russia's nine-month financial crisis, when a 6.5 percentage-point hike in interest rates failed to stop the run on the rouble.

In saying that the global economy is a net beneficiary of lower oil prices, Stevens is undoubtedly right. But only up to a point.

It becomes another matter entirely if the slump kicks off a contagion, in much the same that the collapse in US housing prices triggered the 2008 financial crisis.

It's a big call but there are still reasons for caution, with early signs of pain from the extreme volatility starting to emerge in the financial sector. For example, one of the biggest fixed-interest managers in the world, Pacific Investment Management Company, is facing mounting losses in its $US3.3bn Emerging Markets Bond Fund, which was holding $US803 million of Russian corporate and sovereign bonds at the end of September.

Bloomberg also reported yesterday that almost every bullish rouble option contract registered in the US had been rendered worthless, and foreign exchange brokers in New York and London had told clients they were no longer taking rouble trades.

A more immediate concern is the financing of the oil and gas industry in the US, which has spiralled in the last few years and dominates the riskier end of the bond market. According to Barclays data, energy bonds now comprise nearly 16 per cent of the $US1.3 trillion junk bond market — more than three times the level that prevailed three years ago.

In addition, 45 per cent of the syndicated loans that were below investment grade this year were in the oil and gas sector.

The problem is that investor appetite reportedly fell short of deal flow, so that as much as half of the financing from the last few years has stayed on bank balance sheets.

According to AllianceBernstein, giant US lender Wells Fargo tops the list, having participated in $US37bn of non-investment grade loans from 2012 to 2014, with JPMorgan nursing $US31.7bn worth of deals.

Bank of America Merrill Lynch chief economist Saul Eslake is firmly in the Glenn Stevens camp, arguing that Australia will be a net beneficiary of the plunge in the oil price over the short to medium term. He notes that $30bn of the nation's $47bn current account deficit last year related to oil imports. The bigger problem, as Eslake sees it, is slowing Chinese growth.In Joe Hockey's Mid-Year Economic and Fiscal Outlook, released on Tuesday, growth for Australia's biggest trading partner is expected to be 6.75 per cent next year, slowing to 6.5 per cent in 2016. According to Eslake, the federal Treasury is the world's first government agency to break ranks and predict Chinese growth will fall below 7 per cent.

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