

**Analyst**  
TS Lim 612 8224 2810

**Authorisation**  
Chris Savage 612 8224 2835

# National Australia Bank (NAB)

## Stay on the road but mind the scenery

### Recommendation

**Buy** (unchanged)

Price

**\$31.72**

Target (12 months)

**\$35.50** (previously \$36.00)

### Expected Return

Capital growth	11.9%
Dividend yield	6.2%
Total expected return	18.1%

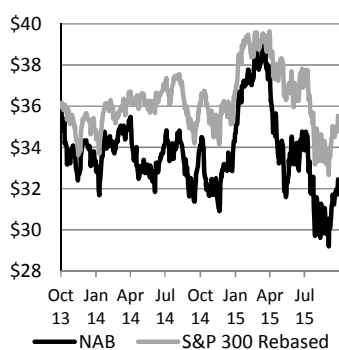
### Company Data & Ratios

Enterprise value	n/m
Market cap	\$83,289m
Issued capital	2,626m
Free float	100%
Avg. daily val. (52wk)	\$215.4m
12 month price range	\$29.14 - \$39.15
GICS sector	Banks

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	29.80	34.28	33.37
Absolute (%)	8.79	-5.43	-2.85
Rel market (%)	1.78	-0.81	-2.29

### Absolute Price



SOURCE: IRESS

### Transformation humming along nicely

NAB today announced the sale of 80% of its life insurance business to Nippon Life for \$2.4bn (completion late 2016) and provided a definite timetable for its UK demerger and IPO (shareholder approval January 2016, completion February 2016). The bank has made significant progress in the past six months in cleaning out its legacy assets, more so than in the past six years. When completed, these measures should lift ROE by ~200bp to 15% (top end of peer range) and place NAB in a strong capital position.

### 2015 results solid despite softer NIM

NAB's key 2015 results are: (1) cash NPAT \$5,839m (BP \$6,259m, consensus \$6,256m); (2) cash EPS 234cps [+11%] (BP 255cps, consensus 255cps); (3) final dividend 99cps fully franked (BP 99cps, consensus 99cps); (4) NIM 1.87% (BP 1.91%, consensus 1.91%); and (5) BDD charge \$823m (BP \$925m, consensus \$888m). Cash NPAT was ~7% lower than our expectations and consensus due to 4bp weaker NIM (largely from pricing in business banking) and higher operating expenses (largely UK conduct charges – a major swing factor as anticipated – and other one-off costs) mainly in the second half offsetting a lower BDD charge.

### Price target \$35.50, Buy rating maintained

We have lowered cash NPAT across the outer years by ~3%. This reflects weaker overall NIM as discussed earlier (lowered by 4bp on a sustainable basis), lower other income (proportional removal of life insurance contributions) and a redistribution of the BDD charge (timing issue). While the price target is slightly reduced to \$35.50 (previously \$36.00), the Buy rating is unchanged. Concern about the weaker NIM is justified to a certain point but we feel the market has not fully appreciated NAB's transformation progress to date. The bank continues to move closer to completing its strategic turnaround and a core business ROE milestone of 15% assuming UK demerger and IPO should underpin a healthy re-rating of the bank going forward.

### Earnings Forecast

Year end 30 September	2015	2016e	2017e	2018e
NPAT (reported) (A\$m)	6,338	5,539	7,179	7,684
NPAT (adjusted) (A\$m)	5,839	6,609	7,119	7,624
EPS (adjusted) (Acps)	234	251	267	283
EPS growth (%)	11%	7%	7%	6%
PER (x)	13.6	12.7	11.9	11.2
P/Book (x)	1.5	1.5	1.4	1.3
P/NTA (x)	1.7	1.7	1.6	1.5
Dividend (Acps)	198	198	202	210
Yield (%)	6.2%	6.2%	6.4%	6.6%
ROE (%)	12.1%	11.8%	12.2%	12.4%
NIM (%)	1.87%	1.84%	1.84%	1.83%
Franking (%)	100%	100%	100%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Stay on the road but mind the scenery

## Transformation humming along nicely

There were two material announcements today alongside NAB's 2015 profit release that still had more positives than negatives in our view (details in the next section).

The first announcement relates to the sale of 80% of its life insurance business to Nippon Life, to be completed by the second half of calendar 2016. This is subject to regulatory approvals, the establishment of a standalone life business entity and extraction of the superannuation business from MLC. The agreement includes a 20-year distribution partnership to provide insurance products through NAB's owned and aligned distribution networks (the MLC brand will be licenced for use by the life insurance business for 10 years). NAB will retain ownership of its investments business (superannuation, platforms, advice and asset management).

The \$2.4bn sale price is the equivalent of 19 times 2015 pro-forma earnings and is expected to result in a loss on sale of ~\$1.1bn (based on ~\$3.5bn value and net of ~\$440m transaction and separation costs). Capital generated from the sale of ~\$2.0bn, if retained, would result in Group ROE rising by ~10bp and EPS falling by <2%. If the CET1 capital ratio was maintained, Group ROE would increase by ~50bp and EPS would be broadly neutral. NAB Wealth pro-forma 2015 ROE would increase from 6.9% to 9.4%.

**Figure 1 – Improving capital efficiency**

### Life Insurance sale and long term partnership

- Agreed to sell 80% of NAB's Life Insurance business to Nippon Life for a price of \$2.4bn<sup>1</sup>
  - Sale is separate and in addition to life reinsurance transaction<sup>2</sup> which released \$0.5bn of capital in 2H15
  - NAB's remaining 20% stake valued at \$0.6bn
  - Including life reinsurance transaction, effectively values Life Insurance business at \$3.5bn
- Purchase price represents implied FY15 PE multiple of 19x for 80% stake based on FY15 proforma earnings of approximately \$160m
- Indicative loss on sale of ~\$1.1bn<sup>3</sup> based on expected completion NAV of \$3.6bn (goodwill of \$1.6bn<sup>4</sup>) on deconsolidation for the sale of Life Insurance business and after allowing for estimated transactions costs
- CET1 pro forma FY15 benefit of ~50 basis points (after allowing for transaction and separation costs)
- An attractive long-term partnership with a high quality partner:
  - One of the world's leading life insurers, with 126 years of history and a strong focus on the customer
  - Operations across Europe, North America and Asia
  - NAB will enter a 20 year distribution agreement to provide life insurance products through its owned and aligned networks
  - NAB will retain the MLC brand, although it will be licensed for use by the Life Insurance business for 10 years

(1) Sale price is as at expected completion date in the second half of calendar 2016 and is post capital release from the reinsurance transaction announced May 2015. This amount will be adjusted for certain capital inflows and outflows, including any dividends paid to NAB by the life insurance business, between 28 October 2015 and completion.  
 (2) Life reinsurance arrangement with a major global reinsurer covering ~21% of retail advised insurance book.  
 (3) Actual loss will vary depending on level of earnings between signing and completion; the final allocation of goodwill at the time of deconsolidation, final transaction costs and a number of other items. The loss is expected to be reported in next cash earnings.  
 (4) The final allocation of goodwill is subject to change and will be determined at the time of deconsolidation.

12



SOURCE: COMPANY DATA

The second announcement relates to the planned divestment of CYBG PLC (CYBG, holding company of Clydesdale Bank), now expected in early February 2016. This involves a demerger of ~75% of CYBG to NAB shareholders and a sale of the balance by way of IPO to institutional investors. The proposed transaction has been complex in terms of engagement with key regulators and this complexity contributed to a two month delay in execution. However, regulatory hurdles are largely cleared and the transaction is due for shareholder approval in late January 2016.

To achieve the CYBG demerger and IPO, the UK Prudential Regulation Authority (PRA) required GBP 1.7bn capital support from NAB for future payment protection insurance (PPI) and other legacy conduct costs. The GBP465m provisions in 2H15 (within guidance of GBP350-500m) are part of this capital support. Going forward and assuming no further provisions are taken and funded before the demerger, NAB should expect a capped

indemnity of GBP1.1bn (future losses under this to be shared 90%/10% between NAB and CYBG).

**Figure 2 – CYBG demerger scheduled for February 2016**

**Proposed timetable for demerger and IPO**

Event	Proposed Date <sup>1</sup>
Final board approval and first court hearing	Early December 2015
Scheme Booklet released to ASX	Week of 7 December 2015
Investor briefings on demerger and CYBG business	Week of 7 December 2015
Scheme Booklet dispatched	From mid December 2015
Shareholder vote	Late January 2016
IPO pricing	Early February 2016
Shares and CDIs commence conditional/deferred trading	Early February 2016
Commencement of normal trading	February 2016

<sup>(1)</sup> Dates are indicative only and may change

16



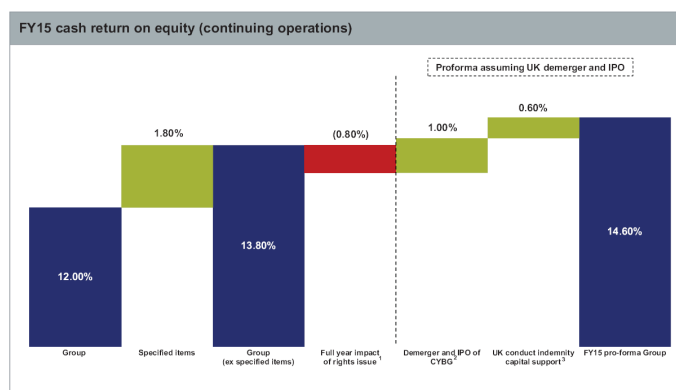
SOURCE: COMPANY DATA

The above transactions, when completed, should remove any remaining (and unnecessary) distraction for management and allow the bank to finally deal with some Australian and New Zealand issues and manage its core businesses for profitable growth.

We believe progress has been significant in the past six months and more so than in the past six years, including the successful exit from North America (GWB) and resolution of the UK CRE and SGA portfolios. The divestment of legacy and low returning assets should lift ROE by around 200bp (thus closing the gap to its peers), improve CET1 capital ratio excluding conduct indemnity by 120bp and underpin the bank's transformation story and re-rating potential.

**Figure 3 – Finally dealing with legacy and low returning assets**

**ROE in core Australian and NZ franchise remains favourable**



<sup>(1)</sup> Rights issue was completed in June 2015 and reported ROE includes 4 months of the impact of the rights issue  
<sup>(2)</sup> Assumptions include: UK IPO size of 25% and CYBG book value of £3.413m (which includes £620m of preference shares and the effect of ANZB9)  
<sup>(3)</sup> UK Conduct Indemnity Capital support (£1.15bn) will be reported in discontinued operations post completion of the CYBG demerger and IPO. Assumes FX rate of 0.462 GBP/AUD

31



SOURCE: COMPANY DATA

## 2015 results solid despite softer NIM

NAB's 2015 results are as follows:

- Reported NPAT \$6,338m (BP \$6,409m, consensus \$6,342m);
- Cash NPAT \$5,839m (BP \$6,259m, consensus \$6,256m);
- Cash EPS 234cps [+11%] (BP 255cps, consensus 255cps);
- Final dividend 99cps fully franked (BP 99cps, consensus 99cps);
- Cash ROE 12.0% (BP 13.4%, consensus 12.7%);
- NIM 1.87% (BP 1.91%, consensus 1.91%);
- BDD charge \$823m or 14bp of GLA (BP \$925m, consensus \$888m);
- Cost to income ratio 50% (BP 49%, consensus 49%); and
- CET1 capital ratio 10.2% (BP 10.3%, consensus 10.1%).

Cash NPAT increased by 16% on a PCP basis to \$5.8bn (-21% HOH to \$2.6bn). This was ~7% lower than our expectations and consensus due to 4bp weaker NIM (largely from pricing in business banking) and higher operating expenses (largely UK conduct charges – a major swing factor as anticipated – and other one-off costs) mainly in the second half offsetting a lower BDD charge.

NIE increased by 4% on a PCP basis to \$14.0bn (+2% HOH to \$7.0bn) due to volume growth in home and business lending offsetting NIM compression (-4bp PCP and HOH). Home lending NIM was 3bp lower on a PCP basis (flat HOH and we estimate should add 3-4bp in the next 12 months given recent repricing) while business lending NIM was 19bp lower (PCP and HOH) from price competition to maintain market share (a bit more headwind left in a low growth environment) and liquidity drag in a low rate environment.

**Table 1 – Softness in NIM and higher expenses the drivers of negative variance**

National Australia				
Y/e September 30 (\$m)	2015	BP	Variance	Comments
<b>Profit &amp; Loss</b>				
Net interest income	14,017	14,447	-3%	Variance due to 4bp weaker NIM (business banking competition and liquidity drag)
Other income	5,327	5,307	0%	Broadly in-line with our expectations
<b>Total operating income</b>	<b>19,344</b>	<b>19,754</b>	<b>-2%</b>	
Operating expenses	-9,964	-9,654	-3%	Higher Corporate Function expenses including higher UK conduct charges
Impairment expenses	-823	-925	12%	Lower charges in Australian and UK Banking
<b>Net profit before income tax</b>	<b>8,557</b>	<b>9,175</b>	<b>-7%</b>	
Corporate tax expense	-2,562	-2,715	nm	
Distributions, IORE & other	-156	-201	29%	
<b>NPAT (cash basis)</b>	<b>5,839</b>	<b>6,259</b>	<b>-7%</b>	Lower NIE and higher expenses the key drivers
DPS (cps)	198	198	0%	As per guidance
EPS (cash basis) (cps)	234	255	-9%	Reflects lower NIE and higher expenses
ROE	12.1%	13.4%	-1.2%	Reflects lower NIE and higher expenses
NIM	1.87%	1.91%	-0.04%	Business banking competition and liquidity drag
Cost ratio	52%	49%	3%	Reflects lower NIE and higher expenses

National Australia				
Y/e September 30 (\$m)	2015	BP	Variance	Comments
<b>Profit &amp; Loss</b>				
Australian Banking	5,111	5,262	-3%	Variance due to weaker NIM
NAB Wealth	464	459	1%	Better insurance outcome and lower overall expenses
UK	307	-193	-259%	UK conduct charges taken into Corporate Function (Other)
NZ	762	789	-3%	Variance due to higher BDD (collective)
Wholesale Banking	-	-	n/m	
Other	-630	159	-497%	Organisational restructuring costs and UK conduct-related provisions
<b>NPAT (cash basis) b4 adjust.</b>	<b>6,014</b>	<b>6,477</b>	<b>-7%</b>	Reflects lower NIE and higher expenses
Distributions & other	-175	-218	25%	
<b>NPAT (cash basis)</b>	<b>5,839</b>	<b>6,259</b>	<b>-7%</b>	Reflects lower NIE and higher expenses

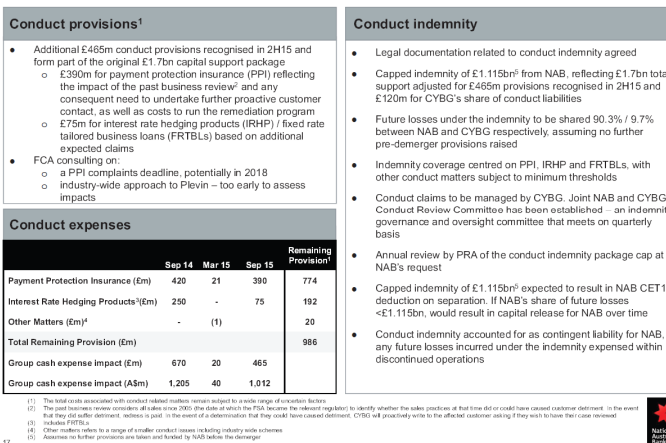
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Other operating income increased by 5% on a PCP basis to \$5.3bn (+2% HOH to \$2.7bn) and was broadly in line with our expectations. This was largely due to higher insurance income in NAB Wealth and gain on sale of assets (UK CRE and Australian Banking portfolios) more than offsetting slightly lower trading income and banking fees and commissions.

Although operating expenses were 1% lower on a PCP basis to \$9.9bn (+28% HOH to \$5.5bn), we understated these items by ~\$0.3bn mainly in respect of UK conduct charges within the bank's corporate function. This legacy issue remains a swing factor for NAB given the UK Financial Conduct Authority (FCA) is still consulting with a view to an industry-wide approach to the Plevin decision (regarding unfair PPI sale based on not disclosing a large commission that could widen the number of complaints). On the other hand, there is a small potential positive in the FCA consulting to place a PPI complaints deadline in 2018 (thus removing future uncertainty).

Figure 4 – PPI remains a complex issue

UK conduct update

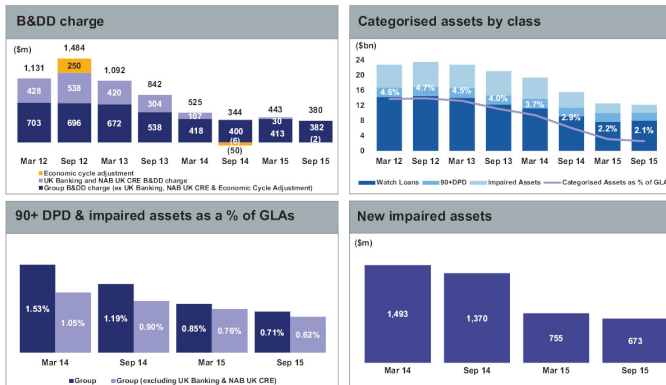


SOURCE: COMPANY DATA

Asset quality came in better than expected with a 5% lower BDD charge on a PCP basis to \$823m (-14% HOH to \$380m). This was due to lower specific charges given improvements across all major operating regions – including business lending, unsecured retail lending and in UK CRE – offsetting a higher collective charge in the agribusiness (largely New Zealand dairy) and resources sectors.

Figure 5 – Reflects credit risk discipline

Group asset quality continues to improve

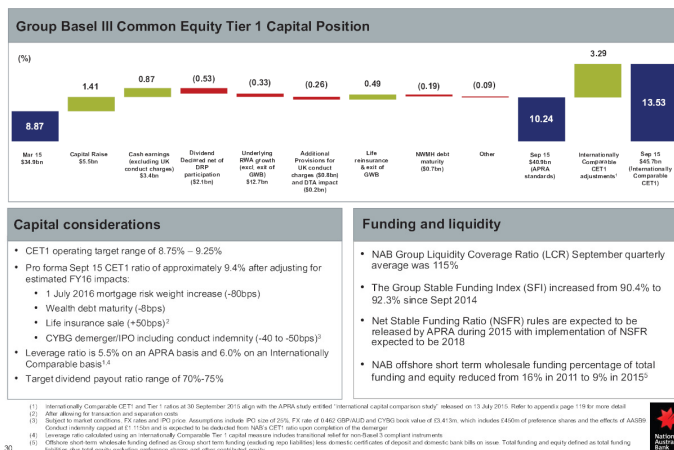


SOURCE: COMPANY DATA

Finally, considerable progress has been made in NAB's capital and funding positions (e.g. leverage ratio 5.5% on an APRA basis and 6.0% harmonised) and NAB has reaffirmed its 70-75% target dividend payout ratio.

Figure 6 – No change to capital policy

Strong capital, liquidity and funding position



SOURCE: COMPANY DATA

Table 2 – NAB Group KPIs

Group KPIs	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15
Growth in NIE	8%	15%	11%	6%	4%	0%	3%	10%	7%	-3%	-1%	8%	5%	-4%	1%	7%
Growth in other income	-	5%	9%	11%	-7%	11%	13%	-5%	-1%	18%	-24%	-30%	1%	-2%	0%	9%
Growth in operating expenses	11%	13%	3%	4%	9%	11%	3%	0%	0%	-2%	-18%	-7%	13%	25%	-2%	0%
Growth in PBT before BDD	18%	10%	17%	12%	-8%	-4%	10%	9%	7%	9%	0%	-5%	-2%	-30%	4%	20%
Growth in loans	12%	10%	7%	0%	-2%	3%	6%	-4%	-6%	2%	0%	2%	5%	4%	20%	20%
Growth in deposits	11%	13%	11%	2%	1%	5%	9%	8%	11%	10%	-15%	-12%	13%	7%	9%	9%
NIM	2.00%	2.25%	2.07%	2.25%	2.26%	2.24%	2.23%	2.28%	2.18%	2.08%	2.01%	2.08%	1.94%	1.88%	1.89%	1.85%
Cost ratio	51%	51%	47%	49%	52%	52%	50%	50%	48%	48%	43%	47%	47%	62%	46%	57%
Cost / average assets	1.39%	1.33%	1.28%	1.31%	1.42%	1.45%	1.40%	1.35%	1.28%	1.26%	1.04%	1.13%	1.08%	1.29%	0.95%	1.17%
Tier 1 capital ratio	6.9%	7.3%	8.3%	9.0%	9.1%	8.9%	9.2%	9.7%	10.2%	10.3%	10.2%	10.4%	10.8%	10.8%	11.1%	12.4%
Impairment expense / RWA	0.42%	1.02%	1.02%	1.16%	0.74%	0.60%	0.57%	0.48%	0.67%	0.89%	0.61%	0.47%	0.29%	0.19%	0.23%	0.19%
Total provisions + GRCL / RWA	0.77%	0.86%	1.18%	1.45%	1.53%	1.44%	1.39%	1.43%	1.37%	1.45%	1.34%	1.26%	1.20%	1.00%	0.95%	0.86%
ROE	16.8%	11.9%	12.7%	10.9%	12.9%	13.5%	15.1%	15.2%	15.0%	13.5%	14.4%	13.8%	14.6%	8.7%	14.5%	9.7%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Core segment observations are as follows:

- Australian Banking** – Cash NPAT increased by 3% on a PCP basis to \$5.1bn (-1% HOH to \$2.5bn). The flat performance in 2H15 was largely due to a softer NIM in business lending, ongoing liquidity drag, lower trading income and the negative impact of economic hedges taken in NIE. Cost discipline was maintained despite reinvestment in frontline capabilities and technology.
- NAB Wealth** – Cash NPAT increased by 27% on a PCP basis to \$464m (+8% HOH to \$241m). The key driver was better insurance contributions as a result of premium growth, price increases, cost discipline and favourable claims experience. The investment business reported flat cash NPAT on a PCP basis at \$303m (-25% HOH to \$130m) due to better market performance in the first half offset by lower margins and lower market performance in the second half. Average FUM increased by 11% on a PCP basis to ~\$17bn (spot FUM +8% to \$171bn) with better market performance offsetting negative net funds flow of \$860m from fewer wholesale mandates and a loss of one institutional mandate.
- NZ Banking** – Local currency cash NPAT increased by 2% on a PCP basis to \$823m (-3% HOH to \$405m). NIM remained strong, as is cost discipline while the bottom line was impacted by a higher collective BDD charge due to a weaker dairy industry outlook.

Table 3 – Australian Banking

Australian Banking	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15
Market share																
- Home loans	2.6%	2.7%	2.7%	2.8%	2.8%	2.9%	2.9%	3.0%	2.9%	2.8%	10.6%	10.7%	10.8%	10.8%	10.9%	11.0%
- Other loans	6.6%	6.6%	6.9%	6.9%	6.8%	6.7%	6.7%	6.7%	6.7%	6.6%	7.9%	7.8%	7.6%	7.5%	7.6%	7.8%
- Deposits	6.5%	6.4%	6.8%	6.7%	7.0%	6.7%	6.8%	6.9%	7.1%	7.1%	17.6%	17.8%	17.8%	17.5%	17.8%	17.5%
NIM	2.25%	2.35%	2.24%	2.45%	2.51%	2.51%	2.57%	2.66%	2.56%	2.50%	1.67%	1.69%	1.63%	1.61%	1.60%	1.56%
Other income / footings	0.20%	0.19%	0.18%	0.17%	0.17%	0.18%	0.17%	0.18%	0.17%	0.17%	0.23%	0.21%	0.20%	0.17%	0.19%	0.16%
Operating expense / footings	0.34%	0.34%	0.31%	0.32%	0.31%	0.32%	0.31%	0.30%	0.29%	0.28%	0.38%	0.37%	0.37%	0.36%	0.36%	0.36%
Cost ratio	35%	34%	32%	31%	30%	31%	30%	29%	29%	29%	38%	39%	41%	41%	41%	42%
Impairment expense / loans	0.15%	0.15%	0.30%	0.41%	0.20%	0.22%	0.20%	0.21%	0.19%	0.26%	0.15%	0.13%	0.09%	0.09%	0.08%	0.07%
Effective tax rate	30%	30%	30%	29%	30%	29%	29%	30%	30%	30%	29%	28%	29%	28%	29%	29%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 4 – NAB Wealth

NAB Wealth	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15
Growth in FUA	-	-	-22%	2%	63%	36%	4%	-5%	4%	13%	11%	16%	13%	9%	15%	8%
Funds management return	0.82%	0.88%	0.85%	0.90%	0.91%	0.84%	0.80%	0.83%	0.82%	0.80%	0.36%	0.39%	0.36%	0.34%	0.33%	0.31%
Growth in insurance income	13%	11%	3%	3%	48%	46%	8%	4%	3%	4%	-73%	-87%	-24%	56%	25%	70%
Volume expenses / TOI	36%	38%	39%	41%	45%	46%	45%	48%	47%	48%	0%	0%	0%	0%	0%	0%
Growth in operating expenses	-	-	3%	2%	29%	35%	4%	-1%	2%	1%	-18%	-16%	5%	-5%	-4%	3%
Effective tax rate	28%	27%	25%	24%	27%	20%	26%	28%	29%	30%	28%	22%	27%	28%	31%	27%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 5 – New Zealand Banking

NZ Banking	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15
NIM	2.35%	2.25%	2.16%	1.97%	2.08%	2.24%	2.24%	2.35%	2.41%	2.38%	2.40%	2.33%	2.34%	2.34%	2.41%	2.37%
Other income / footings	0.25%	0.25%	0.29%	0.24%	0.25%	0.25%	0.24%	0.23%	0.23%	0.21%	0.27%	0.23%	0.23%	0.23%	0.19%	0.21%
Operating expense / footings	0.44%	0.42%	0.41%	0.39%	0.41%	0.41%	0.40%	0.39%	0.37%	0.37%	0.42%	0.36%	0.36%	0.38%	0.34%	0.37%
Cost ratio	45%	45%	42%	46%	45%	43%	43%	42%	40%	41%	40%	40%	40%	40%	39%	40%
Impairment expense / loans	0.06%	0.08%	0.18%	0.15%	0.16%	0.18%	0.17%	0.09%	0.06%	0.10%	0.09%	0.06%	0.06%	0.07%	0.06%	0.13%
Effective tax rate	31%	31%	29%	29%	29%	32%	29%	31%	28%	27%	27%	26%	28%	27%	28%	26%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Price target \$35.50, Buy rating maintained

We have lowered cash NPAT across the outer years by ~3% (Table 6, next page). This reflects weaker overall NIM as discussed earlier (lowered by 4bp on a sustainable basis), lower other income (proportional removal of life insurance contributions) and a redistribution of the BDD charge (timing issue). While the price target is slightly reduced to \$35.50 (previously \$36.00), the Buy rating is unchanged. We believe NAB is now closer to completing its strategic turnaround and a core business ROE of 15% assuming UK demerger and IPO should underpin a healthy re-rating of the bank going forward.

### Figure 7 – Delivering on its promises

#### Significant progress on exiting low returning assets

- Life Insurance business partnership and sale of 80% for \$2.4bn releases ~50bps of CET1 capital
- Clydesdale IPO/demerger well progressed – expected completion in early February 2016
- Final Great Western Bank stake sold in August releasing 36bps of CET1 capital
- Life reinsurance deal finalised in July releasing \$0.5bn or 13bps of CET1 capital
- UK CRE loans now ~£0.5bn (93% performing) following £1.2bn of portfolio sales and further run-off in FY15
- SGA closed following liquidations in 1H15. Remaining portfolio absorbed into Australian Banking wholesale operations
- Performance Unit framework embedded and driving better capital allocation decisions



11

SOURCE: COMPANY DATA

Table 6 – Estimate changes

NAB Y/e September 30 (\$m)	2015			2016e			2017e			2018e		
	Actual	BP	Variance	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
<b>Profit &amp; Loss</b>												
Net interest income	14,017	14,447	-3%	13,323	13,766	-3%	14,074	14,435	-2%	14,776	15,136	-2%
Other income	5,327	5,307	0%	4,761	5,238	-9%	5,045	5,562	-9%	5,346	5,905	-9%
<b>Total operating income</b>	<b>19,344</b>	<b>19,754</b>	<b>-2%</b>	<b>18,084</b>	<b>19,004</b>	<b>-5%</b>	<b>19,119</b>	<b>19,996</b>	<b>-4%</b>	<b>20,122</b>	<b>21,041</b>	<b>-4%</b>
Operating expenses	-9,964	-9,654	-3%	-7,634	-7,824	2%	-7,823	-8,097	4%	-7,951	-8,469	7%
Impairment expenses	-823	-925	12%	-897	-948	6%	-1,043	-1,047	0%	-1,202	-1,153	-4%
<b>Net profit before income tax</b>	<b>8,557</b>	<b>9,175</b>	<b>-7%</b>	<b>9,554</b>	<b>10,232</b>	<b>-7%</b>	<b>10,253</b>	<b>10,853</b>	<b>-6%</b>	<b>10,969</b>	<b>11,419</b>	<b>-4%</b>
Corporate tax expense	-2,562	-2,715	6%	-2,828	-3,040	8%	-3,034	-3,225	6%	-3,244	-3,392	5%
Distributions & other	-156	-201	n/m	-117	-198	n/m	-101	-195	n/m	-101	-192	n/m
<b>NPAT (cash basis)</b>	<b>5,839</b>	<b>6,259</b>	<b>-7%</b>	<b>6,609</b>	<b>6,993</b>	<b>-5%</b>	<b>7,119</b>	<b>7,433</b>	<b>-4%</b>	<b>7,624</b>	<b>7,834</b>	<b>-3%</b>
DPS (cps)	198	198	0%	198	198	0%	202	202	0%	210	210	0%
EPS (cash basis) (cps)	234	255	-9%	251	261	-4%	267	274	-2%	283	286	-1%
ROE	12.1%	13.4%	-1.2%	11.8%	13.1%	-1.3%	12.2%	13.3%	-1.1%	12.4%	13.3%	-0.9%
NIM	1.87%	1.91%	-0.04%	1.84%	1.89%	-0.06%	1.84%	1.88%	-0.04%	1.83%	1.87%	-0.04%
Cost ratio	52%	49%	-3%	42%	41%	-1%	41%	40%	0%	40%	40%	1%
Impairment expense as % of GLA	0.14%	0.16%	0.02%	0.16%	0.17%	0.01%	0.18%	0.18%	0.00%	0.20%	0.19%	-0.01%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 7 – NAB SOP valuation

Sum-of-Parts (As Is)	2017e NPAT	Pros. PE (times)	Value (\$m)	Per NAB share
Australia Banking	5,763	13.5	77,802	\$29.63
UK (as is)	0	12.0	0	\$0.00
Wholesale (in Australia Banking)	0	0.0	0	\$0.00
Wealth	496	13.5	6,699	\$2.55
NZ	836	12.0	10,033	\$3.82
Other including distributions	23	0.0	0	\$0.00
<b>Total</b>	<b>7,119</b>	<b>13.3</b>	<b>94,534</b>	<b>\$36.00</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 8 – NAB composite valuation

Composite Valuation	Value (\$m)	Per NAB share	Weighting	Composite value per NAB share
DCF	91,165	\$34.72	40%	\$13.89
Dividend yield (sustainable)	94,289	\$35.91	40%	\$14.36
ROE (sustainable)	90,984	\$34.65	10%	\$3.47
Sum-of-Parts	94,534	\$36.00	10%	\$3.60
<b>Total</b>				<b>\$35.32</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES



# National Australia Bank

## Company description

NAB is an international financial services organisation providing a comprehensive range of retail and wholesale banking and wealth management products and services. The bank currently operates in Australia (with the NAB and MLC brands), NZ (BNZ brand), UK (offering retail, business and corporate banking facilities through the Clydesdale and Yorkshire banks – although the subject of de-merger and IPO process) and Americas (through the agribusiness specialist although sub-scale Great Western Bank in South Dakota – in IPO process).

## Investment strategy

Longer term, we view NAB as a turnaround stock now focused on the lower risk, capital efficient domestic financial services market space. Based on strong top line growth, cost initiatives to generate positive “Jaws”, better investment grade corporate exposures than its peers and earnings upside from NAB Wealth (when markets normalise), we believe NAB will be able to sustain 15% ROE.

## Valuation

Our price target is roughly based on a blend of DCF, sustainable dividend yield play, sustainable ROE and fully de-risked SOP valuation weighted as follows (with a heavier weighting on the former two as the bank de-risks its UK and US operations and normalises its ROE outlook towards 15% in the long term).

Sum-of-Parts (As Is)	2017e NPAT	Pros. PE (times)	Value (\$m)	Per NAB share
Australia Banking	5,763	13.5	77,802	\$29.63
UK (as is)	0	12.0	0	\$0.00
Wholesale (in Australia Banking)	0	0.0	0	\$0.00
Wealth	496	13.5	6,699	\$2.55
NZ	836	12.0	10,033	\$3.82
Other including distributions	23	0.0	0	\$0.00
<b>Total</b>	<b>7,119</b>	<b>13.3</b>	<b>94,534</b>	<b>\$36.00</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Composite Valuation	Value (\$m)	Per NAB share	Weighting	Composite value per NAB share
DCF	91,165	\$34.72	40%	\$13.89
Dividend yield (sustainable)	94,289	\$35.91	40%	\$14.36
ROE (sustainable)	90,984	\$34.65	10%	\$3.47
Sum-of-Parts	94,534	\$36.00	10%	\$3.60
<b>Total</b>				<b>\$35.32</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## SWOT analysis

### Strengths

1. Agribusiness and SME / commercial banking capabilities;
2. Highest proportion of investment grade exposures in the sector;
3. Well diversified geographically;
4. Management execution;
5. Scale in wealth management (life risk, funds management and advice); and
6. Cost discipline and ROE focus.

**Weaknesses**

1. NIM still soft in business lending; and
2. UK conduct issues (although potential costs now capped).

**Opportunities**

1. Further domestic banking and wealth management opportunities based on securing alternate distribution strategies;
2. Driving the Personal and Business Banking cost ratio to below 35%; and
3. Sale of what's left of the UK and US operations as conditions improve.

**Threats**

1. Macroeconomic factors, e.g. unemployment and slowing credit growth;
2. Changes in regulatory environment, especially higher liquidity/capital/funding constraints under proposed global regulatory reforms, and the potential capping of funds management and advice fees that would crimp wealth management earnings growth; and
3. Increased competition specifically from the majors and disruptors on the domestic front in retail and wholesale banking and wealth management.

**Sensitivities****Table 11 – NAB sensitivities**

Y/e September 30	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e
<b>Sensitivities</b>									
<b>Group NIM +10bp</b>									
- NPAT upside (cash basis)	7.7%	7.5%	7.4%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
- Price target upside	\$2.73	\$2.68	\$2.64	\$2.65	\$2.66	\$2.66	\$2.68	\$2.68	\$2.68
<b>Group Loans +1%</b>									
- NPAT upside (cash basis)	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
- Price target upside	\$0.21	\$0.22	\$0.22	\$0.22	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21
<b>Australian loans +1%</b>									
- NPAT upside (cash basis)	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
- Price target upside	\$0.29	\$0.29	\$0.28	\$0.28	\$0.28	\$0.27	\$0.27	\$0.27	\$0.27
<b>NZ loans +1%</b>									
- NPAT upside (cash basis)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
- Price target upside	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04
<b>Other income +1%</b>									
- NPAT upside (cash basis)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
- Price target upside	\$0.18	\$0.18	\$0.17	\$0.18	\$0.18	\$0.18	\$0.18	\$0.18	\$0.18
<b>BDD +1%</b>									
- NPAT upside (cash basis)	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
- Price target upside	-\$0.03	-\$0.04	-\$0.04	-\$0.04	-\$0.04	-\$0.04	-\$0.05	-\$0.05	-\$0.05
<b>Costs +1%</b>									
- NPAT upside (cash basis)	-0.8%	-0.8%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%
- Price target upside	-\$0.29	-\$0.27	-\$0.26	-\$0.26	-\$0.26	-\$0.26	-\$0.26	-\$0.26	-\$0.26

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 12 – Financial summary

National Australia						Share Price (A\$)					31.72
As at						Market Cap (A\$M)					83,289
28-Oct-15											
<b>PROFIT AND LOSS</b>											
<b>Y/e September 30 (\$m)</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>	<b>Y/e September 30</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>
Net interest income	13,451	14,017	13,323	14,074	14,776	NPAT (cash basis) (\$m)	5,055	5,839	6,609	7,119	7,624
Other banking income	3,689	3,760	3,518	3,702	3,895	EPS (statutory basis) (cps)	220	253	210	271	287
<b>Total banking income</b>	<b>17,140</b>	<b>17,777</b>	<b>16,841</b>	<b>17,776</b>	<b>18,671</b>	- Growth	-3%	15%	-17%	29%	6%
Funds management income	1,082	1,091	1,139	1,230	1,328	EPS (cash basis) (cps)	211	234	251	267	283
Insurance income	324	476	105	113	122	- Growth	-14%	11%	7%	7%	6%
<b>Total operating income</b>	<b>18,546</b>	<b>19,344</b>	<b>18,084</b>	<b>19,119</b>	<b>20,122</b>	P / E ratio (times)	15.0	13.6	12.7	11.9	11.2
Operating expenses	-10,046	-9,964	-7,634	-7,823	-7,951	P / Book ratio (times)	1.7	1.5	1.5	1.4	1.3
Impairment expenses	-869	-823	-897	-1,043	-1,202	P / NTA ratio (times)	2.1	1.7	1.7	1.6	1.5
<b>Net profit before income tax</b>	<b>7,631</b>	<b>8,557</b>	<b>9,554</b>	<b>10,253</b>	<b>10,969</b>	Net DPS (cps)	198	198	198	202	210
Corporate tax expense	-2,430	-2,562	-2,828	-3,034	-3,244	Yield	6.2%	6.2%	6.2%	6.4%	6.6%
Minority interests	0	0	0	0	0	Franking	100%	100%	100%	100%	100%
Investment experience	34	19	15	31	31	Payout (cash basis)	93%	85%	79%	75%	74%
Distributions & other	-180	-175	-132	-132	-132	<b>CAPITAL ADEQUACY</b>					
<b>NPAT (cash basis)</b>	<b>5,055</b>	<b>5,839</b>	<b>6,609</b>	<b>7,119</b>	<b>7,624</b>	<b>Y/e September 30</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>
Adjustments	240	499	60	60	60	Risk weighted assets (\$m)	367,652	399,758	437,412	460,647	485,517
<b>NPAT (statutory basis)</b>	<b>5,295</b>	<b>6,338</b>	<b>5,539</b>	<b>7,179</b>	<b>7,684</b>	Average risk weight	44%	43%	49%	49%	49%
<b>CASHFLOW</b>						<b>Tier 1 ratio</b>	<b>10.8%</b>	<b>12.4%</b>	<b>12.0%</b>	<b>12.1%</b>	<b>12.1%</b>
<b>Y/e September 30 (\$m)</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>	<b>Core Tier 1 ratio</b>	<b>8.6%</b>	<b>10.2%</b>	<b>10.0%</b>	<b>10.2%</b>	<b>10.3%</b>
NPAT (cash basis)	5,055	5,839	6,609	7,119	7,624	Total capital ratio	12.2%	14.1%	13.6%	13.5%	13.5%
Increase in loans	-16,542	-94,059	36,006	-26,753	-28,503	Equity ratio	5.4%	5.8%	6.1%	6.1%	6.1%
Increase in other assets	-51,483	11,624	-8,048	-20,418	-21,985	<b>DIVISIONAL</b>					
Capital expenditure	41	211	-53	-54	-56	<b>Y/e September 30 (\$m)</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>
<b>Investing cashflow</b>	<b>-67,984</b>	<b>-82,224</b>	<b>27,905</b>	<b>-47,225</b>	<b>-50,544</b>	<b>Australian Banking</b>					
Increase in deposits & borrowings	24,478	35,902	-31,819	27,252	29,447	Net interest income	10,277	10,727	11,505	12,198	12,841
Increase in other liabilities	47,421	28,244	2,562	17,072	17,873	Other income	2,640	2,681	2,665	2,828	3,002
Equity raised	436	6,271	888	904	937	<b>Total banking income</b>	<b>12,917</b>	<b>13,408</b>	<b>14,171</b>	<b>15,026</b>	<b>15,842</b>
Other	-4,038	-4,132	-6,145	-5,123	-5,338	Operating expenses	-5,267	-5,558	-5,711	-5,887	-6,155
<b>Financing cashflow</b>	<b>68,297</b>	<b>66,285</b>	<b>-34,515</b>	<b>40,106</b>	<b>42,919</b>	Impairment expenses	-741	-665	-765	-906	-1,060
Net change in cash	5,368	-10,100	0	0	0	<b>Net profit before tax</b>	<b>6,909</b>	<b>7,185</b>	<b>7,695</b>	<b>8,233</b>	<b>8,627</b>
<b>Cash at end of period</b>	<b>41,034</b>	<b>30,934</b>	<b>30,934</b>	<b>30,934</b>	<b>30,934</b>	Corporate tax expense	-1,962	-2,074	-2,308	-2,470	-2,588
<b>BALANCE SHEET</b>						<b>NPAT (cash basis)</b>	<b>4,947</b>	<b>5,111</b>	<b>5,386</b>	<b>5,763</b>	<b>6,039</b>
<b>Y/e September 30 (\$m)</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>	Home loans	249,633	268,486	283,965	298,891	314,585
Cash and liquid assets	41,034	30,934	30,934	30,934	30,934	Other loans	174,096	190,400	201,461	212,137	223,366
Divisional gross loans	532,544	583,052	549,463	577,268	606,841	Deposits	299,197	320,410	343,817	368,932	395,877
Provisions	-3,118	-3,520	-3,811	-4,006	-4,217	<b>UK Banking</b>					
Other gross loans / inter div.	-71,264	-27,311	-29,437	-30,295	-31,154	Net interest income	1,367	1,501	0	0	0
Other IEA	276,970	213,211	230,609	249,427	269,780	Other income	376	374	0	0	0
Intangibles	7,920	7,347	7,347	7,347	7,347	<b>Total banking income</b>	<b>1,743</b>	<b>1,875</b>	<b>0</b>	<b>0</b>	<b>0</b>
PP&E	1,952	1,741	1,794	1,848	1,904	Operating expenses	-1,233	-1,437	0	0	0
Insurance assets	85,032	89,350	80,000	81,600	83,232	Impairment expenses	-145	-75	0	0	0
Other assets	12,431	60,248	60,248	60,248	60,248	<b>Net profit before tax</b>	<b>365</b>	<b>363</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total assets</b>	<b>883,301</b>	<b>955,052</b>	<b>927,147</b>	<b>974,371</b>	<b>1,024,915</b>	Corporate tax expense	-81	-56	0	0	0
Divisional deposits	382,994	418,896	387,077	414,329	443,776	<b>NPAT (cash basis)</b>	<b>284</b>	<b>307</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other borrowings	349,606	370,356	372,918	389,990	407,863	Home loans	34,257	44,357	0	0	0
Other liabilities	102,793	110,287	110,287	110,287	110,287	Other loans	17,190	17,900	0	0	0
<b>Total liabilities</b>	<b>835,393</b>	<b>899,539</b>	<b>870,282</b>	<b>914,606</b>	<b>961,927</b>	Deposits	44,334	56,867	0	0	0
Ordinary share capital	24,049	31,334	32,222	33,127	34,063	<b>NAB Wealth</b>					
Other equity instruments	4,331	3,317	3,317	3,317	3,317	Wealth management income	1,082	1,091	1,139	1,230	1,328
Reserves	-866	-362	-362	-362	-362	Insurance income	324	476	105	113	122
Retained profits	20,377	21,205	21,669	23,665	25,951	<b>Total operating income</b>	<b>1,406</b>	<b>1,567</b>	<b>1,244</b>	<b>1,343</b>	<b>1,450</b>
Minority interests	17	19	19	19	19	Wealth management expense	0	0	0	0	0
<b>Total shareholders' equity</b>	<b>47,908</b>	<b>55,513</b>	<b>56,865</b>	<b>59,765</b>	<b>62,988</b>	Other expenses	-950	-941	-706	-706	-706
<b>Total sh. equity &amp; liabs.</b>	<b>883,301</b>	<b>955,052</b>	<b>927,147</b>	<b>974,371</b>	<b>1,024,915</b>	<b>Net profit before tax</b>	<b>456</b>	<b>626</b>	<b>538</b>	<b>637</b>	<b>745</b>
<b>WANOS - statutory (m)</b>	<b>2,330</b>	<b>2,439</b>	<b>2,574</b>	<b>2,603</b>	<b>2,632</b>	Corporate tax expense	-125	-181	-145	-172	-201
<b>WANOS - cash (m)</b>	<b>2,387</b>	<b>2,498</b>	<b>2,636</b>	<b>2,664</b>	<b>2,693</b>	Investment experience	34	19	15	31	31
<b>PROFITABILITY RATIOS</b>						<b>NPAT (cash basis)</b>	<b>365</b>	<b>464</b>	<b>408</b>	<b>496</b>	<b>575</b>
<b>Y/e September 30</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>	FUA	158,052	170,952	184,628	199,398	215,350
Return on assets	0.6%	0.6%	0.7%	0.7%	0.8%	<b>NZ Banking</b>					
<b>Return on equity</b>	<b>11.6%</b>	<b>12.1%</b>	<b>11.8%</b>	<b>12.2%</b>	<b>12.4%</b>	Net interest income	1,382	1,504	1,542	1,601	1,659
Leverage ratio	4.5%	5.2%	5.7%	5.7%	5.8%	Other income	449	434	456	478	498
<b>Net interest margin</b>	<b>1.91%</b>	<b>1.87%</b>	<b>1.84%</b>	<b>1.83%</b>	<b>1.83%</b>	<b>Total operating income</b>	<b>1,831</b>	<b>1,938</b>	<b>1,998</b>	<b>2,078</b>	<b>2,157</b>
Cost / income ratio	54%	52%	42%	41%	40%	Operating expenses	-737	-766	-767	-780	-789
Cost / average assets	1.16%	1.04%	0.83%	0.81%	0.78%	Impairment expenses	-80	-124	-132	-137	-142
Growth in operating income	0%	4%	-7%	6%	5%	<b>Net profit before tax</b>	<b>1,014</b>	<b>1,048</b>	<b>1,099</b>	<b>1,161</b>	<b>1,226</b>
Growth in operating expenses	19%	-1%	-23%	2%	2%	Corporate tax expense	-276	-286	-308	-325	-343
<b>Jaws</b>	<b>-19%</b>	<b>5%</b>	<b>n/m</b>	<b>3%</b>	<b>4%</b>	Minority interests	0	0	0	0	0
Effective tax rate	32%	30%	30%	30%	30%	Investment experience	0	0	0	0	0
<b>ASSET QUALITY</b>						<b>NPAT (cash basis)</b>	<b>738</b>	<b>762</b>	<b>792</b>	<b>836</b>	<b>882</b>
<b>Y/e September 30</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>	Loans	57,368	61,909	64,037	66,240	68,890
Impairment expense / GLA	0.16%	0.14%	0.16%	0.18%	0.20%	Deposits	39,463	41,619	43,259	45,397	47,899
Impairment expense / RWA	0.24%	0.21%	0.21%	0.23%	0.25%	Other IBL	0	0	0	0	0
<b>Total provisions (\$m)</b>	<b>3,118</b>	<b>3,520</b>	<b>3,811</b>	<b>4,006</b>	<b>4,217</b>	<b>ASSET QUALITY</b>					
Total provisions / RWA	0.85%	0.88%	0.87%	0.87%	0.87%	<b>Y/e September 30</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>
Indiv ass prov / gross imp assets	33%	31%	31%	31%	31%	Impairment expense / GLA	0.16%	0.14%	0.16%	0.18%	0.20%
IBL / IEA	100%	103%	102%	102%	101%	Impairment expense / RWA	0.24%	0.21%	0.21%	0.23%	0.25%
<b>Total provisions + GRCL / RWA</b>	<b>1.00%</b>	<b>0.86%</b>	<b>0.87%</b>	<b>0.87%</b>	<b>0.87%</b>	<b>Total provisions (\$m)</b>	<b>3,118</b>	<b>3,520</b>	<b>3,811</b>	<b>4,006</b>	<b>4,217</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

**Research Team**

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
<b>Industrials</b>			
Sam Haddad	Industrials	612 8224 2819	shaddad
John O'Shea	Industrials	613 9235 1633	joshea
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
Sam Byrnes	Industrials	612 8224 2886	sbyrnes
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
<b>Financials</b>			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified	613 9235 1668	lsotiriou
<b>Resources</b>			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
<b>Quantitative</b>			
Tim Piper	Associate Analyst	612 8224 2825	tpiper
Hamish Murray	Associate Analyst	613 9256 8761	hmurray

**Bell Potter Securities Limited**

ACN 25 006 390 7721

Level 38, Aurora Place  
88 Phillip Street, Sydney 2000

Telephone +61 2 9255 7200

www.bellpotter.com.au

**The following may affect your legal rights. Important Disclaimer:**

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. In Hong Kong this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded, Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

**Disclosure of interest:**

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

**ANALYST CERTIFICATION**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to Bell Potter, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.