BondAdviser

Research Report

Report Created on 30 May 2016

Issuer Name

National Australia Bank Limited

Security Name

NAB Capital Notes 2

Security Recommendation

Subscribe

Security Risk

Upper Medium

Issuer Outlook

Improving	Stable	Deteriorating

Key Characteristics

Product Type	Capital Note	**Last Price**	$100.00
Issue Size*	[$750,000,000.00]	**Accrued**	-
Par Value	$100.00	**Capital Price**	$100.00
Fixed/Floating	Floating	**Running Yield****	[6.935-7.085%]
Payment Frequency	Quarterly	**Yield to Call*****	[7.11-7.26%]
Current Distribution**	[6.935-7.085%]	**Trading Margin**	[4.95-5.10%]
Issue Margin / Coupon***	[4.95-5.10%]	**Optional Call Date**	7 July 2022
Franking Credits Incl.	Yes	**Scheduled Conversion Date**	8 July 2024
ASX Listed	Yes (Prospective ASX Code: NABPD)	**Next Record Date**	29 September 2016
Convertible	Yes	**Next Payment Date**	7 October 2016
GICS Sector	Banks	**Next Cash Distribution******	[$1.213625 - $1.24250]

*Issue size is expected to be $750 million**Based on prospective issue margin below plus 90-Day BBSW of ~1.985%.***Based on prospective issue margin of [4.95-5.10%] & interpolated swap rate to the call of 2.16%. Actual margin to be set at bookbuild.****Actual cash amount not including franking value & based on $100 face value.

Summary

On the 31st of May 2016 National Australia Bank (NAB) announced a new transaction, NAB Capital Notes 2 (Prospective ASX Code: NABPD). The purpose of this transaction is to provide Regulatory Capital for the group but more specifically it will be treated as additional Tier 1 capital for regulatory purposes. The indicative size of the offer is $750 million but NAB retain the ability to change the issue size.

These securities are structured as perpetual, unsecured, convertible, redeemable & transferable, subordinated notes. Distributions are discretionary, expected to be fully franked, floating rate, non-cumulative and subject to payment conditions. Distributions will be paid on a quarterly basis based on a calculation equal to 90-Day BBSW plus a margin multiplied by (1 – Current Company Tax Rate). The margin will be set at book build with the current guidance range being [4.95-5.10%].

This security has no fixed maturity date but is scheduled for conversion into NAB ordinary shares on 8th July 2024 (or later) subject to conversion conditions being satisfied. At the issuer's discretion, and subject to approval by APRA, the notes may be redeemed or transferred on 7th July 2022. As this security meets the new capital instrument eligibility criteria under Basel III it also contains the loss absorbing terms and conditions known in the documentation as Common Equity Trigger Events. Upon the occurrence of these Events this security will be converted into ordinary shares without the protection of conversion conditions. The holder will receive the lesser of the conversion number and maximum conversion number as outlined in section 2.3 of the prospectus. If a situation arises where conversion is not possible within 5 Business Days for any reason, holder's rights will be terminated and the notes will lose all value.

Figure 1: Capital Structure[1]

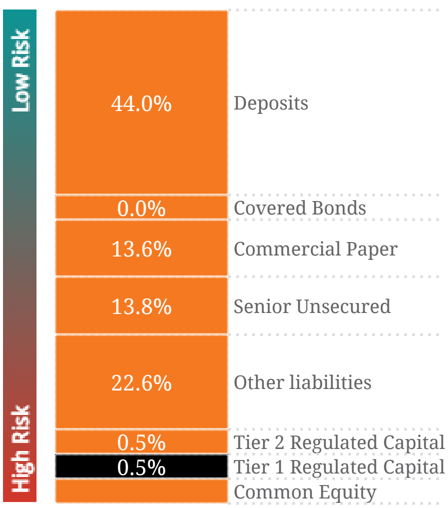
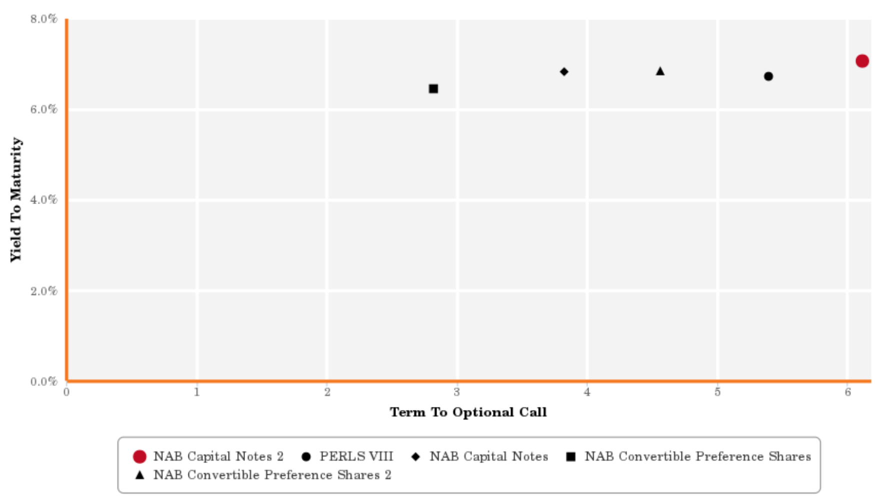


Figure 2: Relative Value[2]



Security Recommendation - Subscribe *as at 23 May 2016*

Security Recommendation – **Subscribe***

This is the fourth listed security offered by National Australia Bank which qualifies as a Basel III compliant Tier 1 Capital (the last being National Australia Bank Capital Notes, ASX Code: NABPC, issued on the 23rd March 2015 at an issue margin of 3.50% over BBSW).

Our valuation assumptions for this security are based on the security being redeemed (in full) on the optional call date (7 July 2022 or 6.0 years) and all interest payments being made in a timely manner. If this security is not called on this date (extension risk) the price of the security may fall. From a valuation perspective there are a number of comparable securities in our universe which give us confidence in our valuation. Our analysis suggests this security is being offered to investors at a margin of [4.95-5.10%] and is fair value.

NAB Capital Notes 2 have similar credit and structural risks to the other major bank Additional Tier 1 (AT1) securities that are Basel III compliant and are expected to trade in line with the market (on a trading margin basis).

On the basis of this security being priced within the indicative margin range of [4.95-5.10%] we recommend investors **Subscribe**.

Basel III eligible capital instruments (Tier II and additional Tier 1) have experienced volatility in the past. Notwithstanding this volatility, these securities offer a yield commensurate with their risk. In our opinion changing bank regulations also mean the risks between common equity and Tier 1 securities are diverging (improving credit outlook but deteriorating equity outlook).

From a credit perspective more capital, lending constraints and higher risk weights is a positive outcome for holders of debt and hybrid instruments of the banks. While this may not be welcomed by shareholders (and could lead to an increase in supply of capital instruments), if the changes are conducted in an orderly manner over a reasonable period volatility should be contained. Our biggest risk to the sector is whether or not the government/treasury will introduce some form of bail-in regime/legislation as the Canadian authorities have. However, we believe this remains a low probability in Australia and in any event, would not impact the supply of additional AT1.

Risk of events such as a Common Equity Trigger Event conversion (or write off) are common across 'new style' Tier 1 securities, but we consider the probability of such an event for NAB to be remote in the current environment. Investors should note these terms make the return profile asymmetric (unlimited downside but limited upside) and in all likelihood its performance will have a higher correlation to equities than a traditional fixed income instrument during a period of stress. The most likely scenario for a breach of these triggers would be either (or a combination of) a significant and sharp deterioration in the asset quality of residential mortgages (which would impact all banks) or a failure of risk management within an institution that would lead to significant losses. If these events are triggered they are likely to cause a significant capital loss to the investor. All of these factors have been considered in our recommendation.

***Subscribe** - Over the next 12 months the analyst expects the security to at least provide stable returns broadly in line with the current yield.

Positive / Negative Risk Factors

What factors would change the Recommendation UP

- The domestic regulator (APRA) continues to implement strict controls over domestic banks. The Liquidity Coverage Ratio became enforceable on 1 January 2015 and the Net Stable Funding ratio (currently under consultation) with an implementation date of 1 January 2018. These ratios will significantly improve the transparency of risks, in addition to capital, to investors;

- The recommendations of the financial services inquiry are starting to become a reality. On the 20th of July 2015 APRA announced a change to capital adequacy requirements in the form of increasing the average risk weights for residential mortgages from ~16% to at least 25%. Although this is at the low end of the recommendation (25-30%) it should be viewed as an interim change while APRA awaits the Basel Committee on Banking Supervision (BCBS) review of risk weighted assets in general. The major banks must comply with APRA's new rules by the 1st of July 2016. This decision was a positive for all holders of bank capital instruments as it increases the amount of core equity capital required to be held, thereby reducing the common equity leverage. The reported common equity tier 1 ratios will not look substantially different but the increase in nominal capital held increases the buffer against unexpected losses in mortgage portfolios and in APRAs mind improves financial stability of the system. These changes (with more to come) will improve the standalone credit profile of the banks and their individual securities;

- The Basel Committee on Banking Supervision (BCBS) consultative document 'Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches' was released during March 2016 and sets out the Committee's proposed changes to the advanced internal ratings-based approach and the foundation internal ratings-based approach. The Basel Committee has committed to finalising these rules by the end of 2016. Once finalised, these changes will flow through to the Australian banks once APRA has released their own draft papers and consulted with participants. We expect this will lead to an increase in the minimum capital requirements on a common equity tier 1 and total capital ratio basis. This will be a positive for tier 1 hybrid investors as this should increase the common equity base supporting all securities that are higher up the capital structure, but may see increased supply of tier 1 hybrids from a Tier 1 capital ratio basis.

- On the 13th of July 2015 APRA announced the results of the study comparing capital levels of the major banks on an "internationally comparable" capital level basis. The findings of this study were simply that Australian banks were strongly capitalized but not in the top quartile of banks globally when measured by capital ratio. NAB has taken the initiative to reduce any potential capital shortfall through a series of capital initiatives including a $5.5 billion rights offer, divestment of Clydesdale Bank and 80% sale of the MLC Life Insurance unit. As at 31 March 2016 NAB's internationally Comparable Common Equity Tier 1 Ratio was 13.02%;

- NAB has significant capital buffers above the capital trigger event level of 5.125%;
- NAB has a significant loss absorption cushion through earnings, capital and provisioning which are the primary defences of the bank to loan and security impairments. This is likely to increase further through the introduction of the above capital adequacy requirements.

What factors would change the Recommendation DOWN

- Distributions on this security are discretionary and subject to payment conditions. The primary risk here is that the minimum common equity ratio (CET1) (inclusive of D-SIB and capital conservation buffers) required by APRA has increased to 8.0% this year. This means that if NAB is unable to maintain the CET1 ratio to a level above the minimum requirements, distribution payments may not be able to be made. This is to ensure NAB is complying with APRA's current capital adequacy requirements. This is partially mitigated by NAB's preferred CET1 range of 8.75-9.25% and distribution and capital restrictions;
- The findings of the APRA Capital Comparison Study suggest that APRA will require a ~2.0% increase in total regulatory capital ratios although we note that they excluded all Basel III transitional capital instruments in these calculations. Replacing the transitional capital instruments with complying Tier 1 and Tier 2 should allow the banks to achieve APRA's requirements in an orderly manner without materially increasing the net supply of capital instruments;
- This security includes the Non-Viability trigger Event terminology. If breached, investors are at risk of substantial capital losses. A sharp deterioration in earnings as a result of securities fraud (i.e. similar to the London Whale event experienced by JPMorgan) could adversely affect the loss absorption cushion of the group and result in an event whereby conversion (or write down) is triggered. This is an unlikely but possible event;
- The announcement by the US Securities and Exchange Commission (SEC) in July 2014 to change the rules for securities that can be purchased by prime money market funds could have significant impact on short term funding markets for Australian Banks. The new rules state that at least 99.5% of a portfolio's total assets must be in cash or government securities. Implementation date is not until October 2016 but a recent announcement by one of the largest managers suggest they will transition early. The Australian Banks have ~US$90 billion in funding tied to this type of fund;
- During May 2014 APRA clarified the definition of entities to be included in the composition of a Level 2 ADI. While this means that over time the capital benefit the Group currently gains from issuing debt on the National Wealth Management Holdings Limited balance sheet will be removed, this is not expected to have a material impact (as per page 30 of the half year results announcement which mentions APRA's quantitative impact analysis suggests no potential Level 3 Group would be required to raise additional capital as a result of the implementation).

Issuer Outlook - Stable *as at 23 May 2016*

Earnings

National Australia Bank (NAB) reported a headline statutory loss of $1.7 billion due to the UK Clydesdale Bank (CYBG) demerger (cash earnings of $3.31 billion, up 6.5% compared to 1H15). The loss on demerger and Initial Public Offering (IPO) of CYBG was $4.22 billion as previously disclosed in the 1Q16 trading update with the NAB also taking a further charge of $801 million relating to provisions for UK conduct costs pursuant to claims under the Conduct Indemnity Deed with CYBG. Excluding these one-offs totalling $5.021 billion, the statutory net profit was $3.31 billion.

On an operating basis net operating income was +3.3 and +2.0% over 12 & 6 months respectively. Operating expenses were up 4.2% over a 12 month period reflecting investment in the Group's priority customer segments and increased technology and personnel costs. NAB's cost to income ratio fell by 0.8% to 41.5% over the half but was higher by 0.9% over 12 months.

Net interest margin (NIM) improved by 0.03% to 1.93% over the half, but remains the lowest of the major banks. Cash earnings within the wealth business were satisfactory at $249 million (up 11.9%) but excluding cash earnings and the sale & segregation costs of the life business the cash earnings outlook remains uncertain over the short term.

Group cash earnings were in line with market expectations of $3.3 billion. It's our view that cash earnings have peaked in the short term as the sector absorbs the regulatory changes which effect volumes and return on equity. Both major parties have also put the banks on notice regarding their collective behaviour towards customers with the threat of a Royal Commission into the banking sector if Labour wins the 2 July election. The Liberal government countering by increasing both funding and powers of the regulators in governing the banks. This increased level of scrutiny probably contributed to the decision of 3 of the 4 major banks to pass on the RBA's 0.25% cash rate reduction to borrowers within hours of this announcement despite ongoing NIM pressures.

Cash earnings are still strong despite increased competition on loan pricing that will have an impact on margins. For this reason the group is employing capital light strategies (a strong attribute for debt and hybrid investors).

NAB announced an unchanged interim dividend of $0.99 per fully franked share with no dividend reinvestment plan discount and no participation limit (a payout ratio of 78.8%). Like Westpac they missed an opportunity to acknowledge this is not sustainable going forward. Despite acknowledging their dividend will likely move lower over time.

Capital

Efficient capital management remains one of the key priorities within NAB due to significant balance sheet adjustments, asset sales, regulatory change and moving capital targets. The reported common equity Tier 1 ratio (CET1) as at March 2016 was 9.69%, a decrease of 0.55% over the half (above both NAB's 8.75%-9.25% target range and regulatory minimum of 8%). On an equivalent international comparison this ratio is 13.02%. This does not take into account any future regulatory changes. The impaired loans ratio within CRE is 0.29%, down from, 0.47% over 12 months.

The group presentation noted the Leverage Ratio was 5.25% (5.7% on an internally comparable basis) which is above the minimum requirements set out by some international regulators (i.e. Switzerland set at 5%). As there are still many variables to be agreed upon by both international and domestic banking sector regulators we hesitate to say they would be compliant with any international standard prior to that standard being introduced. The biggest capital issue evident from the result is that organic capital generation (post dividend) to risk weighted asset growth remains close to zero and in this result was negative. This means earnings are no longer contributing to capital and if the capital intensity of the balance sheet increases then capital ratios are likely to fall unless dividend payout ratios fall.

Funding and Liquidity

NAB's funding composition has remained fairly stable over the past year, but with the marginal cost of funding now below the average cost of funding, most of the major banks are utilising wholesale debt markets to fund asset growth (term funding over the half was $17.7 billion, with $14.2 billion of this being senior and subordinated debt with $3.5 billion being covered bonds, with an overall average tenor of 4.7 years).

The maturity profile of the outstanding debt is well balanced with a clear objective to push out near term maturities that may impact the liquidity coverage and net stable funding ratio objectives. Customer deposits continue to increase but the funding gap prevails within the banking system.

Liquid assets continue to grow with management stating the liquidity coverage ratio was 125% as at 31 March 2016, up from 115% as at 30 September 2015. It is difficult to assess the impact of the SEC decision on NAB's funding metrics but in the short term it is likely to have a small effect. NAB's High Quality Liquid Assets & CLF Eligible securities were down by $2 billion to $102 billion.

In March 2016 APRA released a discussion paper on the Net Stable Funding Ratio (NSFR). The consultation period is open until 31 May 2016, and a ratio of at least 100% is proposed for regulatory purposes from 1 January 2018. NAB is making considerable progress towards satisfying NSFR requirements (e.g. increasing the stability of the Group's funding profile over recent years).

Asset Quality & Provisions

The improvement in asset quality has been a key highlight for NAB over the past few reporting periods. Bad and doubtful debts versus GLA's was a very modest 0.14% compared to 0.13% as at September 2015, the lowest of the majors. Nonetheless, new impaired assets increased from $570 million to $1.291billion. This included $522 million in NZ dairy exposures (mirroring what we saw with WBC's results). Total NZ dairy exposure totals NZ$9 billion, representing <1% of total exposures. The new exposure is not expected to generate a loss given these are held against secured assets. Resource exposures are down 13% from FY15 to $10.5 billion, or <1% of group exposures. NAB's exposure to residential developers is $3.8 billion, or 7% of total CRE exposures ($53.5 billion, or 11.9% of GLA's). Looking at the residential mortgage portfolio, WA and QLD exposures total 10% and 18% of the total housing exposures respectively. Property values in mining areas within these states have fallen 15%–60% (CoreLogic), and NAB's exposure to these mining towns is ~1% of the total housing book. The portfolio's exposure to commercial and industrial real estate (12.83% 31 March 2016, down from 13.42% 30 September 2015) remains a concern.

Outlook

Operating conditions for NAB, and banks in general, are expected to be even more challenging during the second half.

Over recent months we have seen all four major banks respond to the regulators demands that the banks tighten their lending criteria and demonstrate that the actual assessment process for new residential mortgages is beyond reproach for owner occupiers and investors alike.

The combined requirement for lower LTV caps, higher average risk weights and the 10% growth cap on investor lending will constrain loan growth while increasing minimum capital requirements. NAB's smaller market share (14.3% based upon APRA's February monthly banking statistics) in the residential mortgage market means it is a little less sensitive to macroeconomic changes (i.e. unemployment) than the CBA and Westpac, but we will continue to carefully monitor arrears rates on unsecured lending for signs of deterioration. However, given the now even lower interest rate environment and quality of the loan book we do not expect a significant deterioration in asset quality.

We also expect NAB to continue to focus on the regulatory changes that are still within the consultation stages. Briefly, these being:

- The net stable funding ratio (NSFR);
- The Basel IV accords;
- Finalisation of the leverage ratio; and
- Total loss absorbing capacity (TLAC).

We are comfortable with the current CEO's (Andrew Thornburn) strategy of shifting towards a capital light business model and demonstrating that the leadership team are also pro-actively addressing the issues of the business in a way which to date have been creditor friendly (a positive for debt and hybrid investors). With the NAB completing the divestment of the UK business and the sale of 80% of the capital intensive MLC life business unit to Nippon Life during October 2015, NAB are in a position to take advantage of strategic initiatives without being distracted by underperforming business units. NAB are in the process of extracting the superannuation and investments business ahead of settlement of the 80% stake in MLC scheduled for the 2nd half of 2016 and will retain the MLC brand.

Next Event: NAB Full Year Results 2016 to be published on the 27th of October 2016.

Figure 3: Credit Curve (Comparable Securities)[2]

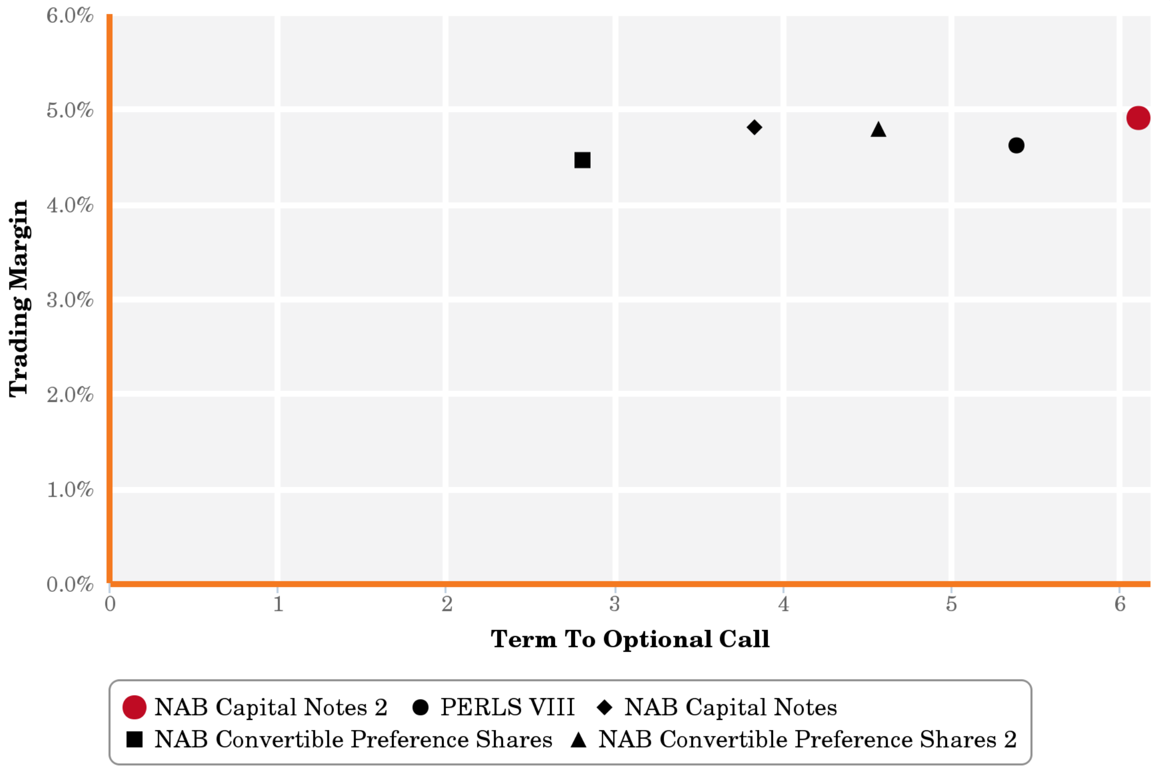
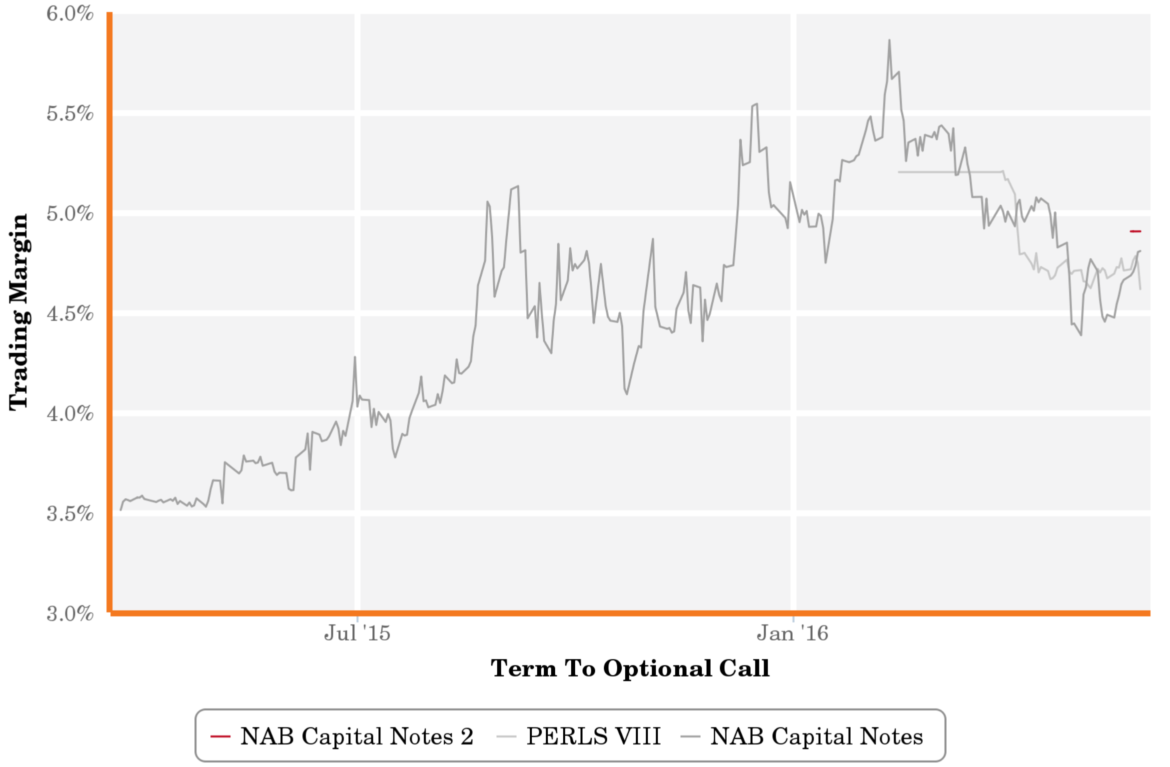


Figure 4: Historical Trading Margins of Comparable Securities



[1] The balance sheet structure diagram represents a measure of liabilities and captial in order of seniority of the overall cash balance sheet.
[2] Pricing as at close of business 27 May 2016

Source: BondAdviser

Hybrid Commentary

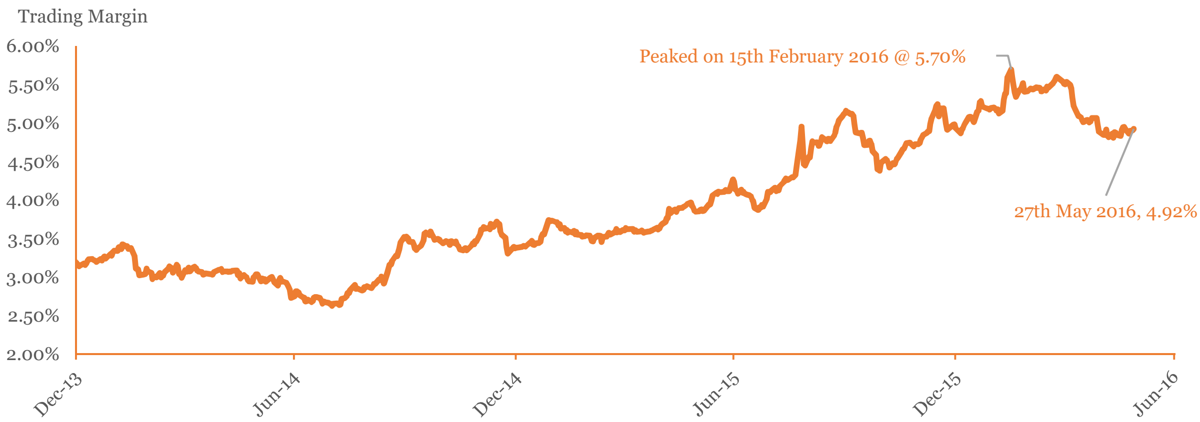
Figure A shows how the average trading margin for Tier 1 hybrids issued by Australian banks have moved over the past decade. Post the GFC, the trading margin has by and large remained range bound between 3% and 5% and given current valuations appear to be at fair value.

Figure A. Average Major Bank Tier 1 Hybrid Trading Margin since 2006

Source: Bond Adviser, as of 27th May 2016

Since the issuance of the first NAB Capital Note (ASX code: NABPC) during March 2015, Tier 1 hybrids experienced a period of trading margin widening with the average trading margin for all Tier 1 hybrids reaching a peak ~5.3% during mid-February 2016 (the average trading margin for Tier 1 hybrids with a comparable optional call date of 5-7 years peaked at 5.70%, currently ~4.92%, see Figure B). The first two Tier 1 hybrid issues of 2016 were priced at a margin of 5.20% & 4.90% over the 90-day BBSW.

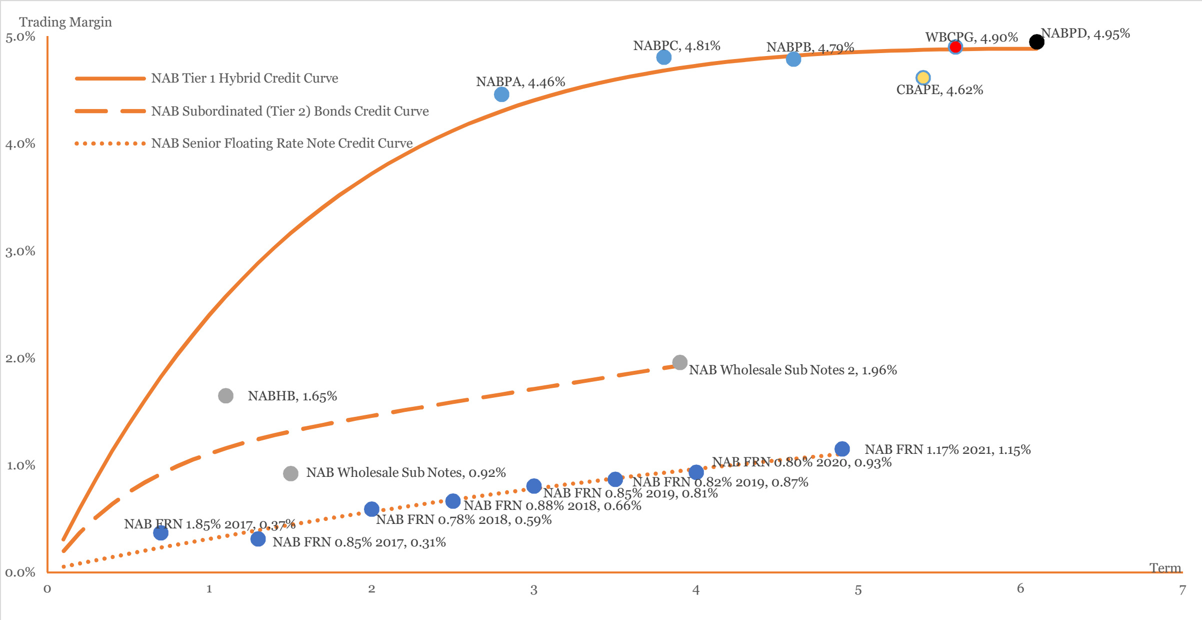
Figure B. Major Bank Tier 1 Hybrid Trading Margins with an Expected Call Date a year either side of NAB Capital Notes 2 (ANZPD, CBAPE, WBCPG, ANZPE, WBCPE, CBAPD & ANZPF)



Source: Bond Adviser, as of 27th May 2016.

We judge the current indicative range of [4.95-5.10%] for NAB Capital Notes 2 as being fair both on a relative value basis versus similar Tier 1 hybrid issuance by the other three major banks (Figure 3) and consistent in relation to NAB's own credit curve across the capital structure (Figure C) at the time of writing.

Figure C. National Australia Bank's credit curves across the capital structure

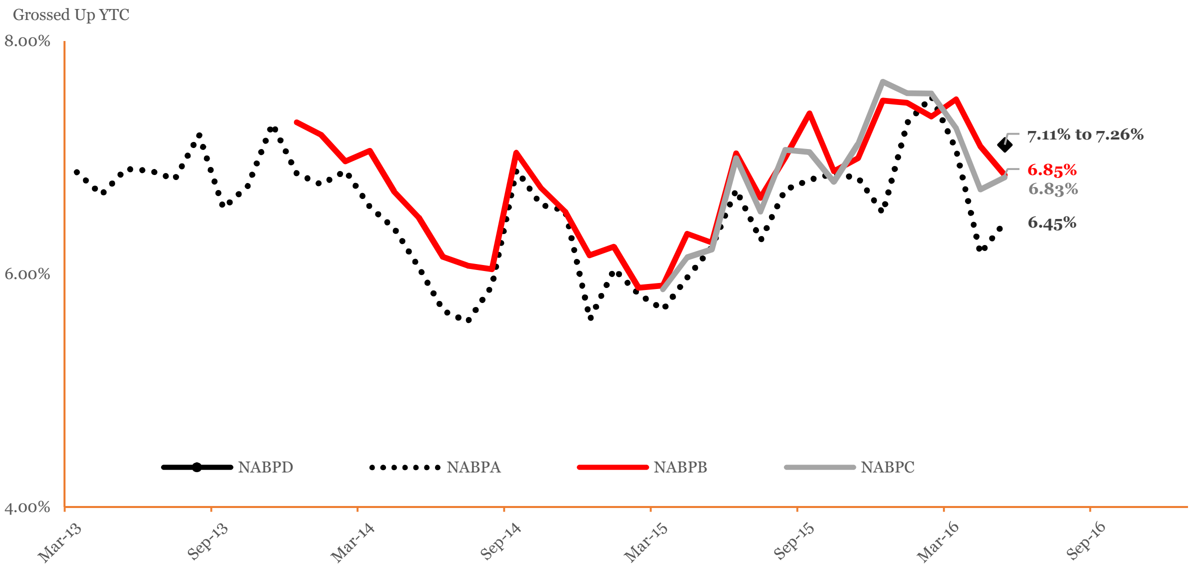


Source: Bond Adviser, as of 27th May 2016.

With the RBA reducing the official cash rate from 2.00% to 1.75% on the 3rd May (with some economists forecasting the prospect of at least another cut of 0.25%), the reference 90-day bank bill swap rate (90BBSW) is ~1.985%.

With the NAB Capital Notes 2 book-build range [4.95-5.10%] & interpolated swap rate to the call of 2.16%, this would imply an initial grossed up Yield to Call (YTC) between 7.11-7.26%. Figure D below shows the grossed up yield to call of NAB Capital Notes 2 compared against existing NAB Tier 1 hybrids.

Figure D. NAB Tier 1 Hybrids Grossed Up YTC



Source: Bond Adviser & Bloomberg, as of 27th May 2016

National Australia Bank Limited: Financial Summary

National Australia Bank Limited: Financial Summary

Recommendation Summary **Subscribe**

30 May 2016

Profit and loss	2015	2014	2013	2012
Net Interest Income ($m)	14,017.0	13,755.0	13,407.0	13,297.0
Fee Income ($m)	2,453.0	2,505.0	2,495.0	2,421.0
Trading Income ($m)	844.0	892.0	1,094.0	626.0
Wealth Management ($m)	1,586.0	1,440.0	1,370.0	1,616.0
Other Banking Income ($m)	398.0	301.0	197.0	318.0
Total Revenue ($m)	19,298.0	18,913.0	18,563.0	18,278.0
Growth (%)	2.0	1.9	1.6	3.6
Total Expenses ($m)	-9,899.0	-10,180.0	-8,410.0	-7,828.0
Growth (%)	-2.8	21.0	7.4	-1.8
Pre-Provision Profit ($m)	9,399.0	8,733.0	10,153.0	10,450.0
Growth (%)	7.6	-14.0	-2.8	8.1
Provisioning Expense ($m)	-823.0	-877.0	-1,934.0	-2,615.0
Taxation ($m)	-2,562.0	-2,492.0	-2,284.0	-2,194.0
Minority Interest and Pref	-175.0	-180.0	-188.0	-208.0
Group Cash Earnings ($m)	5,839.0	5,184.0	5,747.0	5,433.0
Growth (%)	12.6	-9.8	5.8	-0.5
Adjustments ($m)	324.0	-69.0	-580.0	-1,558.0
Group Statutory Earnings ($m)	6,163.0	5,115.0	5,167.0	3,875.0

Capital Adequecy	2015	2014	2013	2012
Fundamental Tier 1 (%)	13.40	12.06	11.90	11.25
Deductions (%)	-3.16	-3.43	-3.47	-2.96
Core Equity Tier 1 (%)	10.24	8.63	8.43	8.29
Residual Tier 1 Capital (%)	2.20	2.19	1.92	1.97
Tier 1 Capital (%)	12.44	10.81	10.35	10.27
Tier 2 Capital (%)	1.70	1.35	1.45	1.40
Total Risk Weighted Capital	14.15	12.16	11.80	11.67
Credit ($m)	344,326.0	318,374.0	314,674.0	299,871.0
Market ($m)	5,793.0	4,923.0	5,191.0	4,436.0
Operational ($m)	40,000.0	36,534.0	34,749.0	23,008.0
IRRBB ($m)	9,639.0	7,821.0	7,464.0	4,021.0
Total Risk Weighted Assets	399,758.0	367,652.0	362,078.0	331,336.0
Dividend Payout Ratio (%)	85.60	90.10	77.60	75.20

Balance Sheet	2015	2014	2013	2012
Loans ($m)	588,499.0	532,517.0	505,008.0	487,595.0
Liquids ($m)	189,905.0	179,077.0	156,515.0	142,377.0
Goodwill ($m)	7,347.0	7,720.0	7,641.0	7,088.0
Trading Assets ($m)	121,321.0	101,601.0	72,210.0	69,513.0
Other ($m)	67,939.0	41,069.0	60,890.0	51,788.0
Total Assets ($m)	945,011.0	861,984.0	802,263.0	758,361.0
Deposits ($m)	426,261.0	421,877.0	397,656.0	382,987.0
Wholesale Debt ($m)	242,919.0	213,711.0	192,372.0	181,609.0
Other ($m)	225,034.0	179,567.0	167,993.0	151,421.0
Total Liabilities ($m)	894,214.0	815,165.0	758,021.0	716,017.0
Ordinary Shareholders	47,463.0	42,977.0	39,658.0	37,394.0
Other ($m)	3,334.0	3,842.0	4,585.0	4,950.0
Equity ($m)	46,819.0	46,819.0	44,243.0	42,344.0

Asset Quality & Provisions	2015	2014	2013	2012
Annual Provision Charge/Gross				
Individually Assessed (%)	0.13	0.24	0.40	0.53
Collective (%)	0.01	-0.08	-0.03	0.00
Total Charge (%)	0.14	0.16	0.37	0.52
Gross Non-Accruals ($m)	2050.00	4122.00	6347.00	6543.00
Loans Past 90 Days Due ($m)	2122.00	2342.00	2463.00	2357.00
Annualised Provisional Charge/Risk				
Individually Assessed (%)	0.19	0.36	0.58	0.79
Collective (%)	0.01	-0.12	-0.05	-0.01
Total Charge (%)	0.21	0.24	0.53	0.79
Provisioning Coverage				
Specific Provision/Impaired Assets	31.10	32.90	29.00	28.70
Collective Provision/Credit Risk	0.55	0.55	0.69	0.78

Funding & Liquidity	2015	2014	2013	2012
Stable Funding Index (%)	92.30	90.40	89.20	86.00
Customer Funding Index (%)	71.50	70.40	69.40	66.00
Term Funding Index (%)	20.80	20.00	20.00	20.00
Liquid Assets excl contingent liquidity	124.0	117.2	106.7	91.0

Source: Company data, BondAdviser estimates.

Research Methodology

Every research report issued by BondAdviser includes a clear recommendation - **Buy**, **Hold** or **Sell** - on the security. This recommendation framework is designed to help investors navigate different investment opportunities by identifying the market price, yield, term to maturity, liquidity, volatility and risk.

The guide below may help you understand our research opinions. For further information on our research approach, you can refer to our RG79 statement by **clicking here**.

Research Opinions key

- **Buy** - Over the next 12 months, the analyst expects the security to outperform the current yield due to credit spread tightening or favourable movements in the underlying yield curve.
- **Hold** - Over the next 12 months, the analyst expects the security to provide stable returns broadly inline with the current yield but with little credit spread tightening.
- **Sell** - Over the next 12 months, the analyst expects the security to underperform the current yield due to credit spread widening or adverse movements in the underlying yield curve.
- **Suspended** - The recommendation has been suspended temporarily due to the disclosure of new information or market events that may have a significant impact on our recommendation. This also includes situations where we have been given non-public information and we need to temporarily suspend our coverage in order to comply with applicable regulations and/or internal policies.
- **Not Rated** - A security that has not been assigned a formal recommendation.

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