National Australia Bank

Year in Review

Capital Financing

Steve Lambert, EGM Capital Financing

A look back over the year

2015 saw turmoil in the markets balanced with innovation – with the aim of solving customer's needs always coming first

Looking back over this year, there were two common themes that come to mind, and were present over the past 12 months. Innovation and volatility. One doesn't necessarily lead to another, and quite often you don't get them together, but it seems that 2015 saw more firsts in the market while at the same time it seemed that markets were closing just as quickly as they opened.

We saw the year kick off with open markets and a continuation of the steady issuance we experienced throughout the end of 2014. I was quite proud of the team when NAB issued our first Climate Bond into the Australian market. With our strong focus on clean energy and shared value, this deal wasn't just a mark of innovation for the team, but a mark of innovative thinking on behalf of the organisation. It paved the way for similar transactions and really cements NAB's commitment to our corporate responsibility plan and doing the right thing – by customers, and by community.

NAB has continued on the path of innovation, bringing many other firsts to the market this year. This year I was pleased to see we were able to take an Australian wind farm to the USPP market. Supporting our Australian and New Zealand customers offshore is core to NAB's strategy and purpose, and this is just one more way we do it. We've always had a solid position in renewables in Australia and the UK, but branching out to the States provides another platform for this growing industry.

Funding diversity for our customers is even more important when volatility hits. The USPP market didn't just open opportunities for wind farms, but it also brought diversification for Australian universities. We also took Associated British Ports to the USPP market - our first debt capital markets role with them. It's this ability to match needs and connect customer to customer, during times of uncertainty that puts our product agnostic approach at the forefront.

Throughout the year we also experienced changing governments both here in Australia and in the UK. Couple this with the pending election in the USA and the impact this will have on economic policy and you get a lot of borrowers and investors waiting, and watching to see what happens. With Greece's debt crisis kicking it off, the markets opened and closed on a daily basis, depending on which one you were in, and what you were trying to issue. Eventually it seemed they all shut for a while, and as we enter the end of 2015 it appears they are finding their feet again. I can't be certain, but I do think we'll need to get used to this as we go through the next year. With the USA elections not on until November 2016, the FOMC still undecided on raising rates and rising geopolitical risk, markets will remain volatile.

The markets aren't the only thing to impact both NAB and our customers. As we go forward we're facing challenges through regulation, demographic changes, fintech disruptors, and changing trade and capital flows. As I say, if you're not doing something new today, you're already behind tomorrow, and this hasn't been any truer than now. Societal changes are demanding more of banks and our customers every day, and much of this is in the digital space and customer experience. Minor players who are well advanced with technological services can easily fill these gaps, and being nimble enough to match them is imperative for established companies as we head into 2016.

Various free trade agreements are changing the landscape of trade which will flow on to investment and growth over the next few years. Some people will see change as a negative, but others look for the opportunities. For NAB this opens up more opportunities to support our customers as they build and grow their businesses, by providing access to funding in new and diverse markets.

So, as we close on 2015 and head into 2016, innovation and volatility look to remain at the forefront of the market. However, where other see barriers, I look forward to finding solutions to meet our customer's needs.

Domestic Bank and Kangaroo Financials 2015

Greece, China, and EU volatility pushed funding costs higher for global financial issuers throughout 2015

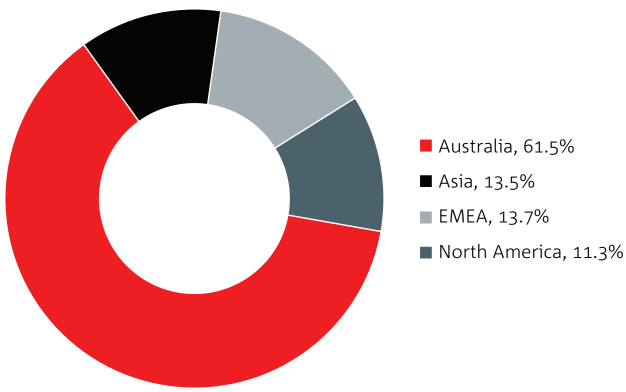
Rahni Soliman

The first half of 2015 provided a stable backdrop for bond issuers to access the Australian Dollar market. Issuance volumes were ahead of 2014 until late May/early June when volatility spiked as a result of negotiations on the Greek bailout package. This kept issuers on the sidelines as investors assessed the possibility of a Greek exit from the Eurozone. Issuance volume picked up again in early Q4 when the AUD market provided issuers with compelling funding opportunities relative to offshore markets.

October represents the largest issuance month for 2015 with ~A$19 billion of issuance, $11 billion of which was from financials. Despite this, YTD volume of A$112 billion is slightly down on the equivalent period last year.

Financial issuers represent the largest proportion of the AUD market with around 50% of total issuance this year. The jurisdictional diversity of issuers from the sector also demonstrates the increasing appeal of the AUD market as a source of funding for global issuers.

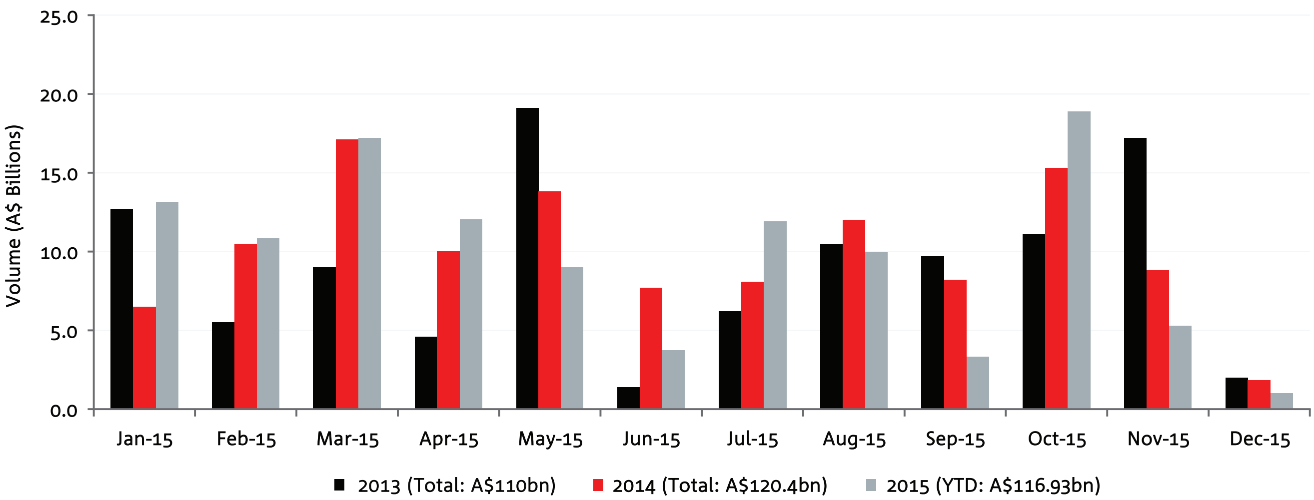
Total issuance by region



Source: Bloomberg

Foreign banks (both Kangaroo and Foreign Branches) have all been active this year and make up 42% of total issuance from the sector. Australian Major Banks have also relied heavily on the AUD market this year issuing a combined $24.3 billion across various formats.

Issuance volumes monthly (year on year)



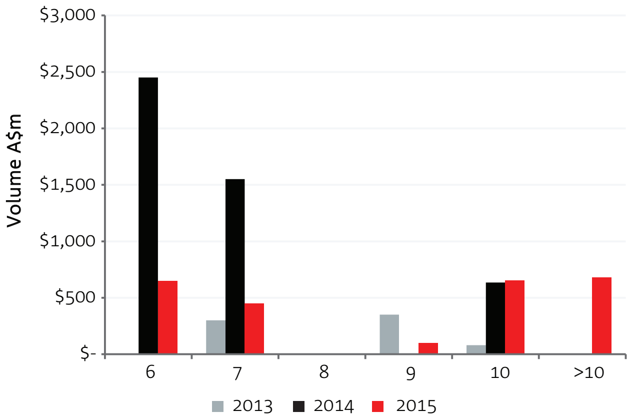
Source: Bloomberg

Long Dated Issuance

There has been an increased focus on longer dated issuance from financials in the second half of 2015, driven by renewed demand from Japanese funds and Asian life companies.

Issuance in this tenor is opportunistic as the credit curve from 5 to 10 year is quite flat providing issuers with cost efficient funding for the additional tenor. Most of the issuance has been from foreign banks who are at least single A rated and have global name recognition.

Issuance by tenor



Source: Bloomberg

Regulatory Capital (Tier 1 & Tier 2)

Financials have continued to build on their capital holdings to meet increasing requirements throughout 2015 and NAB has been at the forefront of originating and distributing Tier 1 and Tier 2 instruments for both Australian and Kangaroo issuers.

NAB acted as JLM on the first OTC Tier 1 issuance in the Australian market for AMP Bank. Following this transaction NAB led a number of other institutionally targeted Tier 1 offerings for domestic ADIs.

NAB was also a JLM on the Rabobank Nederland Tier 2, which was the first Kangaroo Tier 2 capital transaction in more than 8 years and the first Tier 2 offering in AUD with statutory write off at point of non-viability. This offering laid the foundation for follow on issuers to access the AUD market for capital in this format.

Credit Spreads

It's been a volatile year for credit spreads globally and the AUD market has not been immune to the impact of events occurring in other parts of the world. The initial move wider started in late May as investors became concerned about the potential contagion risk in the event Greece/EU negotiations broke down. Spreads never really recovered and as the year progressed new headline risks emerged.

During the second half of the year financial spreads have pushed wider by 25-30bps as investors maintain a cautious approach to participating in new bond offerings. Investors have also begun demanding wider new issue concessions to participate. Despite this, the AUD market continued to provide Australian issuers with the cheapest funding alternative.

As we head into the end of the year headline risk remains on a number of fronts, including bond market liquidity (lack thereof); weak economic data from China; and firming odds for a US rate hike in December.

Key theme: TLAC/Bail In

Financials have been increasingly focused on issuance across the capital structure in 2015 (including CET1, AT1 & T2), a theme which is expected to continue into 2016. In November this year the Financial Stability Board finalised the Total Loss Absorbing Capital (TLAC) standards for Globally Systemically Important Banks (GSIB's).

From 1 January 2019 the minimum TLAC requirement for GSIB's will be 16% of Risk Weighted Assets (RWA's) so we expect to see financials looking to raise capital in various formats and markets.

However regulators in different jurisdictions have taken a varied approach to how they want GSIB's in their region to meet the minimum requirements. In North America, the UK & Switzerland we have seen issuance via a Holding Company structure while some of the European regulators have opted for bonds issued out of the Operating Company to be subject to statutory 'bail in'.

None of the Australian Banks are GSIB's however the four majors are considered Domestically Systemically Important Bank's (DSIB's) and could be subject to some form of TLAC requirement. APRA is yet to define its approach to TLAC but it is unlikely it will differ greatly from their global counterparts.

AUD Corporate Bond Market

AUD corporate bond market overview: 2015 a solid outcome achieved against the odds

Brad Scott

Despite a challenging market backdrop, calendar 2015 marked a year of firsts and further consolidation for the role of Australia's corporate bond market as a key funding term source for domestic and international issuers.

Over 2015, the AUD corporate bond market saw in excess of A$11.1 billion supply, just pipping that of 2014 (A$11.0 billion), in a commendable and surprising outcome given the frequency of volatility induced disruptions over the year. Not withstanding the backdrop of flat corporate credit growth, aggregate supply would have been higher were it not for an ongoing procession of event-driven factors that encompassed rising geopolitical risk, uncertainty around US/Euro central bank monetary settings, the 'Greek crisis', and speculation around how weaker Chinese growth would impact global economic growth and commodity demand. All these factors culminated in a gradual steepening of credit risk premiums over the year.

Beneath these healthy headline numbers for 2015 though is in fact the comparatively low frequency of AUD corporate bond transactions in 2015, which just ticked over 30. By comparison, 2014 recorded 44 like deals. Indeed, the reduced number of AUD corporate bond transactions in 2015, was also around a quarter less than the 5 year average (42). It is no surprise then that compensating for the lower deal flow, was the pleasingly larger average deal size of A$371 million, up ~60% on 2014 (A$232 million). As noted, recurrent market disruptions constrained a number of transactions from coming to market as investor risk aversion spiked, but pleasingly a majority of issuers still successfully printed deals amid ever shortening execution windows.

Over a longer timeframe, more importantly aggregate around A$55 billion of AUD corporate bond issuance has being achieved over the past five years, implying 2015 actually represented an 'average' year in a volume sense. It was in fact, and by a very small margin, the 3rd biggest year in the past five in a volume sense. This was still shy however of the A$12.6 billion recorded in 2012 when the market saw close to 60 deals, as corporates proactively refinanced short-dated bank loans struck in the GFC.

Issuance analysis

- The consumer sector was dominant in a volume sense, with issuers such as Apple, Wesfarmers and SAB Miller each having printed benchmark issues, comprising ~30% of the overall 2015 total. Apple's record A$2.25 billion 4/7yr deal was especially noteworthy for its jumbo size and global profile.
- A/AA band issuance also dominant accounting for 78% of supply, up from 52% in 2014, when BBB was more active.
- Tenor preference of issuers remained 7yr, with 34% of supply issuing in that tenor. Avg tenor for 2015 was also at 6.6yrs, up from 6.2yrs in 2014.
- A surge in 10yr demand driven by Asian interest, was also notable. In fact a record A$1 billion was printed in the 10yr bucket for AUD corporates, reflecting both public and reverse enquiry driven deals.
- Sectoral breadth of the market continued to grow in 2015, with auto, resources, infrastructure, industrials and property well represented in a volume and transaction number sense.

A number of the corporate deals that did proceed to market then, in aggregate represented a slight departure from prior years for reasons of rating, tenor, sector, origin and transaction size. In doing so, despite 2015 being a challenging year, the AUD corporate bond market still demonstrated its relevance to an ever widening array of market participants, including those from offshore. As NAB sees regularly in corporate deal execution, the role of

Asian investor participants has also added another level of breadth and diversity to the market that often sees this cohort account for around 25% of final order books.

Key highlights of the year

Other key highlights of the year included:

- **Proliferation of benchmark deals:** eight transactions ranging from A$500 million to A$2.25 billion from the likes of BHP Billiton, Telstra Corporation, BMW, Intel, and Ford Motor Co accounted for A$6.75 billion or >60% of total AUD corporate supply in 2015 (see table below).
- **US issuers rediscover A$ MTNs:** Further to the above, the AUD market as a source of funding diversity to US based issuers was also notable, and was achieved despite a less attractive basis swap decreasing the level of overall activity in Australia's kangaroo market.
- **Debutants grow:** Debut issuers were also a feature in 2015, continuing a theme seen in recent years of the market appealing to an ever broader universe of rated issuers. The year saw eight debut issuers in the Australian market, and generated >40% of overall 2015 volume. In the past 3 years, the AUD market has seen 36 new issuers boding well for repeat issuance.
- **Rising risk premiums:** Widening credit spreads were a key theme over H2 2015. New issue levels ended 2015 clearly wider than the start of the year.
- AUD Itraxx index ended around 30% wider at year end versus the start, with the trough in March, and the wides recorded in September. Corporates and financials saw this acutely in Q4, where primary market execution was clearly stilted by virtue of this this global phenomena. Partly mitigating the rise in spreads, notably in H2 2015, continued low swap rates largely offset this, meaning all-in yields remained near all time lows.
- **New issue concessions:** Rising investor risk aversion over 2015, meant that investors required new issue concessions to protect them from market to market losses and to incentivise them to invest. This was notable given rising concerns around secondary liquidity and single name event risk-related rating pressures that evolved over the course of 2015

Australian Corporate Bond Market Outlook for 2016

As 2015 rolled on, primary markets locally and offshore became more challenged as investor risk aversion rose, notably as global markets contemplated the timing of the US Fed's first hike in nine years. As the clear #1 market leader in the AUD bond space, NAB Debt Markets saw this is in the over 90 led transactions we brought to the market across corporate, financial and structured transactions (approximately one deal every 2.5 days), which raised $55 billion for our clients.

Benchmark A$ Corporate Issuers feature over 2015

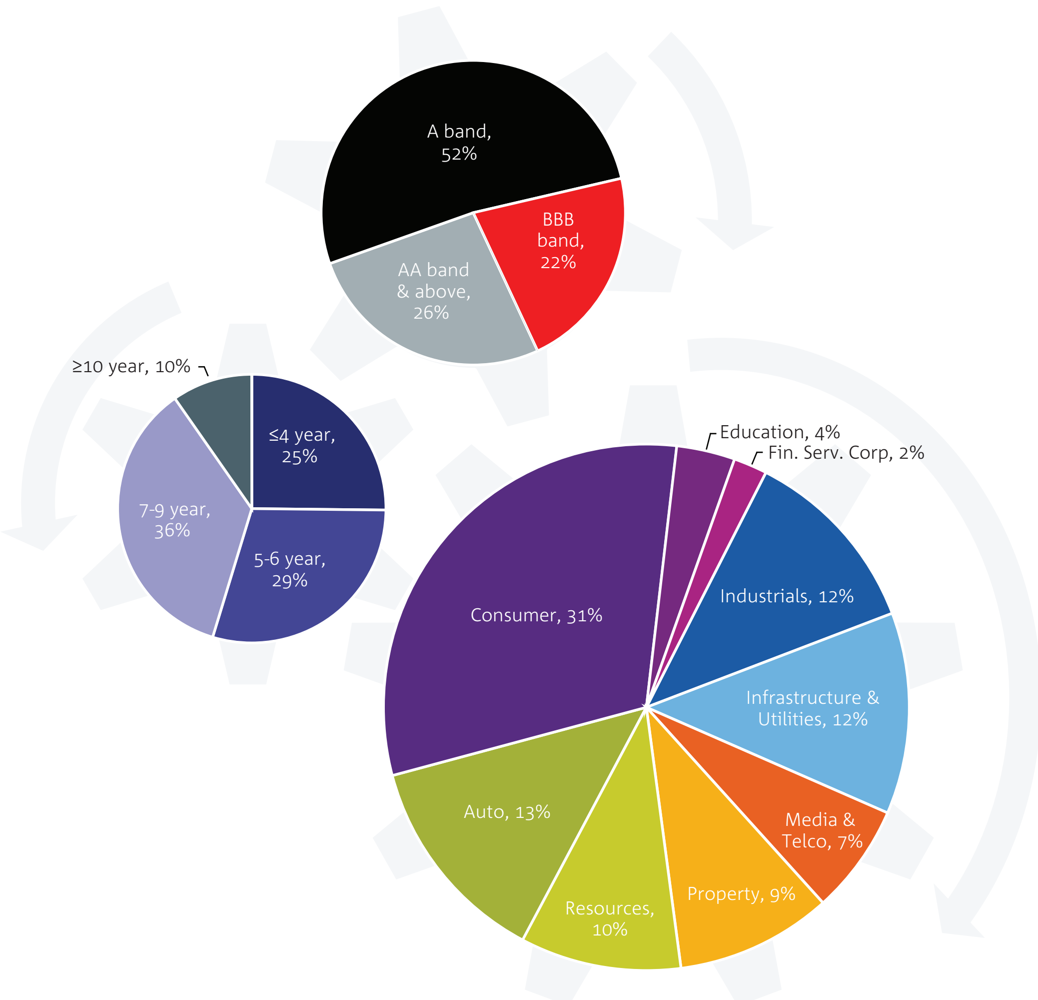
Issuer	Rating	Type/yield	Volume	Pricing date	Tenor	Issue margin*
Apple Inc	Aa1/AA+	Fixed 2.85 Floating Fixed 3.70	$400m $700m $1,150m	21/08/2015	4Yr 4Yr 7Yr	65 65 110
BHP Billiton	A1/A+	Fixed 3.00	$1,000m	19/03/2015	5Yr	87
Intel Corporation	A1/A+	Fixed 3.25 Fixed 4.00	$250m $550m	24/11/2015	4Yr 7Yr	90 130
SAB Miller (FBG Australia)	A3/A-	Fixed 3.75	$700m	31/07/2015	5Yr	128
BMW Australia	A2/A+	Fixed 2.75	$500m	10/02/2015	3Yr	65
Wesfarmers Limited	A3/A-	Fixed 3.66 Floating	$300m $200m	7/05/2015	5.5Yr	90
Telstra Corporation	A2/A	Fixed 4.00	$500m	9/09/2015	7Yr	130
Ford Motor Credit Company	Baa3/BBB-	Fixed 4.05	$500m	3/12/2015	3Yr	180
		Total	$6.75bn (61% of Total Corporate Issuance YTD)			

*3mnth BBSW
Source: Bloomberg, NAB Debt Markets Origination

In an environment of rising systemic risk, 2016 will also likely resemble 2015 in some respects, noting though that similar to this year, well timed and priced corporate bond transactions will still be considered by credit investors keen to diversify their portfolios.

As such, NAB remains constructive on the AUD corporate bond market for 2016, and think that if the market can achieve what it did in 2015 against the backdrop of so much uncertainty, then the prospects look bright if the market can operate in a more certain environment. Issuers at the same time will continue to have the benefit of ample funding choices from banks and capital markets meaning competition for supply will remain intense . Investors meanwhile will remain selective and relative value focused, notably amid the backdrop of a rising Us rate environment. Those issuers that will be successful in 2016 will likely be those who retain a strong commercial readiness and flexibility to access execution windows when they open.

2015 A$ Corp Bonds: sector, tenor and ratings split



Source: Bloomberg and NAB Debt Markets Origination

Diversity drives AUD regulatory capital forward

A focus on regulatory capital brings multiple issues to market during a volatile year

Nick Chaplin

New issues of regulatory capital drove the Australian listed hybrid and subordinated debt market once again in 2015. It was never going to be too surprising with the government's Financial Services Inquiry, recommending that banks need to be "unquestionably strong" with an aim for the capitalisation to be within the top quartile globally. Additionally, regulators in the Northern Hemisphere brought about more change on top of the Basel III reforms with "Total Loss Absorbing Capital" (TLAC) legislation. While TLAC remains initially something for globally systemically important banks (none in Australia), at the time of writing, the Australian Government has responded to the FSI and it is expected that APRA would react to introduce something similar to TLAC in Australia should it become commonplace in other jurisdictions.

Tier 1 and Tier 2 issues attract investor interest of all levels

NAB arranged and led a variety of regulatory capital issues throughout the year ranging from both listed and unlisted Tier 1 capital issues to kangaroo Tier 2 issues and others that included automatic write-off in case of 'non-viability'.

AMP Group provided the inaugural unlisted Basel III Tier 1 capital issue in March when they issued A$275m in a franked issue that drew demand from sophisticated wholesale investors within NAB's Access Bond Service as well as a swag of institutional investors, which until this point, had rarely bought issues that incorporated franking credits. AMP later went on to book-end the year with a further issue of A$267m listed Tier 1 in November – a transaction that attracted very strong demand taking advantage of materially improving market conditions.

We didn't have to wait too long for the second unlisted Tier 1 issue as Bank of Queensland brought a new A$150m issue in June with NAB Sole Arranger. Again, the 'over-the-counter' form attracted good institutional interest as well as broad support from the middle market and wholesale sophisticated investors.

New listed Tier 1 issues totalling A$4 billion by Bendigo and Adelaide Bank, ANZ, NAB, and Westpac continued the flow of Additional Tier 1 capital, although future volumes in the domestic market are expected to be lower than recent years as issuers attune to investor demand limitations and the potential to be able to efficiently issue offshore for hybrid Tier 1 in the future, and consequently opening up alternative markets.

Rabobank brought the first 'kangaroo' capital issue for over 8 years when they issued A$700m of 10 non-call 5 year subordinated Tier 2 paper in June. This was followed quickly by new wholesale Tier 2 issues by the recently listed Genworth and unlisted mutual, Heritage Bank. NAB's wholesale sophisticated investor base was keenly involved in all three transactions providing key price tension. The Heritage issue was the first to include immediate 'write-off' in the case of non-viability being called by APRA. Genworth, just a fortnight later, was the second! Ordinarily, in the case of non-viability, issues are immediately converted into the stock of the issuer. With no stock on issue, Heritage viewed the write-off clause as necessary and the market supported the issue confidently.

Investor feedback through the year confirmed that there was greater comfort with the Basel III structures for capital as now typically seen in Tier 1 and Tier 2 capital issues. Non-viability clauses – initially causing investors to pause were now much better understood, particularly as investors assessed the likelihood of non-viability before investing in issues. Investors have also been increasingly acknowledging that an allocation to the hybrid asset class is an important differentiator versus simply investing additional funds in the shares of the hybrid issuers. This is due to the vastly higher volatility in equities and the already high average allocation to equities anyway, together with a sensible acknowledgement of the need for asset diversity and a longer term investment horizon when investing in hybrid instruments.

Hybrids remained in demand

The desire for corporate hybrid exposure remains high and the market welcomed Crown Resorts Limited's issue of Subordinated Notes II in April. The A$630m issue took in investment demand from Australia and Asia as investors expressed solid support for the Crown business. The issue, which attracted intermediate (50%) equity credit from ratings agencies, was the second issue from Crown of this type of issue and acknowledged that corporate issuers appreciate the demand for subordinated paper in the listed market in Australia.

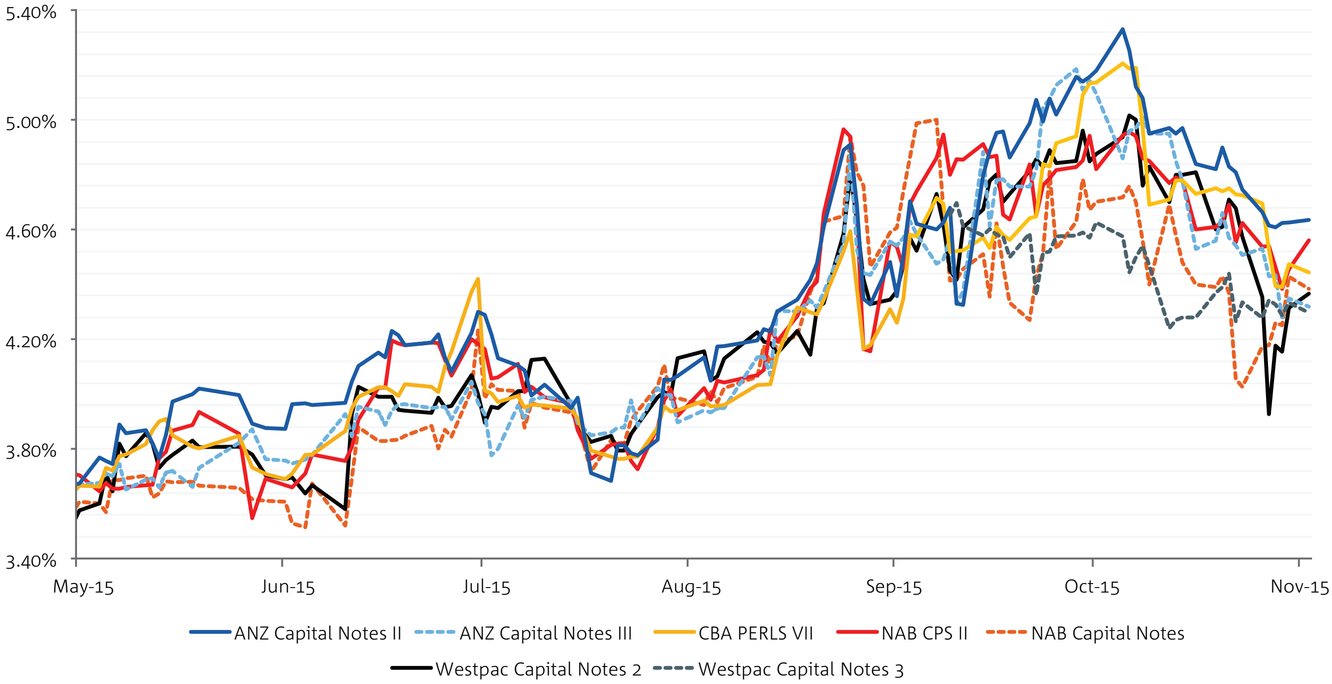
Investors saw marked volatility in prices through the year in all asset classes, with the market impacted by concerns over the Chinese economy, extended low oil and hard commodity prices and the consequent effect on resource company viability. Large issues of ordinary equity by the five largest banks in Australia (raising over A$17 billion in Common Equity Tier 1 capital in total) also gave the market pause for thought and tempered the performance of the broader equities market. The push for increased amounts of Common Equity Tier 1 capital (CET1) drove Entitlement issues of ordinary stock from NAB, CBA, and Westpac and large placements from ANZ and Macquarie Bank. These issues contributed to wider margins on longer hybrid issues through the year as investors sought liquidity to settle their ordinary share entitlements. Less issuance towards the end of 2015 has seen a pronounced tightening in trading margins.

2016 will see continued issuance amid new regulatory impacts

The success of each transaction completed during the year was a credit to each Issuer, especially with the high level of volatility in capital markets through 2015. The pipeline for 2016 is expected to have a good amount of diversity as well in the lead up to larger refinancing years from 2017 onwards.

The focus on regulatory capital will also continue as further details on TLAC are revealed in the coming months in the Northern Hemisphere and potential issuers continue to adjust their funding programmes to allow for the loss absorbing form of 'senior' funding. The potential for this to influence capital positions in Australia will be led by APRA which will be watching how the UK and Europe act to accommodate TLAC requirements and then determine the construct for an Australian form of TLAC.

Issuance trading margins, 2015



Source: Bloomberg, NAB Debt Markets

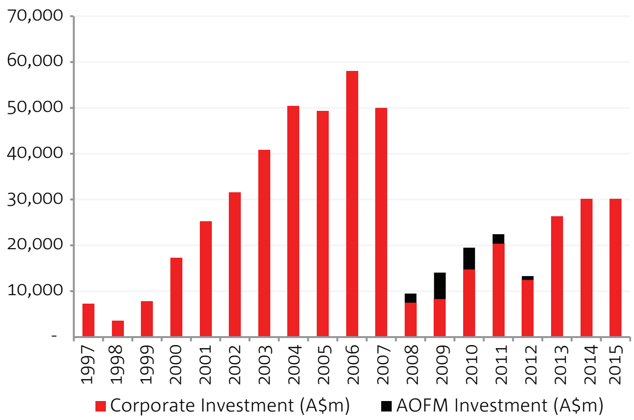
2015 sees continued strength in the Australian securitisation market

NAB has been a leading supporter of customers through increased M&A activity in 2015 and managing the bulk of issues to market

Jacqueline Fox

2015 has experienced strong issuance volumes with issuance during the first half tracking largely in line with 2014. Market volatility during the second half of the year impacted full year issuance volumes with total issuance falling short of 2014 volume.

Total Australian RMBS and ABS issuance

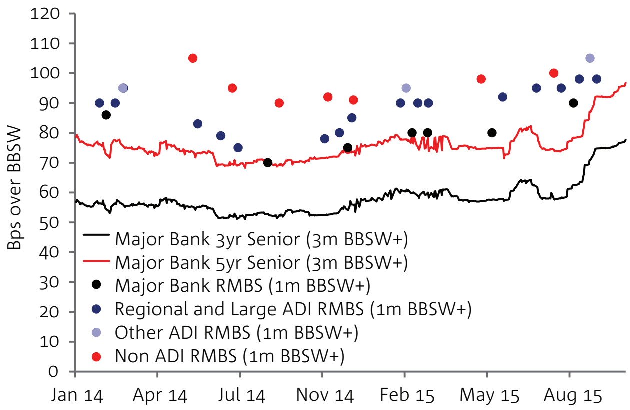


Source: Bloomberg and NAB as at 30 November 2015

Throughout the year, issuers have been well supported by domestic and offshore fixed income investors with the balance sheet bid continuing to underpin books given stockpiling of eligible collateral for APRA's Liquidity Coverage Ratio and the associated RBA Committed Liquidity Facility.

Consistent with broader credit markets, pricing for securitisation issues has progressively widened over the last 12 months in the order of 20bps from the beginning of the year. The third quarter this year saw spreads push wider due to concerns over China's growth profile, appetite for commodities and broader risk asset market volatility. While there has been a widening bias, this should subside as broader market volatility continues to settle down, but at present good value is being offered from the primary market.

Spread relativity, Prime RMBS to 3 and 5 year bank senior unsecured



Source: Bloomberg and NAB

NAB continues to play a pivotal role in bringing Australian securitisation issues to market, leading the majority of deals. We are consistently recognised by our clients as being the leading house in the Securitisation market with the strongest rankings in lead citations and overall quality of service across the primary houses. Our customers consider us to be the most proactive with new ideas with the strongest product specialists and most competent pricing ability. They regard us as providing the best start-to-finish execution and as supporting post issuance with the best asset-backed research. We are proud to be respected by our customers and recognised by the market for the fourth year in a row as KangaNews Securitisation House of the Year.

M&A activity throughout 2015 has also been a strong focus for the year as NAB's securitisation team supported a range of customers in their acquisition endeavours. Notable 2015 acquisitions that are likely to influence future ABS issuance include the sales of the AU & NZ GE Consumer business (rebranded "Latitude") to the KKR, Varde and Deutsche consortia, ANZ's Esanda division to Macquarie.

Issuance volumes monthly (year on year)

Bookrunner	Including self lead			Excluding self lead		
	A$m	No. deals	Rank	A$m	No. deals	Rank
National Australia Bank	**7,321**	**29**	**1**	**5,691**	**28**	**1**
CBA	5,492	14	2	1,812	12	4
Westpac	5,189	16	3	2,609	14	3
ANZ	3,796	16	4	3,817	16	2
Macquarie Bank	2,521	10	5	704	4	7
Deutsche Bank	1,527	6	6	1,527	6	5
J.P. Morgan	796	6	7	1,160	6	6
Citi	765	5	8	566	4	8
SMBC Nikko	276	1	9	276	1	9
ING Bank	138	1	10	N/A	N/A	N/A

Source: KangaNews 2015, 24 November 2015 and NAB

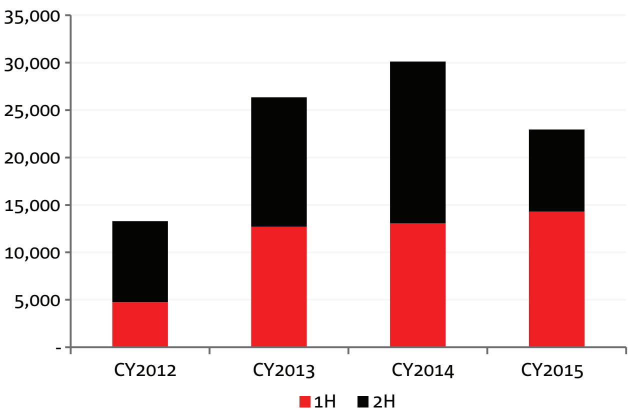
RMBS

RMBS continues to represent the bulk of the Australian securitisation market, with approximately A$24 billion (equivalent) in public issuance across a total of 28 deals as at the end of November, A$1 billion less than the same time in 2014.

With only a handful of further deals anticipated to close prior to calendar year end, total public RMBS issuance is expected to fall shy of 2015 full year volumes.

We anticipate with a strong 1Q16 pipeline building, that the first half of 2016 should see strong volumes across a variety of issuers.

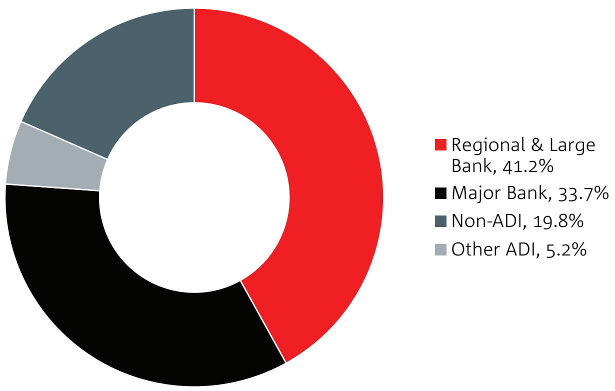
Public RMBS issuance



Source: NAB as at 30 November 2015

All RMBS issuer classifications were active during the course of the year and this is expected to continue in 2016. The first half of 2015 saw Public RMBS issuance volumes up on 2014, however, volatile market conditions during the second half slowed issuance with a number of issuers electing to stay on the sidelines for conditions to settle.

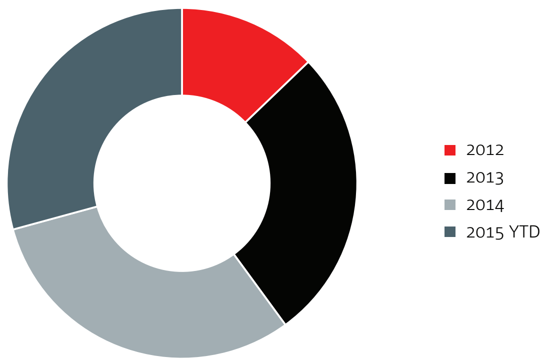
2015 YTD issuance by volume by issuer type



Source: NAB as at 30 November 2015

The proportion of nonconforming RMBS public issuance as at the end of November grew to approximately 10%, with outright volume at over A$2.5 billion. Further nonconforming issuance is not expected until early 2016. We anticipate 2016 will see a year on year increase in issuance volume.

Public non-conforming issuance



Source: NAB as at 30 November 2015

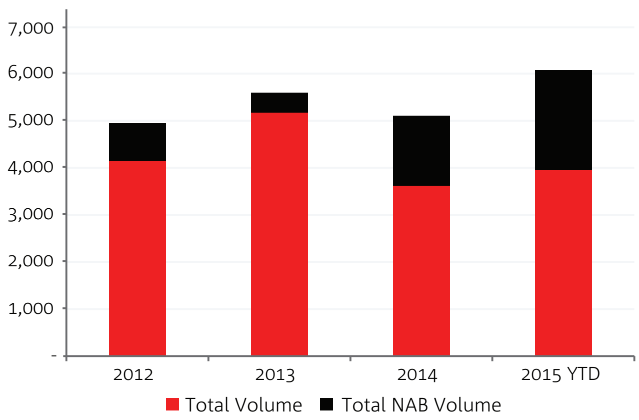
Consistent with 2014, non-ADI names continue to tap the US market with USD 144a format providing for greater diversification across their investor base. We expect a small group of issuers will continue to invest in diversification with opportunistic transactions during the course of 2016.

ABS

Total year to date issuance for Australian ABS, including offshore issuance, stands at just over A$6 billion equivalent across 10 deals, above 2014 and 2013 levels. Regular auto issuers including Macquarie-SMART, Bank of Queensland-REDS EHP, Westpac-Crusade and Liberty Financial, along with consumer finance issuer Flexigroup-Certegy, returned to the market during 2015, multiple times in the case of some, with Macquarie-SMART including issuance in USD and EUR.

ABS issues are typically well supported by investors given the diversification value and their shorter tenor to most RMBS issues.

Australian ABS issuance A$M equivalent



Source: NAB as at 30 November 2015

Structural innovation

While simplicity in structure is a key objective for issuers it is broadly recognised that the ongoing need for diversification and sustainability is dependent on continued innovation in structuring techniques. In the absence of master trust programs, the inclusion of non-AUD soft or hard bullets (supported by a committed redemption facility) can be used to achieve a number of objectives including: enhancing investor diversification via USD, EUR and GBP offerings, reducing balance guarantee swap costs, preserving domestic investor issuer limits; structuring to desired WALs, creating price tension, and mitigating extension risk. Controlled amortisation tranches have also been included and we expect to see more of these features as issuers seek to diversify their investor base.

Recently annouced changes to the Australian Prudential Standard APS 120 are likely to see the introduction in 2016 of Master Trust Issuance, although this is expected to be used primarily by frequent major bank securitisers initially.

Agency & Trustee Services

Evolution in the market leads to an expansion of traditional agency roles and the development of corporate services partnerships

Theo Gavrilos and Melisha Hughes

This past year, NAB has continued to witness the development of market dynamics leading to factors such as mixed funding structures, including committed and uncommitted trade receivables and inventory funding structures, capital markets issues, and Condition Precedent reliant co-funding or escrow arrangements. In addition, we continue to see structural change from the lender side, mainly high grade buy and hold fund investors, such as superannuation funds looking for longer term cashflows in the senior parts of the capital structure. One of the benefits of this evolution is that we are seeing greater levels of liquidity, at least based on volumes of substitutions, although we note that certain lenders are less relationship focussed than others. This could potentially lead to significant borrower stress at times that lender support is needed the most.

In addition to the above, clients are very keen to utilise the skillset of highly competent agents which is evident from demand for expanded service levels to include full transaction management covering traditional agency, USPP management but also integrating with issuer and SPV trustees, trust managers, transactional banking providers and actively providing cash management solutions to minimise negative carry, but most importantly to reduce operational risk.

For instance, in 2015 NAB closed real estate construction transactions where our role commenced from financial close, involved management of pre-sale deposit moneys, construction drawdowns (including relationships with expert third parties), all the way through completion and management of pre-sale settlements. We also closed a project finance transaction which involved us acting as agent, security trustee and account bank during construction, but also operational cash bank post construction, enabling the client to seamlessly move between pre and post operational phases without having to change banking systems, thereby minimising the associated operational risks. In addition, through its licenced trustee and trust manager businesses, NAB was able to provide ancillary services to a structured pooled borrowing vehicle with various entities, acting as note trustee, trust manager, security trustee and account bank for the transaction.

The future

More and more it appears clients value agents that have a deep understanding of their strategy, the fundamentals of deals, as well as the characteristics of a syndicate, in particular the motivations of relationship vs investor lenders. Clients are also increasingly happy to split lender and agency roles; focussed on the agent (who may not be a lender) they feel most comfort with. In addition, our clients are asking for expanded services such as USPP transaction management, trustee and trust manager roles.

NAB's approach to the business is to use our transaction management expertise, experience and knowledge of market participants to act as a trusted advisor to our clients, in particular during times of stress or change in strategic direction. Typically, this leads to more efficient outcomes in terms of speed, but also cost savings where the advice leads to better structuring of operational mechanics in documentation, necessitating less re-work later on. As a result, our strongest agent/client relationships tend to be at Group Treasurer or CFO level evidencing the importance of the role when done well.

In recent years, NAB has continued to invest in our people, as well as our service offering. We are harnessing the bank's capabilities and specialist business units, enabling us to provide a full corporate services offering across multiple agency, corporate trustee and trust manager roles for highly complex transactions, seamlessly facilitating arrangements between borrowers and funders across the capital structure.

Public sector pooled borrowing vehicles

Changes to the financial sector's Basel III rules are creating new borrowing options for highly rated public sector borrowers

James Waddell

Councils are highly dependable borrowers with low debt levels and income that is both predictable and highly reliable. Prior to the creation of the Local Government Funding Vehicle (LGFV) in 2014, Victorian councils borrowed from banks. In the new regulatory environment banks have proven to be an expensive source of long term funding.

The LGFV is a trust that makes loans for councils while issuing bonds for investors that finance them. The bonds are provided on equivalent terms to the loans, such as having the same maturity dates, and while the loans are not rated, the bonds carry a credit rating of Aa2 from Moody's investor services.

The LGFV enables councils to borrow long term money at a lower cost than major banks can source their own funds.

The NSW government through its fit for the future initiative has recognised that NSW councils could be more "efficient" in their sourcing of debt capital. Similarly public sector and related entities other than councils could also benefit from sourcing capital directly from the capital markets either directly or as part of a pooled approach.

In Europe public sector borrowing vehicles are very common and present a less paternalistic approach to the funding of public sector borrowers across multiple jurisdictions than we see in Australia, where the Treasury corporation model dominates. This Australian approach to public sector funding derives from the very high credit ratings and resultant low cost of borrowing of most Australian sovereign borrowers. So long as this situation prevails a degree of inertia remains in the system, recent developments in Western Australia where WATC has increased the "guarantee fee" charged to certain borrower clients has shaken up the inertia and shows that the Tcorp model is not bullet proof for reliant organisations.

The key benefit to LGFV participants is the locking in of the cost of funds with no ability for capricious political decisions to affect a council's cost of funds.

How a pooled borrowing concept can be adapted to other borrowers

It is said that "there is strength in numbers" and this is the key to understanding how a pooled borrowing vehicle works.

In essence borrowers gain access to a market from the scale provided by the collective and share costs that would otherwise make accessing public debt markets uneconomic.

The group of borrowers should demonstrate four features:

- A consistent need for a quantity of core term debt
- Homogenous business activities
- Strong credit quality and/or the likelihood of government support
- A fragmented borrower base where borrowers do not have individual scale

Other issues to be considered are the scale, need and participation of the borrower cohort. For instance:

- Are there sufficient borrowers with a need in the cohort at this time?
- What is the aggregate funding need?
- What proportion of the cohort is prepared to participate?

To manage funding need and timing, the use of cost effective, short dated bank facilities provides a useful bridge to a transaction by meeting immediate funding requirements for some participants while critical mass of debt for the vehicle is accumulated.

Industries that exhibit the characteristics above include but are not limited to education, healthcare, housing and essential utilities such as water.

The cost of a government's economic equity capital

How the view of a government's cost of capital can distort decision-making

James Waddell

How a government or a public sector organisation defines its cost of capital can have serious implications for both elected officials and taxpayers particularly when making decisions on infrastructure spending.

Here we examine the approach to the cost of government's economic equity capital while acknowledging that there are also political considerations associated with a government's political capital which are often driven by project outcomes.

A range of approaches to the cost of economic capital have been observed and below four of these are described.

Garnaut report

The approach used in the Garnaut report on climate change was 1.45 to 1.65% plus the rate of inflation, so broadly 3.5% in the current environment.

Cost of debt as the cost of equity

Another approach is to use the government's cost of debt capital as the cost of equity, this is more common with organisations that are funded at the government's cost of funds such as the National Broadband network. In the current environment, the yields on the longest nominal bonds issued for the Federal Government would be 3.6%, and 4.0% for Queensland. These are the yields on the longest nominal bonds issued by these governments.

Cost of a downgrade

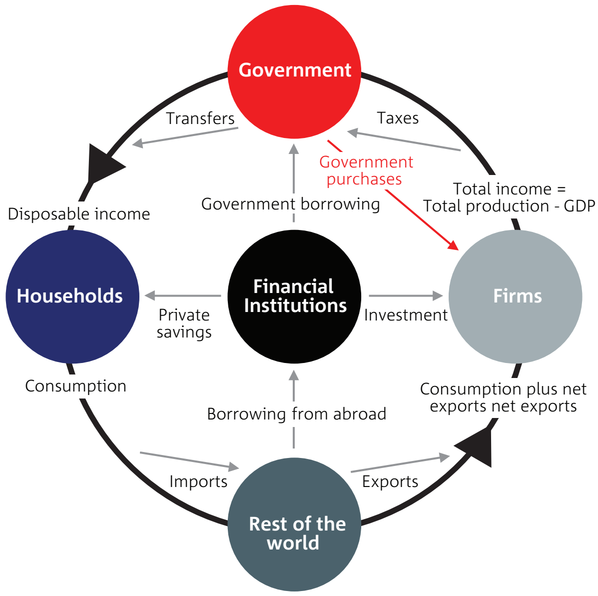
McKinsey recently discussed the impact of a credit downgrade on the cost of debt and we have extended this analysis to calculate the cost of a downgrade on the state's entire debt portfolio and use the output as a proxy for the state's effective cost of equity.

For the AA+ states the cost of debt is 0.25% higher than the AAA states; this implies a cost of equity of 4.25% for a AA+ state. If a state was to be downgraded to AA-, the cost of equity would rise to 10%; a function of the incremental cost over a much larger debt load.

Bank's cost of capital as a proxy

The final approach to a sovereign's economic cost of capital is to use bank cost of capital as a proxy for a government's cost of capital. Why? Financial institutions, like governments, provide essential services to society as shown in the diagram below. Historically, if financial institutions were to fail, central governments have historically tended to bail out these institutions rather than have the associated economic contraction (although regulatory steps are being taken in an attempt to reduce the risk of this in the future) that a bank failure has on an economy. The consequence of this is that government steps into the shoes of the failed institutions.

Flows within the financial system



Source: NAB

The Islamic Finance market in Australia

A fast emerging market, with key strategic importance for Australia, is opening up on our doorstep

Dr Imran Lum

"The funding platform designed by NAB… could help open Australia to Islamic investors from the Gulf and Southeast Asia that seek to adhere to religious principles such as bans on interest and gambling." Reuters, 2015

Islamic finance is one of the fastest growing segments within the global financial services industry, achieving an annual global growth rate of 17.3% CAGR between 2010-2014[1], with the current market size estimates ranging from US$1.7[2]-$2.1 trillion[3]. S&P forecasts show the market for Islamic finance will grow in the short term to US$2.6 trillion, with Moody's projecting this industry's long term potential at over US$5 trillion. Islamic banking has outperformed conventional banking over the past decade, increasing its penetration rate above 15% in a dozen countries in the Middle East and Asia (International Monetary Fund, 2015). Financial centres such as London, Singapore, Hong Kong, Luxembourg and other non-Muslim majority countries such as South Africa have amended tax laws to facilitate Islamic investment and they have all issued Sukuk bonds to benefit from Islamic capital flows.

Although Islamic finance assets are still concentrated in the Gulf Cooperation Council (GCC) countries and South East Asia in particular Malaysia[4], future growth in the industry on a global level will make Australia an attractive investment destination to diversify their asset portfolios.

What is Islamic Financing?

The term "Islamic" means investors and clients whose mandate requires them to invest in what they consider to be Shariah compliant transactions. The most obvious, and well-known, requirement is that debt must not be interest-bearing. In lieu of interest, transactions are structured to produce a payment of a fee, service charge or rental payment or financing charge subject to certain rules outlined below.

Key concepts in Islamic Finance

Interest.	Underlying asset.	Certain.	Non-speculative.	Social responsibility.
Interest is not allowed. Financing is conducted by way of profit share agreements, leasing, agency and trade-based agreements.	Transactions must relate to an underlying asset.	Same as in Australian contract law, Islamic Finance contracts must be clear and unambiguous.	Highly speculative transactions are not permitted.	Islamic Finance is focused on social responsibility. The provision of finance to alcohol, gaming, arms and weaponry industries is prohibited.

Source: NAB

[1] Malaysia Islamic Financial Centre (https://www.islamicfinance.com/2014/12/size-islamic-finance-market-vs-conventional-finance/#_ftn3)
[2] Ernst & Young, World Islamic Banking Competitiveness Report 2013-2014
[3] MIFC and Islamic Commercial Law Report, ISRA & Thomson Reuters, 2015
[4] International Monetary Fund, 2015

Australian policy

Islamic finance is a market that has also been highlighted by the Federal Government for its key strategic importance for Australia, given our proximity to South East Asia and growing trade links with the GCC. Building Australia's ICM capacity was a recommendation of NAB incoming Chairman Dr Ken Henry in his review of Australia's tax laws 'The Henry Review'. It was also identified as a recommendation in the 'Johnson Report' on positioning Australia as a leading financial services centre.

NAB's involvement

Capital Financing has the only Islamic finance business among the four major banks in Australia. The business provides Shariah compliant financing solutions for Islamic investors seeking property acquisition financing or development financing. In 2015, NAB closed a landmark Shariah compliant property deal for Australia's first Islamic Super Fund Crescent Wealth for a commercial asset in Melbourne. NAB also closed a Shariah compliant financing facility for an industrial asset in Brisbane for a US$3 billion Shariah compliant fund based out of Saudi Arabia. The business has an extensive network in South East Asia and the GCC region and the pipeline of Shariah compliant deals for 2016 looks strong. These initiatives in the property space have wider implementation for other bank clients across Corporate Property, Global Institutional Bank, Deposits and Lending, Government Education and Community, Project Finance, Business Bank and Agribusiness.

In addition, Capital Financing also house Australia's first Sukuk Bond portfolio and structuring expertise for clients seeking to tap into the Islamic Capital Markets.

Changing the face of Australian non-institutional investing

2015 saw NAB make significant progress in growing participation in fixed income and other debt securities through our ongoing commitment to increases in bond market Education and Access

Mark Todd and Nathan Doake

The goal for 2015 was to provide access and education for a diverse investor community and expand non-institutional participation in the bond market. An emphasis on internal collaboration and a focus on both issuer and investor needs has created a powerful differentiator when an issuer is seeking access to non-institutional investors and investors seeking diverse access to fixed income and other debt securities.

Education and engagement

NAB embarked on an education program many years ago, and has continued to refine and expand. This year saw a focus on digital media, utilising nabtrade – our online investment platform, and Sky Business. Over the year, 200,000 viewers a week tuned into Sky Business to listen to commentary on debt securities and investment diversification. 2015 also saw the fixed income educational videos on nabtrade receive the highest recording of viewers for 2015. These educational videos are mapped to each new issue as it comes to market, ensuring it is relevant for the growing pool of wholesale investors.

2015 saw NAB in front of thousands of potential customers through our investor roadshows on behalf of our issuing clients. Putting the customer at the heart of what we do, NAB utilised these events to address direct feedback that clients were looking for more education and better access to product that can achieve reasonable returns on a risk weighted basis. 2016 will see a continuation of these efforts which will hopefully see the consistent trend of underinvestment in fixed income and other debt securities begin to shift in the other direction.

What is Bond Service?

NAB Access Bond Service is tailored to provide customers with direct access to the institutional bond market starting from a A$50,000 minimum parcel size. This exclusive offering to wholesale investors[1] has been in response to investor demand for stability, regular income and diversity within their portfolios. Bond Service helps connect NAB's non-institutional investors in the over-the-counter (OTC) bond market with our issuing clients.

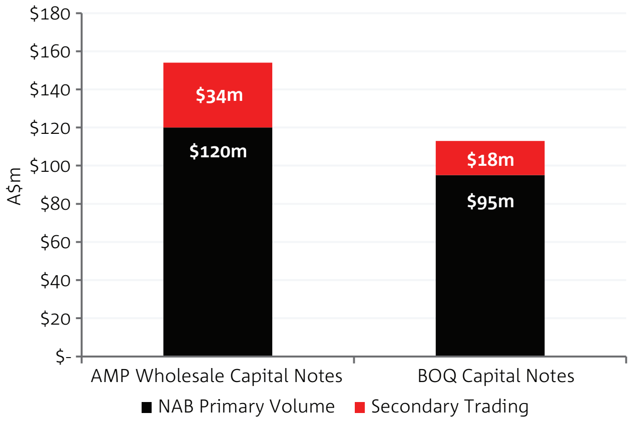
The raw numbers paint an attractive story: client growth in NAB Access Bond Service was 250%. Total securities traded were A$5 billion, up from A$2.5 billion in 2014. The product offering is now at 231 bonds an increase in last year of 65%. These numbers provide evidence of an outcome but don't articulate the inputs; they are only part of the story.

- ASX listed + OTC traded total volume A$5 Billion
- Margin Lending now available for Bond Service
- Customers can now invest in A$50k increments

Why are wholesale investors important?

Collaboration became a driving force for business activity throughout the year. Working closely across the Wealth franchise, NAB has grown the wholesale investor base substantially. This is important, as appropriate wholesale investors would benefit from investing in fixed income assets and other debt securities, opening additional wealth pools for our issuing clients. A trusting relationship was built across the Wealth franchise, through innovation and consistency in terms of price and product delivery.

Primary and Secondary volumes – OTC Hybrids 2015



Source: NAB

Bond Service's role in secondary trading

Bond Service benefited from an increase in fixed income assets and other debt securities and a refresh in our approach to facilitation. The facilitation team worked with our customers to create a transparent and efficient approach to secondary trading. The work with clients has led to an increase in turnover of 170%. By focusing on client needs in secondary markets we have been able to identify opportunities to enhance the customer experience.

Equity volatility has been a constant refrain for 2015, as our investor demographic evolved NAB was subject to increased demands for assets that could generate consistent returns with low levels of volatility. The fact that NAB is the dominant bank in debt capital markets origination meant that our commentary in the market was consistent with our customer's goals.

Lower for longer

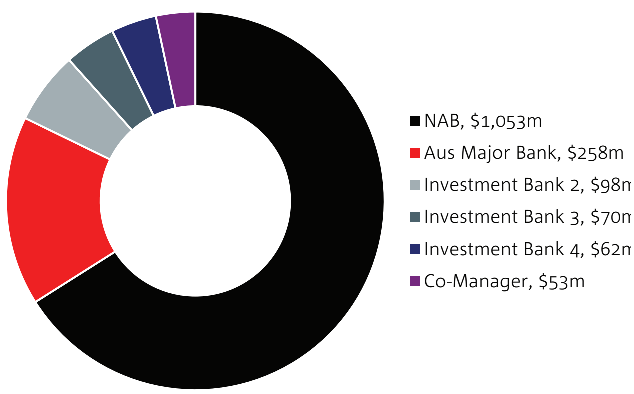
The lower for longer thematic and its ramifications for investors has impacted both retail and sophisticated investors.

The trust that NAB has built with non-institutional investors has played out again and again with successful outcomes for our issuing customers in what would be accurately be described as a volatile 2015. Recent efforts in product innovation has been beneficial in creating diversification for retail and wholesale investors in fixed income and other debt securities.

Simple Corporate Bonds: Background

Simple Corporate Bonds were made possible as a result of legislation passed in 2014, to ultimately reduce the regulatory burden for issuers and simplify the offering of corporate bonds to retail investors. Simple Corporate Bonds were one of the many recommendations put forward in the Australian Financial Centre Forum's report Australia as a Financial Centre: Building on our Strengths (2009, the Johnson Review) that recommended the Government reduce the regulatory requirements on corporate debt issuance to retail investors.

Supporting issuers: NAB Capital Notes 2015, Broker firm demand



Source: NAB

Bond Market Innovation

The quality of NAB's relationships and level of trust with our customers and connection into distribution channels was evident when Australian Unity came to market in November 2015 with the first bond under the simple bond legislation. The Simple Corporate Bond legislation has been crafted to enable issuers to access the retail investor base by providing bonds that are simple in structure and efficient in execution and is a big step in the deepening of Australia's corporate bond market.

As a market leader in the origination and distribution of ASX-listed fixed income and other debt securities, the development of the retail corporate bond market benefits both issuer and investor. The new legislation broadens and diversifies available funding sources. Investors have the opportunity to diversify their investments in lower risk securities.

NAB was instrumental in endorsing the principles behind the legislation and when Australian Unity chose to issue a listed retail bond we were able to provide appropriate advice and support from our investors.

NAB has also been active in the OTC market through Bond Service. In November when NextDC choose to launch Notes II we worked with the client to deliver the best possible outcomes for both the investor and the issuer. NextDC have been able to speak to NAB's investor base via roadshows, electronic meetings and sophisticated collateral. NextDC were looking for A$70 million to expand their data centres and meet the increase in their customer demand, and NAB was able to place this bond in a very efficient manner, with bids well in excess of the original $70 million requirement.

Working towards a digital solution

2015 has been a successful year in terms of product innovation to support changing needs of issuers and improving access to ASX listed and OTC market for non-institutional investors to diversify their portfolios in fixed income and other debt securities. NAB's challenge in 2016 is to take this offering and provide it via a digital channel. Work is underway to deliver clients the ability to look at their portfolios in a holistic manner and see all asset classes in the one view.

Once this is achieved, NAB will be offering a service consistent with global standards to our investor base. Fixed income and other debt securities will continue to represent a greater portion of investor appetite as they look to de risk portfolios and grow more annuity like returns, and NAB will be there supporting them along the way.

The key is to ensure we identify the needs of the customer and execute flawlessly. NAB is building the architecture that enables clients to access what they want, when they want it and in a manner that meets their needs.

The increasing linkage between term deposits and capital markets

Investors are becoming savvier with their deposit choices in Australia

Geoff Short and Greg Szwarc

Background

One of the key legacies of the GFC for the Australian banks was a heightened need for deposits as a means of funding their balance sheets. The fractured capital markets of the GFC provided a key insight into the risks of relying too heavily on offshore wholesale bond issues as a funding source. These markets displaced considerably in 2007 – 2009, and Banks struggled to receive the funding support they were accustomed to.

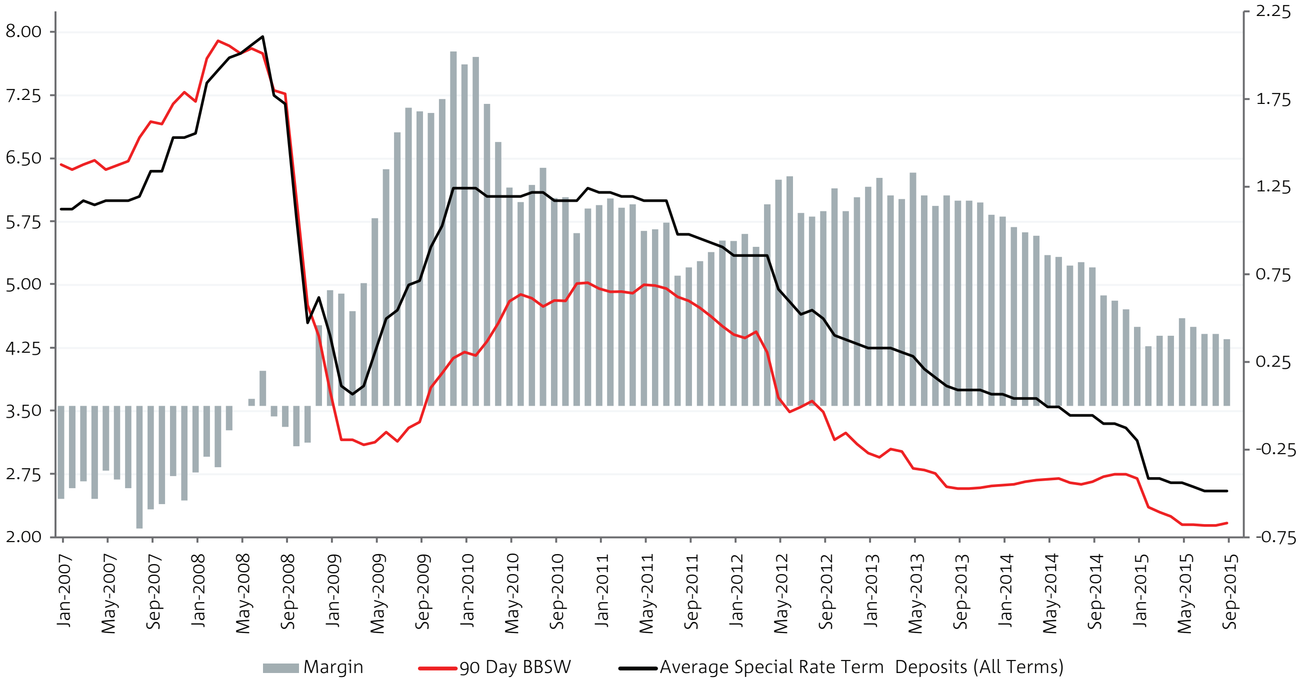
Coming out of the GFC, Australian banks needed to increase the proportion of their balance sheets funded locally via deposits, and to do this they needed to increase both the attractiveness of deposit pricing and product development. Note the dramatic increase in deposit margins from flat to BBSW, to up to 2%, as seen below.

More recent experience has shown reduced market pricing for deposits, not back to pre-GFC levels, but certainly much tighter than the peak of September 2009. This is partly a reflection of the credit market generally – i.e. credit spreads have tightened considerably in recent years – but it also reflects the observation by the RBA that bans have been quite successful in increasing the proportion of assets funded via deposits which has grown from 40% in 2007 to 60% in 2015.

Post GFC product development

Product development has also been an interesting outcome of the GFC where banks such as NAB have provided investors with the ability to access different thematics and markets whilst still investing in a bank backed deposit. The range of products now available

Margins banks paid above BBSW, pre and post GFC



Source: Reserve Bank of Australia

[1] Wholesale Investor in accordance with Chapter 7 of the Corporations Act 2001

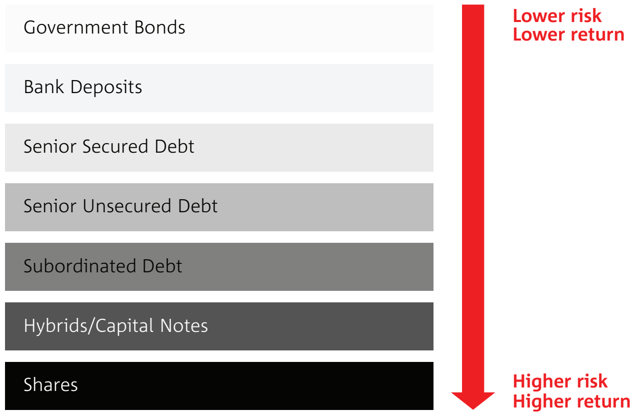
includes floating rate deposits, rolling/evergreen deposits, inflation linked deposits (coupon and/or principal) and equity linked deposits. These options are aimed at both providing the issuer (the bank) and borrower (the investor) with a range of different funding sources and access to various market exposures in a "traditional" deposit structure.

So, with a combination of additional product options, regulatory and pricing changes have investors become savvier with their deposit choices?

The simple answer is yes but the way it has manifested itself is also interesting for the capital markets. As an example, many sophisticated investors now compare the yields available on deposits to the yields available on senior bank bonds. While the ranking of these investments in a bank's capital structure is different, investors are comfortable with substituting one for the other pending the price.

When you overlay the liquidity factor, that is, deposits being either unbreakable (no liquidity) or requiring a 31 day notice period, the conversation becomes even more interesting. In the period immediately following the GFC, many investors reduced their appetite for bonds simply because a deposit could provide a higher yield. However, this year we have seen this dynamic change. Using ANZ Bank 5 year Senior CDS spreads as a proxy for wholesale bond funding yields, and comparing this to deposit margins, the chart below shows that after many years of lagging deposit yields, bonds now look more attractive as an investment instrument in a relative yield sense. In recent months we have seen significant appetite for new bond issues from Suncorp Metway, Macquarie Bank and NAB – appetite we have not seen for a number of years.

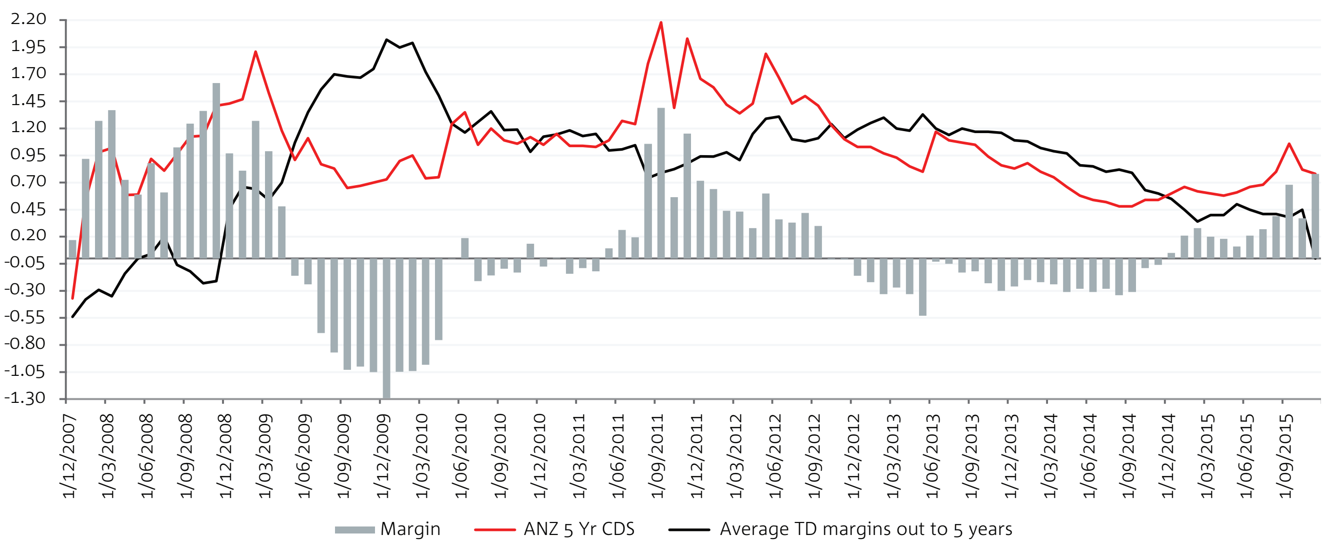
Capital Structure



Source: NAB

We expect this trend to continue into the future with a crucial factor being investor education. As more investors understand the interplay between deposits and the capital markets investor diversity will continue to deepen. As always NAB will remain committed to the further development of their understanding.

ANZ CDS versus term deposit margins



Source: Reserve Bank of Australia

The growing influence of China in global transport

Chinese leasing companies continue their evolution, gaining market share in China while also looking to grow in foreign markets

Greg Hampton, Geir Bakkelund and Jackson Flint

In 2015, Chinese economic growth continued to dominate Australian news headlines. There was a particularly heavy focus on how China's rebalancing towards a more consumption-oriented economy and away from fixed asset investment affects Australia's economic growth prospects.

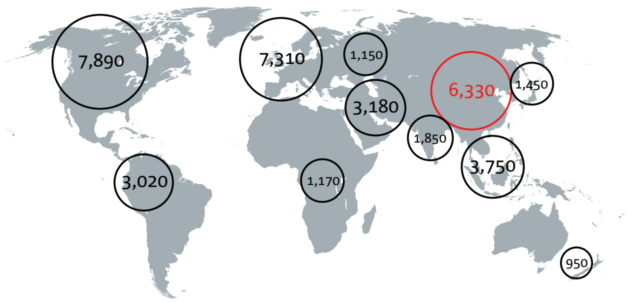
While Chinese investment may be shifting away from fixed assets that don't move, there's a growing focus on investing in assets that do. Throughout 2015 the global asset finance industry – an industry that finances mobile assets such as aircraft and ships – saw continued heavy investment from China. Travel, transport and the movement of goods and services are vital in a consumer economy and China's economic rebalancing is strengthening demand for new aircraft and ships.

Importantly for NAB, industrial companies continue to see leasing as an attractive source of financing. Under the encouragement of the PRC government, China's largest financial institutions continue to see mobile assets – aircraft and ships in particular – as a compelling, long-term US dollar investment and one that fits nicely with their globalisation agenda. Chinese leasing companies are quickly making their presence felt in the global asset finance and leasing market.

China's flying future

Boeing, an aircraft manufacturer, expects that over the next 20 years Chinese airline passenger traffic will grow at an average annual rate of 6.6% and air cargo will grow at an average rate of 7.0%. Underpinning the growth outlook are more liberal policy reforms that are ushering in new airlines, most importantly low-cost carriers, and the increasing spending power of its growing middle class that is driving demand for business and leisure travel. China is expected to receive 317 new aircraft every year for the next 20 years, or an average of one new aircraft every 28 hours.

New aircraft deliveries by region: 2015 – 2035

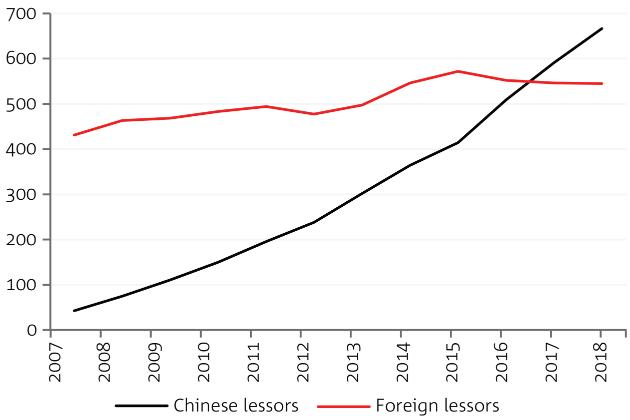


Source: Boeing 2015 Market Forecast

This opportunity has not gone unnoticed by the large Chinese financial institutions. The rising number and activity of Chinese bank owned leasing companies follows government encouragement to grow. China's state-backed financial institutions commenced leasing activities in 2007 but their growth gathered pace following a 2013 government directive for Chinese lessors to become some of the world's largest by 2030 and the government's roll-out of free trade zones across the country, offering preferential policies to Chinese-owned leasing companies which enhance the competitiveness of these Chinese lessors. Foreign lessors, when looking to lease in China, are increasingly being asked by Chinese airlines to lease through Chinese special vehicles so the airline can save on withholding taxes.

As a result, local lessors now account for the majority of new aircraft lease deals in China, often at the expense of foreign lessors. In 2007 Chinese lessors had a market share of 9%; in 2015 they control over 40% of the Chinese market and by 2017 Chinese lessors are expected to account for the majority of all aircraft on lease in China.

Number of aircraft leased within China



Source: CALC, citing Ascend data

While Chinese lessors are gaining market share in China, there has also been a push for them to lease to airlines outside of China, consistent with their parents' mandate to globalise and diversify. Complementing their rapid organic growth, Chinese lessors are eagerly competing to acquire established Western lessors and build a presence in international markets. These acquisitions add scale to their platform whilst also building their existing internal technical and remarketing skills which are a both critical features for the sustainability and through-the-cycle success of aircraft leasing companies.

Acquisition-related activity involving large Chinese or Hong Kong companies

Year	Chinese bidder(s)	Target	Result
2006	BOC	Sale	Won, SALE re-named BOC Aviation
2012	Chinese consortium*	ILFC	Lost. ILFC acquired by AerCap
2012	CDB	RBS Aviation Capital	Lost to SMBC
2014	CIC & AVIC	Avolon	Lost. Avolon IPO'd on NYSE
2014	CK Hutchison Holdings	AWAS	Bid withdrawn & Macquarie won
2015	CIC & AVIC	Avolon	Lost. Avolon acquired by HNA Group
2015	HNA Group	Avolon	Won
2015	ICBC & AVIC	AWAS	Talks continuing

*New China Trust Co., China Aviation Industrial Fund, ICBC International and P3 Investment.

Source: NAB Asset Finance & Leasing research

In nearby Hong Kong, after 18 months investigating the sector, prominent investor Li Ka Shing (CK Hutchison) has entered the market via his new Irish-based platform Accipiter and Chow Tai Fook continues to seek growth via its aircraft leasing platform, Goshawk (in partnership with Investec).

China is becoming an increasingly powerful force in global aviation leasing. The country's ambition for having its airlines, already among the world's largest, complemented by some of the world's largest aircraft lessors, is a logical next step in China's developing aviation industry.

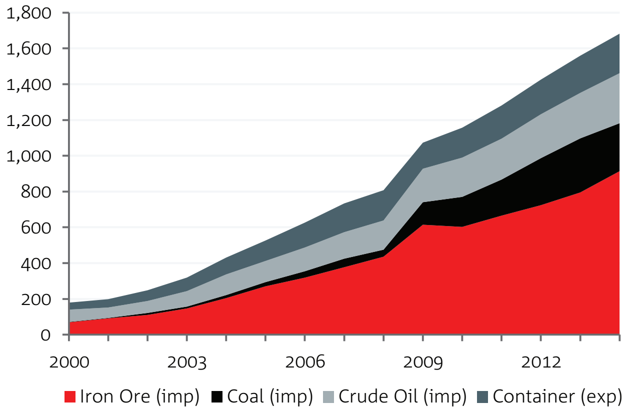
Shipping – full steam ahead...

China has played a pivotal role in the global shipping market over the last decade. The recent volatility in the dry bulk shipping market (primarily iron ore, coal and other dry commodities such as wheat) is predominantly China driven and the tanker market is also becoming far more dependent on Chinese oil consumption and storage build up.

At the beginning of the century, China's iron ore imports accounted for 15% of world trade. A surge in steel production led to Chinese dominance and by the end of 2014, Chinese imports represented 68% of world iron ore trade. In fact, the Chinese represented a stunning 95% of iron ore trade growth. The coal market has also been largely affected in the same manner. After paving the way for record high dry bulk freight rates leading into the Global Financial Crisis, declining demand from China has led to much of the current lacklustre freight market.

China's influence has also extended to the tanker market where imports into China currently represent 18% of world crude oil imports (and growing). Many market observers are pointing to China, citing Chinese strategic crude storage build up as a key reason for today's strong freight market in the tanker segment. For the container sector, Chinese production has boosted their share of seaborne trade from 6% in 2000 to 14% today.

China's rapid trade growth (mil tons pa)



Source: Clarksons Platou

This development has led Beijing and the private sector to focus on domestic ship owning, ship building and more recently on ship finance, for both commercial and strategic reasons. Data from China Merchants Group indicates that CMB, ICBC, BoCom and Minsheng have more than doubled their shipping portfolios since 2010. In June 2015 these four held shipping assets to the tune of ~US$15.0 billion (for comparison – the global ship finance market is US$20.0-30.0 billion per annum and the largest shipping bank holds a US$25.0 billion portfolio).

Much of the future growth in ship finance will come from Chinese bank owned leasing companies, supporting domestic and international ship owner/operators. A recent landmark deal was announced during President Xi Jinping's visit to the UK in October in which ICBC Leasing signed a US$869.0 million sale-lease-back deal with BP. We fully expect this trend to continue as Chinese lessors expand their shipping activities.

AF&L expands offshore

In light of this trend, and the broader growth in big ticket global Transportation financing markets, NAB's Asset Finance & Leasing business is taking a decidedly front foot approach. We are expanding our product suite to better suit our global leasing clients and we are also leveraging the bank's pre-existing relationships across the Asian region. NAB has a strong history with many of China's and Hong Kong's largest financial institutions, many of which have growing leasing subsidiaries.

Most importantly, to facilitate the delivery of AF&L's products offshore, we continue to invest in our people and add experienced senior professionals to enhance the team's technical skills. 2015 saw AF&L open up offices in Singapore, Hong Kong and London. Seven team members are now based in these offshore offices, positioning us closer to our customers in their home markets. Our focus on China and their growing presence in international Transportation leasing markets will continue to unlock new pockets of high ROE growth in otherwise underweight sectors for the Bank.

Increased service delivery in modern PPP transactions

Collaboration between government and private sector continues to see key infrastructure delivered for communities

Matt Bonaventura and Henry Yeung

In an environment of fiscal constraints and infrastructure spending backlogs, there is pressure on governments to be innovative how they deliver infrastructure and core services. Collaboration between the private and public sectors through the public-private partnership (PPP) model has been a popular method of delivering infrastructure in Australia and New Zealand. Over recent years, this model has evolved to provide an increased emphasis on the social objectives of the infrastructure being delivered, as opposed to the physical infrastructure itself.

The traditional risk transfer principle of PPPs is to allocate the risk to the party most able to bear it. This principle of risk transfer has been augmented to incentivise the private sector to ensure that the social objectives of the infrastructure being delivered are achieved. This provides better value-for-money for the public sector, but ensuring that it only pays to the extent these objectives are actually achieved. The competitive tension that exists throughout this procurement process harnesses the innovative potential of the private sector, as each proposal is assessed according to its value for money and the overall merit of the solution being proposed.

NAB has been at the forefront of arranging project finance to support the delivery of projects under this innovative model. In this article we provide a few examples from recent experience.

Ravenhall Prison PPP

The Ravenhall Prison PPP is a project that was procured by the Victorian government with the intention of encouraging innovative practices and operational efficiencies that support value for money. The Project was procured as a full-service PPP, making it the first Australian prison PPP with such an extensive scope. Further to this, the scope extends beyond the gates of the facility to also improving reintegration post-release and reducing reoffending. NAB supported the winning consortium, which was sponsored by GEO as operator. GEO partnered with a range of community organisations (including Melbourne City Mission, the YMCA, The Western Suburbs Indigenous Gathering Place and Kangan Institute) to deliver dedicated programs aimed at up-skilling prisoners, helping them to reintegrate into society and reducing their risk of reoffending.

Northern Beaches Hospital PPP

To cope with the demands of an ageing (and growing) population, the healthcare sector is becoming increasingly important and is a sector with intensive infrastructure requirements. The Northern Beaches Hospital PPP was procured as a hybrid PPP model with the NSW State Government. It is a high priority State healthcare project which aimed to deliver the best quality integrated health services and clinical outcomes to the catchment area. The private sector is contracted to deliver the Project under a 20 year concession for the public portion of the hospital and 40 years for the private portion. A key non-standard feature of the Project is the combining of an availability style PPP with features of economic (patronage risk) infrastructure. In traditional PPP contracts, facilities management responsibilities are generally contracted to a single counterparty however in this instance, the lead contractor has the ability to sub-contract each of the tasks. The end result of this is the operation of a new hospital facility can be undertaken at a lower cost, leading to a more optimal outcome for the community.

Transmission Gully

NAB's involvement in the development of critical infrastructure has recently also extended across the Tasman, supporting the successful consortium selected to build and operate the Transmission Gully PPP. The Project involves the construction of a 27km four lane highway as part of a broader plan to upgrade the Wellington Northern Corridor. The highway is New Zealand's third and most significant PPP to date and was procured as an availability based PPP including a 25 year concession, the first road project in New Zealand to be delivered under this model. Aside from being responsible for the construction, maintenance and operation of the road, the private sector is also required to remedy safety concerns, projected capacity and associated journey and travel time reliability problems caused by the existing infrastructure. The performance specification incentivised the private operator to reduce road fatalities and accidents, along with setting out requirements for the maximum permissible travel times. The payment provided to the private sector includes a component at risk based on how well the infrastructure lives up to these expectations once the road has opened.

Through each of these diverse transactions, governments and a range of private sector parties (including NAB) have been able to work together to structure a framework which not only ensures that the infrastructure is delivered on cost, but also that it achieves the social objectives set out for it.

Australian infrastructure experience in North America

America looks to the Australian experience as they face into a large requirement for infrastructure investment

Mark Siebert

In 2015, NAB formally established a Specialised Finance business in New York. This new business had a quickly growing pipeline of potential transactions to support our Australian franchise customers in a market that is ripe for infrastructure investment.

Within the first 3 months, NAB was successful in supporting franchise customers across three industries, road transport, energy and power generation with the closing of the Indiana Toll Road, Freeport LNG and Bayonne Energy financings.

Indiana Toll Road	Bayonne Energy Center	Freeport LNG
US$1.25bn Bridge to Bond	US$275m Secured Term Loan	US$3.67bn Construction Facility
US$1.35bn Term Loan	US$25m Revolving Credit Facility	US$50m Working Capital Facility
US$330m Capex Facility	Joint Lead Arranger & Hedging Bank	Co-Structuring Agent
MLA and Joint Bookrunner	August 2015	April 2015
July 2015		

NAB's unique business model, which utilises its global capability, allows for seamless delivery of capital market expertise into North America. Moreover, for each deal, one of our in-house engineers will visit and inspect the assets. NAB is the only Australian major to provide this service, and bring it offshore for all our customers.

International Symposium for Next Generation Infrastructure

September saw the annual International Symposium for Next Generation Infrastructure (ISNGI) in Washington DC, hosted by Virginia Bioinformatics Institute and the Global Forum on Urban and Regional Resilience and co-sponsored by the SMART Infrastructure Facility at the University of Wollongong. This facility has moved to the John Grill Centre for Project Leadership at the University of Sydney under the banner of "Better Infrastructure Initiative", and is a key partner of NAB's in infrastructure research.

The ISNGI conference saw Virginian Senator Mark Warner speak about the lack of a comprehensive national infrastructure plan in the USA, and cited Infrastructure Australia as the type of body that is desperately needed in the US. The senator spoke on how the infrastructure budget is repeatedly been stripped or put on hold to make way for other priorities. Moreover, he noted that due to a lack of funding, "US infrastructure is at a comparative disadvantage with the rest of the world," and that alternative, creative and diverse funding models needed to be explored and developed.

Exploiting this notion, Mark Siebert spoke to the conference delegates highlighting the Australian experience and methods of addressing this problem. Australian governments are utilizing the Asset Recycling model as a response to an increasing gap between the growing need for replacement and new infrastructure and balance sheet constraints. Moreover, this is underpinned by an increasing appetite of the private investment markets for exposure to this asset class.

Asset recycling as a way to address infrastructure needs

Asset recycling essentially involves disposal of public assets to free up capital to invest in new assets. The key difference between asset recycling and other forms of privatisation is an explicit commitment to use the proceeds on new infrastructure. Advantages include:

- Potentially less risky for governments than increasing public debt to fund new development
- Private sector (with appropriate regulation) often better placed to manage certain risks
- Privatisation can improve productivity of existing infrastructure, driving economic growth

Green Bonds

Helping to address the 'tragedy of the horizon'

David Jenkins

As Mark Carney, the Governor of the Bank of England and Chairman of the FSB, said in a recent speech, "Climate Change is the tragedy of the horizon... the catastrophic impacts of climate change will be felt beyond the traditional horizons of most actors – imposing a cost on future generations that the current generation has no direct incentive to fix" and "once climate change becomes a defining issue for financial stability, it may already be too late."

Governments and leading climate scientists agree that to avoid dangerous climate change, the global average temperature increase above pre-industrial levels must stay below 2°C. A 'low-carbon economy' is defined as a world economy operating within these limits. NAB believes the financial sector has an important role to play in assisting the transition to a low carbon economy, through both the energy we purchase directly and through financing. In recognition of the role NAB can play in supporting the transition to a low carbon economy, NAB recently released five new climate change commitments, including to "undertake financing activities of A$18 billion over the seven years to September 2022 to help address climate change and support the transition to a low carbon economy".

This new financing activity specifically includes issuing and arranging green bonds and will provide an alternative source of capital for NAB's customers to undertake climate change mitigation such as renewable energy and energy efficiency including low carbon property, low carbon transport, and climate change adaptation activities.

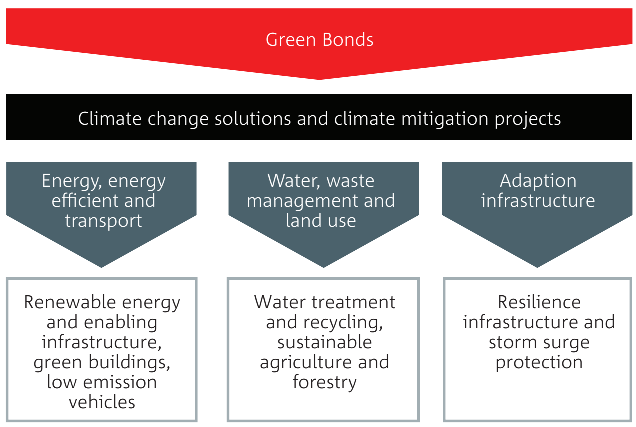
NAB has accelerated and broadened our activity into the green bond market with a market-leading transaction to finance A$300 million of renewable energy assets by issuing the first green bond to be issued into the domestic market by an Australian issuer. This was also the first Climate Bond Standards certified bond issued by a bank globally. In addition, NAB arranged the first Australian wind farm to be financed in the US Private Placement market, Hallett Hill 2 Pty Ltd, a Green Bond Principles aligned green bond.

NAB is now actively working on several other green bond opportunities which will raise finance for a number of underlying asset types including renewable energy, low carbon transport, low carbon buildings and energy efficiency.

What are green bonds?

Green bonds are bonds where the use of proceeds is typically restricted for financing a range of eligible climate change solutions and climate change mitigation projects. They are an increasingly attractive mechanism for both private and public sector organisations to raise capital for projects, assets or other activities that benefit the economy, environment and society by mitigating the impacts of climate change.

Climate change and Green Bonds



Source: NAB

Types of green bonds

Green "Use of Proceeds" bonds	Proceeds are linked to funding of eligible projects and assets but are general obligations of the issuer. An example is the NAB Climate Bond issued in December 2014.
Green 'Project Development' bonds	A project or asset backed bond where investors have direct exposure to the risks of the specific eligible project(s) being funded. An example is the recent Hallett Hill 2 USPP green bond arranged by NAB.
Green 'Project Development' bonds	Bonds collateralized by a pool of underlying loans for financing eligible projects and assets, including Covered Bonds, Asset Backed Securities and other structures. An example is Solar City ABS and Berlin Hyp Green Pfandbrief.

Source: NAB

Why issue green bonds?

Green bonds are an increasingly attractive mechanism for both private and public sector organisations to raise capital for projects, assets or other activities that benefit the economy, environment and society by mitigating the impacts of climate change and are rapidly becoming the financial instrument of choice to meet growing investor demand for low carbon investments. They allow investors to invest in a simple fixed income product with better liquidity than possible through direct investments in the underlying assets or projects.

Against the backdrop of the UNFCCC COP 21 in Paris, Mark Carney's 'tragedy of the horizon' speech and an increasing focus on fiduciary duty given the increasing risks associated with climate change, superannuation and institutional investors are increasingly seeking alternative low carbon investments as a strategic investment priority. This increasing investor demand for green bonds can be demonstrated through several trends:

- the high level of oversubscription compared with non-green issuances
- public commitments to build large green bond portfolios from the likes of Zurich Insurance, Deutsche Bank, KfW, Barclays, Aviva, QBE and ACTIAM
- increasing numbers of investors seeking environmentally friendly investment options and to fulfil SRI mandates, plus the emergence of specialised green bond funds

For issuers, green bonds provide a range of benefits albeit with primary issuances currently pricing in line with standard bonds. Given the shortage of new issues, secondary trading activity has been limited as the growing pool of investors typically seek to buy and hold new issues, but over time we expect to see this investor demand drive more favourable pricing for issuers.

Green Bond features

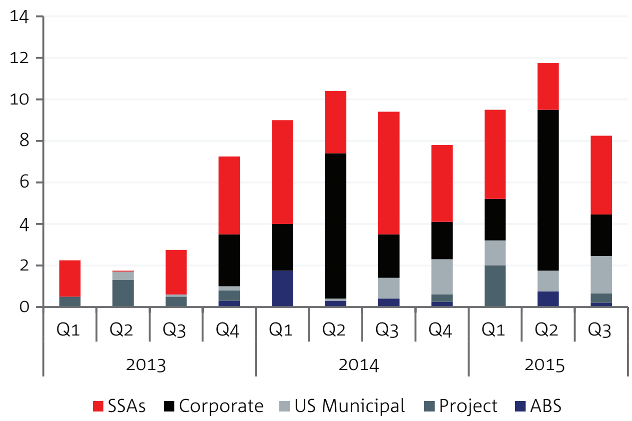
Features		
• Pricing —	• Tenor ↑	• Terms —
Diversification		
• Investor diversity ↑	• Access to global markets ↑	
Issuer profile		
• Reputation ↑		

Source: NAB

Green Bond market update – the rise and rise of green bonds.

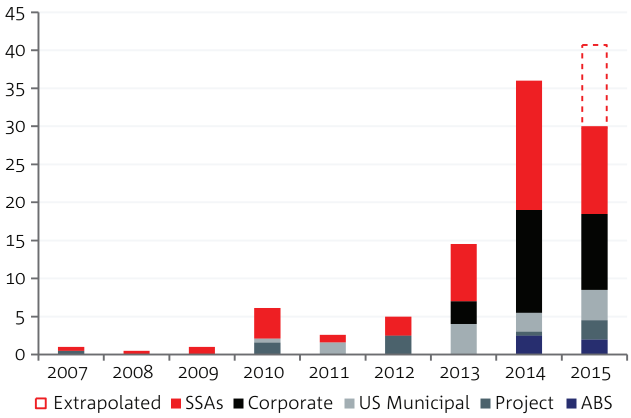
Global green bond issuance has gained significant momentum, rising from less than US$5 billion in 2012 to almost US$37 billion in 2014. After lofty 2015 issuance estimates of as high as US$100 billion, issuance has slowed down yet remains on track to exceed 2014 issuance volumes with over US$40 billion issued through to end November 2015. 2015 has seen a significant rise in corporate (including banks) and municipal issuance offset the slow-down in issuance from supranational banks.

Green bond issuance by quarter



Source: Bloomberg New Energy Finance, Q3 2015 Green Bond Roundup

Green Bond issuance by year



Source: Bloomberg New Energy Finance, Q3 2015 Green Bond Roundup

Whilst the global green bond market has been in existence since 2007, the first AUD denominated green bond was only issued in 2014 by the World Bank, followed by the NAB Climate Bond. 2014 issuance volumes were A$600 million followed by A$1.2 billion to date in 2015 comprising of deals by KfW and ANZ. In addition Stockland issued a €300 million green bond into the Euro MTN market in late 2014 while NAB arranged the Infrastructure Capital Group's Hallett Hill 2 Pty Ltd USPP green bond in March 2015. Australian green bond issuance in 2016 is shaping up to exceed 2015 volumes with several transactions in the pipeline from an increasingly broad range of issuers.

Green Bond developments

Investor demand continues to outstrip supply for new issuance with new issues continuing to be oversubscribed both in Australia and globally. In Australia, members are increasingly pushing their superannuation funds to adopt mandates which support low carbon investments, suggesting Australia's A$2 trillion superannuation fund pool will provide a significant source of capital to be invested in the emerging Australian green bond market.

Green bond issuances have begun to accelerate in emerging markets with several new issuances coming in 2015 from China, India and Brazil. The capital requirements for climate change mitigation and adaptation infrastructure across Asia, in particular China and India are significant. Green bonds are seen as a big source of this funding. China is taking a leading position in the developing green bond markets, led by Goldwind's US$300 million issue in July 2015 and recently followed by the US$1 billion multi-currency green bond issued by the Agricultural Bank of China.

Green securitisation, or green ABS, is another area of rapid growth. 2015 has witnessed several landmark deals including Toyota's US$1.25 billion green ABS in June 2015 backed by hybrid and electric vehicles, the Berlin Hyp Green Pfandbrief, several solar PV ABS deals out of the US from SolarCity and Sunrun and a number of energy efficiency ABS programmes being established including the UNFCC backed Green Climate Fund's recently announced US$217 million funding for a green ABS programme in Latin America and the Caribbean. Several Australian companies are exploring the opportunity to issue green ABS and we expect to see more developments in this sector in the Australian market over the next 12 to 24 months with the continuing rise in the installation of residential solar PV systems and energy efficiency measures including battery storage.

Offshore there has been growth in the issuance of thematic bonds, with several Social, ESG and Sustainability bonds issued in the UK, the Netherlands and Spain - a trend we expect to see repeated elsewhere over the next year.

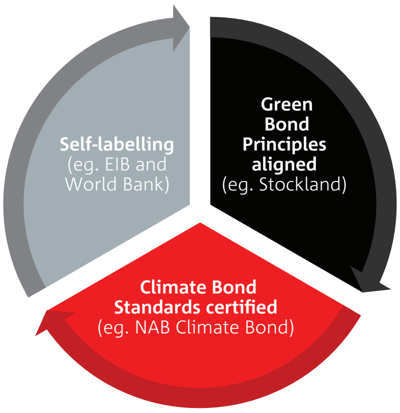
From an issuer perspective, an increasing range of new and repeat green bond issuers are coming to market including supranationals, commercial banks, corporates, municipal and government authorities, sub-investment grade issuers, project backed bonds and ABS issuers.

Challenges still remain for this growing market including pricing (no clear new issue premiums vs standard bonds), ongoing calls for standardisation and definition of green bonds and no single benchmark, the varying level of reporting and impact reporting provided by issuers, the perceptions of significant cost and management burdens for assurance and/or climate bond certification along with limited opportunities for new investors to source green bonds in secondary trading due to the shortage of new supply and trend for investors to hold to maturity to meet growing mandate requirements.

Green bond standards, disclosure and reporting in 2015

Against a backdrop of rapid growth in new green bond issuance there has been no universally adopted definition or standard by which to measure the green credentials of green bonds. To date there have been three approaches taken with labelling of green bonds which began with self-labelling as green;

Green Bond definitions



Source: NAB

Several developments intended to reduce this subjectivity and improve standards, disclosure and reporting associated with green bonds were released in 2015. These are critical to building improved investor confidence, transparency and to facilitate ongoing strong growth of the Green Bond markets. These included:

- the second edition of the Green Bond Principles (a set of voluntary process guidelines for issuers) released in March 2015. http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/green-bond-principles/
- the announcement of plans to release a Social Bond and Sustainability Bond Appendix to the GBP, expected to be available in early 2016
- the Green Muni Bonds Playbook released in July 2015 http://www.climatebonds.net/files/files/Green%20City%20Playbook.pdf
- the World Bank Green Bond Impact Report
- the Climate Bonds Initiative release of a consultation of Version 2.0 of the Climate Bond Standards which converts the voluntary GBP into a set of mandatory requirements and updates reporting requirements
- the Climate Bonds Initiative release of consultation versions of Climate Bond Standards eligibility criteria for Low Carbon Buildings, Low Carbon Transport, Agriculture, Forestry and other uses

NAB continues to work closely with verification agents/assurance providers, the Climate Bond Standards team and the Green Bond Principles to provide input into the evolution of these standards and guidelines, as well as working with potential issuers to develop Green Bond frameworks which address the requirements of the Climate Bond Standards and GBP ahead of future issues.

Green is the new black

As the clean energy mega-trend accelerates, NAB is committed to remaining at the forefront of funding innovations in this sector

Andrew Smith and Phillip Mak

At the 21st Conference of Parties (COP21) in December this year, participating countries aim to reach an international, legally-binding agreement designed to limit global temperature increases to less than two degrees above pre-industrial levels, the level deemed necessary to avoid the worst effects of climate change.

NAB has always been at the forefront of climate change reduction and sustainable development. We are proud to be the leading Australian bank for clean energy finance, and our recently-announced public commitments demonstrate our intention to retain this title.

NAB's five climate change commitments

In recognition of the role NAB can play in supporting the transition to a low carbon economy which limits global warming to less than two degrees, NAB has adopted the following five commitments[1]:

1. Undertake financing activities[2] of A$18 billion over the seven years to September 2022 to help address climate change and support the transition to a low carbon economy;
2. Source 10% of NAB's Australian electricity demand from new and additional renewable energy projects by 2018;
3. Engage responsibly on climate policy;
4. Report climate change information through mainstream reporting channels; and
5. Commit to putting a price on carbon and align to the UN Global Compact's business leadership criteria on carbon pricing.

A number of the NAB climate change commitments are not new, but in fact reflect what NAB has been doing for a number of years. Others relate to our focus going forward. Our A$18 billion commitment demonstrates a continuation of NAB's strong support of the transition to a low-carbon economy, and presents exciting opportunities not only for NAB but also for our customers.

NAB's A$18 billion financing commitment builds on our established leadership position in clean energy finance

- NAB is the No.1 Australian provider of project finance to the renewable energy sector.
- In March 2015 NAB, acting as Joint Lead Agent, raised A$205 million in the US Private Placement market to refinance an Australian wind farm, Hallett Hill 2, owned by Infrastructure Capital Group. Not only was this the first time an Australian renewable energy asset raised funds in the US Private Placement market, it was also that market's first green bond issuance.
- In December 2014, NAB launched the first Climate Bond by an Australian issuer, and the world's first bank-issued green bond to be certified by the Climate Bond Standards. Proceeds from this issuance will finance A$300m of renewable energy assets.
- NAB, with the support of the Clean Energy Finance Corporation, launched an A$120m fund in June 2015 to provide customers with discounts on standard loan rates for energy efficient upgrades or renewable energy that will help to reduce energy costs and improve business performance.

Source: NAB

[1] http://news.nab.com.au/nab-climate-change-principles/

[2] Financing activity includes new lending, debt market activity, provision of risk management products, development of financing solutions and advisory activity. Finance will be provided to our customers to undertake climate change mitigation such as renewable energy and energy efficiency including low carbon property, low emission transport, and climate change adaptation activities.

Global and emerging trends

US$4 trillion projected for new investment in renewable energy generation up to 2030.[3]

There is a global shift towards reducing our environmental footprint and transitioning to a low-carbon economy. In 2014, the International Energy Agency (IEA)[4] estimated that renewable electricity expanded at its fastest rate to-date (increasing by 130 GW over the year) and accounted for more than 45% of net additions to global capacity in the power sector. Total investment in the renewable energy sector has grown by 51% from 2009-2014, reaching US$270 billion over 2014 (up from US$232 billion in 2013).[5]

COP21 has set the scene for the future of clean energy. The possibility of decoupling economic growth from CO_2 emissions is now a reality: in their Special Briefing for COP21, the IEA have forecast that world CO_2 emissions from power generation will remain broadly flat through to 2030, whilst electricity demand will increase by more than 40%. Indeed by 2020, total clean energy generation will reach a level greater than the combined demand of China, India and Brazil today.

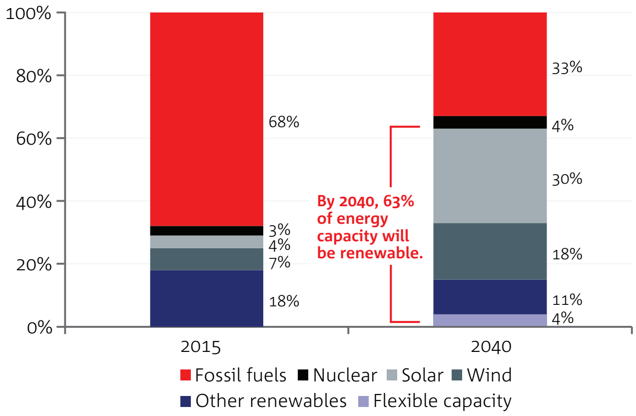
The IEA predict that full implementation of the climate pledges made in the lead up to COP21 will require the energy sector to invest US$13.5 trillion in energy efficiency and low-carbon technologies over the next 15 years. Around US$8.3 trillion is needed to improve energy efficiency (transport, buildings and industry sectors) and US$4 trillion in new investment will be needed for additional clean energy capacity (mainly wind farms, solar PV and hydro).

The clean energy mega-trend is rapidly becoming more nuanced, as technological developments couple with regulatory and market incentives to drive fundamental changes in the structure and composition of the energy sector.

Bloomberg New Energy Finance (BNEF) forecasts that distributed generation[6] will represent more than 50% of Australia's generation capacity by 2040. Energy storage, smart-metering and real-time pricing will deliver economic efficiencies to electricity users at zero emissions.

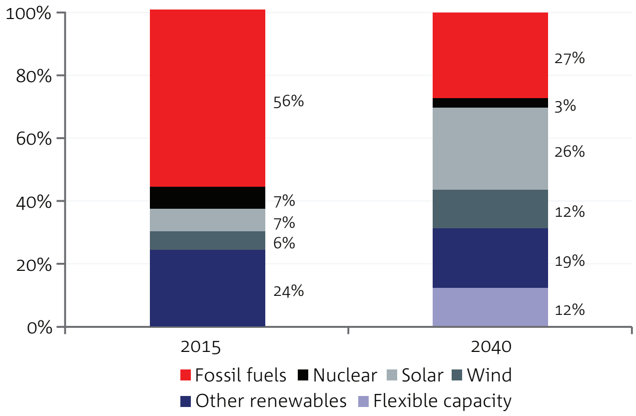
The rate of technology uptake by consumers, businesses and governments is accelerating, presenting opportunities and threats to market participants, rewarding their agility. NAB's A$18 billion commitment will help our customers to respond to this clean energy mega trend.

Power generation mix (Asia Pacific)



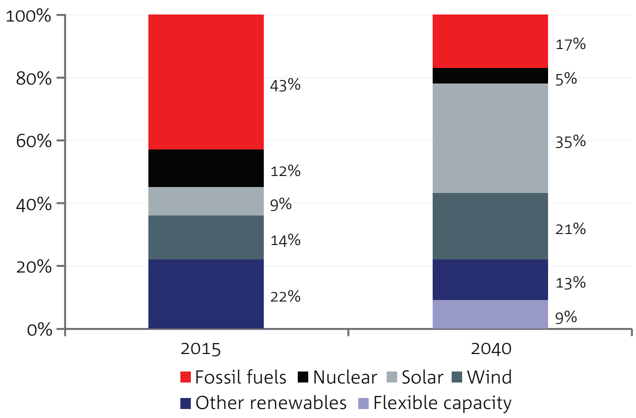
Source: Bloomberg New Energy Finance 2015

Power generation mix (Americas)



Source: Bloomberg New Energy Finance 2015

Power generation mix (Europe)



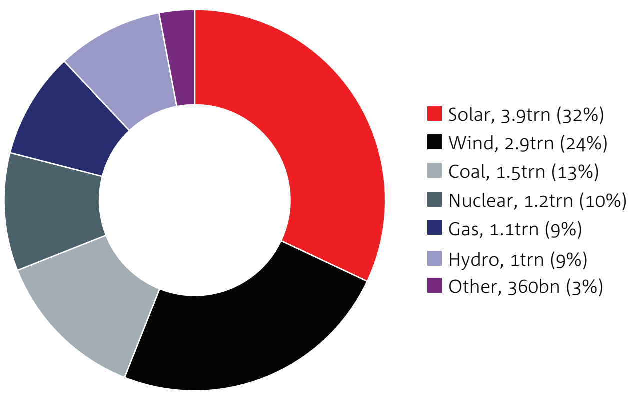
Source: Bloomberg New Energy Finance 2015

[3] IEA Renewable Energy Medium-Term Market Report 2015
[4] IEA Renewable Energy Medium-Term Market Report 2015
[5] According to UNEP's 9th "Global Trends in Renewable Energy Investment 2015", prepared by the Frankfurt School-UNEP Collaborating Centre for Climate & Sustainable Energy Finance and Bloomberg New Energy Finance, the United Nations Environment Programme (UNEP) and Bloomberg New Energy Finance
[6] Such as solar PV on houses, commercial and public buildings

Australia

In early 2015, a bipartisan agreement to move forward with a Renewable Energy Target (RET) of 33,000GWh by 2020 set the bed stone for renewed investor confidence in the Australian clean energy market. As the sector regains momentum, it is forecast that an additional 5GW of clean energy capacity will be installed in the Australian market in next 5 years and around 23.5% of Australia's electricity generation in 2020 will be from renewable sources[7]. This is supported not only by the RET, but also by state-led initiatives, which have emerged as a key source of investment opportunities in clean energy over the last few years. The ACT's solar and wind auctions have underwritten 240MW of renewable energy developments in and around the Territory, with up to 250MW of additional capacity expected to be procured over the next few years. Similar programmes are being developed in Queensland and Victoria. On a national scale, the Australian Renewable Energy Agency (ARENA) continues to stimulate investments in this space, with their latest programme targeting large-scale solar technologies

Forecast distribution of clean energy investment (Worldwide 2015 – 2040)



Source: BNEF, Energy in Transition report, August 2015

While the Australian private sector renewable energy market pressed pause in 2014, NAB was not standing still, but busily innovating; labours which bore fruit late last year, when NAB became the first Australian bank to issue a Climate Bond Standards-certified green bond (A$300 million). NAB also earned the title of first bank to arrange funding for an Australian wind farm in the US Private Placement market (A$205 million) and provided around A$1 billion of debt to the renewable energy sector both in Australia and the UK over the last two years. In addition to this funding, NAB is partnering with the City of Melbourne's Renewable Energy Buyers Group to underwrite the construction of a renewable energy project that will provide c10% of NAB's annual Australian electricity requirements. The Group's intention is to establish a framework that can be replicated by other companies wishing to source renewable energy directly.

United Kingdom

The UK's commitment to renewable energy is enshrined in domestic and European legal undertakings. The UK is required to produce approximately 30% of its electricity from renewable power by 2020 from a level of 13.9% in 2013 in order to meet its binding renewable energy targets. It is very positive to see that renewables' share of electricity generation reached a record 25.3% in the second quarter of 2015 compared to 16.7% a year earlier, driven by additional renewable capacity and more favourable weather conditions for renewable generation. NAB is a leading provider of project finance to the UK renewables sector having financed a broad range of proven technologies such as onshore wind, offshore wind, solar PV, biomass and landfill gas representing a total of A$1.4 billion in committed funding for the sector since 2006.

Since 2010, an average of £7 billion has been invested each year in UK-based renewable energy[8]. A recent study from PwC estimates that nearly £40 billion was invested during 2010-2014 in the UK renewables sector with an estimated additional £48 billion required in the next five years to meet the UK's renewable energy targets[9]. NAB estimates that the potential debt requirement (commercial bank and debt markets) requirement over this period to be £26 billion.

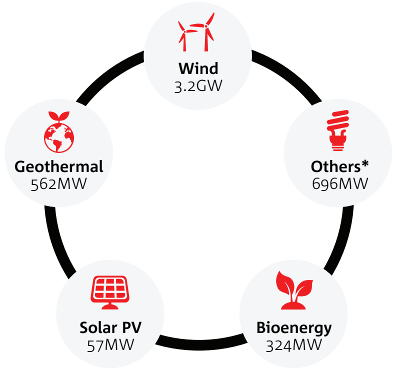
Last year saw the largest annual investment on record for renewable electricity generation in the UK to date, at £9.8 billion (compared to £9.1 billion in 2013). Offshore wind and solar PV attracted the largest share of this record investment in a year that witnessed a number of important developments in the renewable electricity sector including the successful project financing of a number of offshore wind farms. The UK has more installed capacity in offshore wind than the rest of the world combined at 5GW compared to a total of 10GW (estimated enterprise value of €40 billion[10]) in Europe. Furthermore, the UK

[7] Bloomberg New Energy Finance 2015
[8] Department of Energy and Climate Change - Delivering UK Energy Investment (July 2014)
[9] PwC: State of the renewable industry - Investment in renewable electricity, heat and transport (May 2015)

remains on track to deliver an additional 5GW by 2020 with a total estimated capex requirement of £20 billion. Capital Financing has actively been pursuing lending opportunities in the offshore wind sector in the UK and select European countries having acted as MLA for one of the first offshore wind farm transactions to reach financial close in the UK.

Alongside record levels of investment, the year was also marked by the first competitive auction for the Contract for Difference[11] which was completed in February 2015. It was remarkable that almost all technologies cleared below their respective administrative strike price which is further proof of the declining cost of renewable energy. From 2010 to 2015, indicative global average onshore wind generation costs for new plants globally fell by an estimated 30% on average while that for new utility-scale solar PV declined by two-thirds[12].

Clean energy projects financed by NAB – technologies. Portfolio of renewable assets

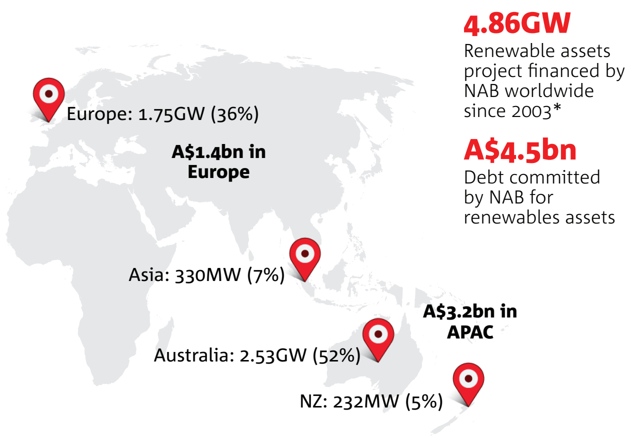


* Portfolio of renewable assets (wind, hydro, land fill gas, solar PV)

Costs are expected to continue to fall which will result in reduced subsidy levels.

Renewable electricity capacity in the UK grew to 28.4GW at the end of June 2015[13], a 5.8GW increase year-on-year with high growth in solar photovoltaic and wind capacity (particularly offshore). This represents an increase of 19GW in slightly less than five years compared to 9.2GW installed capacity at the end of 2010. Onshore wind has the largest share of capacity (31% or 8.8GW), followed by solar (29% or 8.2GW), offshore wind (18% or 5.1GW) and bioenergy (16% or 4.5GW).

Clean energy projects financed by NAB – regions



* Source: NAB analysis

Given the ambitious targets of the UK government and with COP21 expected to accelerate the transition to a low-carbon economy, significant additional investments will be required to meet the UK's renewable energy targets. We strongly believe that the financial sector has an important role to play in financing energy needs now and into the future and NAB's A$18 billion commitment to the renewable sector will help our customers bridging the funding gap.

Summary

In recognition of the clean energy mega-trend, NAB has positioned itself well for the future opportunities that this it presents. Through continuous innovation, NAB is helping to expand the financing solutions necessary to fund the transition to a low carbon world.

[10] NAB estimate
[11] The Contract for Difference Feed in Tariff regime eliminates market price risk, the intention of which is to increase cashflow certainty and thereby reduce the cost of capital for renewable energy projects – in turn designed to lower subsidy levels. It replaces the Renewable Obligation regime, which will be grandfathered for existing renewable assets and phased out for new projects.
[12] IEA Medium-Term Renewable Energy Market Report 2015
[13] Digest of United Kingdom Energy Statistics (DUKES) 2015 - Chapter 6, Renewable sources of energy

Spotlight on New Zealand

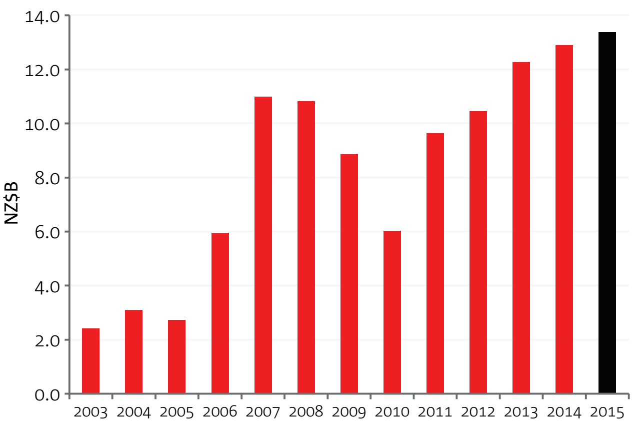
The New Zealand debt capital markets have had a strong year and continue to remain active and open for new issuance

Mike Faville

2015 YTD has seen NZ$13.3 billion priced across 61 transactions, from a diverse range of corporates, bank, local authority and SSA borrowers. This volume has exceeded the NZ$12.9 billion priced in 2014 and NZ$12.3 billion priced in 2013, and significantly above the volumes seen between 2009 and 2012.

We continue to see strong domestic demand from wholesale and retail investors for high quality, rated credits. Fund managers continue to accumulate a growing pool of cash as Kiwisaver funds increase. In addition, the market has seen a number of significant maturities in 2015 which have not been replaced by new issuance, further adding to demand conditions and providing an environment conducive for issuers looking to access the market.

Annual total market bond issuance

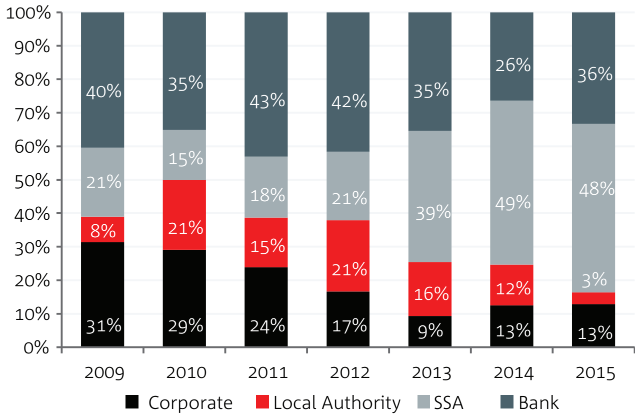


Source: Bloomberg, BNZ

Strong demand for corporate credit, albeit low supply

Despite the strong total market volume, corporate issuance in 2015 has been very modest, with a total of NZ$1,791.4 million priced across fifteen transactions. Port of Tauranga (BNZ sole lead), Spark NZ, Fonterra (BNZ joint lead), The Warehouse (BNZ joint lead), Goodman Property Trust, Fonterra (for a second time), Transpower (BNZ sole lead), Contact Energy, SkyCity, Powerco, Auckland International Airport (BNZ joint lead), Infratil, Auckland International Airport (for a second time – BNZ joint lead), Transpower (for a second time) and Spark (for a second time) have accessed the market, with a mix of retail and wholesale transactions, receiving strong support domestically.

Historical issuance by sector

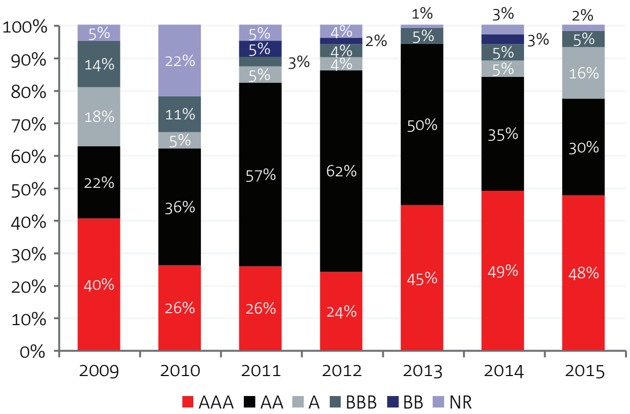


Source: Bloomberg, BNZ

Corporate issuance has remained low comprising only 13% of total NZD volume in 2015 in comparison with its peak of 33% in 2009. This however is in line with 2014 and an increase from 2013 where corporate issuances only represented 9% of all issuances. The sustained low volumes have been driven by a lack of supply rather than demand, with investors continuing to display strong appetite for corporate credit.

In addition, 'BBB' band and below, as well as unrated credits remain underrepresented in the market, declining from 22% in 2009 to 6% in 2015.

Historical issuance by rating



Source: Bloomberg, BNZ

Rise in Kauri Issuance

Consistent with 2013 and 2014, 2015 saw AAA rates SSAs continue to grow as a proportion of total issuance in New Zealand.

Issuance from the sector in 2015 stands at NZ$6.325 billion, with largest prints from World Bank ($800 million and $600 million), KfW ($650 million, BNZ Joint Lead Manager), Nordic Investment Bank ($550 million, BNZ Joint Lead Manager) and Rentenbank ($450 million, BNZ Joint Lead Manager).

Activity in the Kauri market over the past three years has typically occurred in the first half of the year with SSA issuers looking to get ahead of funding plans for their new year. The Kauri market has become an increasingly significant funding currency for a number of SSAs over the past three years.

Growth of the LGFA

The Local Government Funding Authority (LGFA) was established at the end of 2011 and is owned by 30 New Zealand councils and the Crown. The primary purpose of the LGFA is to provide more efficient funding costs and diversified funding sources for New Zealand local authorities, which prior to the LGFA issued solely in their own names.

The LGFA has successfully completed 7 tenders in 2015 year to date (for a total of $1,115 million, $705 million 2014), and has now placed a total of $5.660 billion across multiple transactions. This additional pool of assets has increased investor comfort in the NZ dollar market as it provides an alternate risk asset to switch in and out of SSA paper as and when required. International investors continue to participate, with approximately 25-30% of LGFA paper held offshore.

NZD swap rates

The NZD swap curve has steepened over FY15, though remains well below the 5 year average. At current levels, the 7 year tenor is proving to be the most attractive tenor as issuers' spread expectations and yield driven retail investors' coupon aspirations move in to line.

Historical NZD swap rates

Source: Bloomberg

Spotlight on Asia

The Asian debt capital markets weren't immune to the instability seen globally; however, this hasn't stopped them from emerging as a key market to raise capital in for banks

Josh Sife

As with the rest of the global bond market, the Asian debt capital market in 2015 is a tale of two halves. The first half of the year was characterised by strong investor demand, long periods of stable markets and supportive risk-on technicals.

The Asian debt market fared better than other global markets as the Greek debt crisis re-emerged in May. Asian borrowers benefitted from a flight to quality away from the EU region towards Asia, a market deemed somewhat immune from any broader European instability. However, reverberations stemming from the fear of a China hard landing and subsequent surprise Yuan depreciation in August had a large impact on investor confidence. Asia credit markets effectively shut for much of August and September and issuance volumes reduced significantly.

There is an expectation that opportunities will present themselves before calendar year end for a revived primary issuance market. Investor cash levels have increased over this quiet period, despite investors' cost of funds increasing, investors are displaying strong appetite for the right names, at the right spreads.

Below some of the key themes of 2015 in the Asian debt capital markets are discussed.

Annual Global RMB Issuance more than doubles

The total global RMB bond issuance volume continued to grow at breakneck speed in 2015. So far this year, ~22 trillion Yuan has been issued, more than double the total volume issued in 2014.

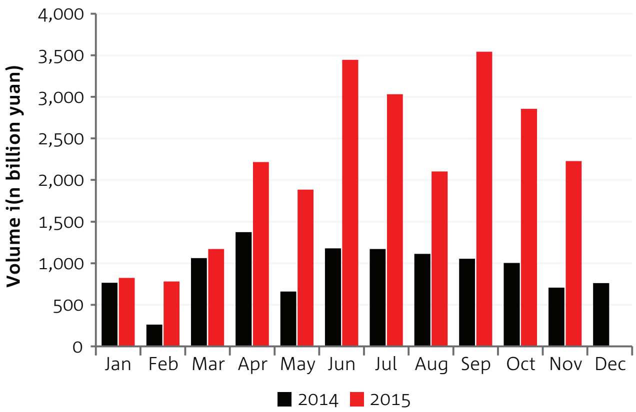
As with previous years, Chinese issuers have dominated the global RMB bond market. This is only natural given Chinese issuers generally have a greater natural need for RMB and, therefore, are less exposed to fluctuations in the CNH cross-currency swap markets. However, a much larger variety of issuers have tapped into the RMB market this year including global SSA issuers (EIB, IFC, KfW, KEXIM), global banks (Barclays, Emirates, Goldman Sachs, ING, Lloyds, NAB, RBC, Société Générale, SMBC etc.) and corporates from all sectors and geographies (Caterpillar, Daimler, Fonterra, Korea Expressway and Mitsubishi Corp). This trend is likely to continue as the internationalisation of the RMB gathers momentum.

CNH Basis Swap

Source: Bloomberg

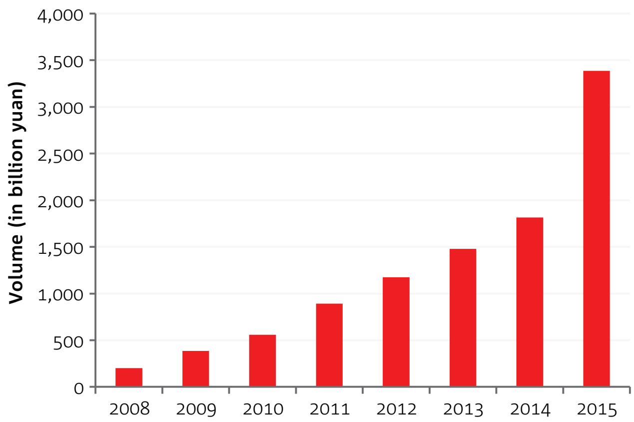
One of the key factors driving issuance in the offshore RMB market is the CNH swap levels which impact how competitive the RMB funding markets are compared to other currencies. When the CNH swap levels increase, it generally means that the CNH market becomes more attractive for foreign issuers. Conversely, when the CNH swap levels decrease, the market becomes more attractive for local borrowers (outright yields are lower). The CNH swap market has been very volatile this year with a peaking of the swap levels in March/April coinciding with the most active period of RMB issuance for offshore borrowers. When the CNH swap level sold off in June/July, we saw large RMB issuance by the big Chinese banks.

Issue volume by month



Source: Bloomberg

Issue volume by year



Source: Bloomberg

Australian Banks' Tier 2 debts capturing the appetite of Asian investors

Given the move by regulators globally to increase the capital requirements of global banks, the need for capital (both equity and subordinated debt) has increased significantly over recent years. As a result of the increased requirement for capital raising, banks are becoming more experimental with the markets they choose to tap into for bank capital. In this regard, 2015 has seen the emergence of Asian markets as a potential key liquidity provider for banks future capital requirements. To take the Australian major banks' as an example, 2015 has seen the first ever Tier-2 issuance in SGD and CNH as well as the first ever issuance of A$ Tier-2 off EMTN documentation targeted primarily at the Asian private banking market.

Away from the Australian banks, we have also seen the Japanese Samurai market emerge as a potential source of liquidity for global banks seeking Tier-2 capital and we expect the HKD market may provide opportunities to borrowers in the months to come.

Asian covered bonds have finally emerged

After a long wait, the much anticipated Asian covered bond market has finally sprung to life this year. In July 2015, DBS Bank Ltd issued the inaugural covered bond from a Singaporean institution. The US$1 billion three year FRN was well received by investors, both in Asia and across Europe and the US.

As FinanceAsia pointed out in July, "one of the main hurdles getting covered bonds off the ground in Singapore concerned the role of the Central Provident Fund (CPF) in the mortgage market. Unlike other countries, the CPF has first claim on many mortgages because its members are able to use their holdings to re- pay their housing loans."[1]

"DBS got round the issue by deploying a trust structure. Acting as trustee it will hold a large portion of the bonds in the cover pool for the benefit of the special purpose vehicle they would be transferred into in the event of re-payment difficulties. The Monetary Authority of Singapore (MAS) clarified the arrangement in a regulatory announcement in June and DBS issued the following month."[1]

The DBS transaction was quickly followed by the Korean lender, Kookmin Bank, which successfully priced a covered bond in the US market in October. This was the debut covered bond under the new Korean structure.

With both Singapore and Korea now joining the ranks of covered bond issuers, the market is excited about how these markets develop and mature over the next couple years and are already looking at the potential for covered bonds to be introduced in other jurisdictions across Asia.

[1] FinanceAsia, 31 July 2015, http://www.financeasia.com/News/400368,singapore-adds-to-covered-bond-universe.aspx

Securitisation finally taking off in China

China's securitisation market has seen remarkable growth in recent years having surpassed Korea to become the largest securitisation market in Asia. The 2014 domestic ABS issuance volume reached approximately RMB 280 billion (~US$40 billion), which was a tenfold increase year-on-year and greater than the aggregate issuance volume for the preceding 8 years. As of April 2015, the total outstanding volume of domestic ABS stood at approximately RMB 300 billion (~A$65 billion). However, despite the recent rapid growth, securitisation remains a very much under-utilised financial instrument with the China Banking Regulatory Commission ("CBRC") estimating there to be as much as RMB 90 trillion (~A$20 trillion) worth of securitisable bank loans alone in China. Traditionally corporate loan securitisation has dominated as much 75% of the market but we have seen a recent surge in auto loan securitisation driven by the ever increasing demand for automobiles by Chinese consumers. 2015 saw successful issuance from Volkswagon, Nissan and Ford.

Given the current and projected economic growth in China and the economy's current overreliance on bank funding, the securitisation market will start to play an even more important role as bank funding alone cannot meet the massive funding task at hand. The already highly leveraged Chinese banks continue to be challenged with regulators imposing higher capital requirements and tougher leverage ratios. As such, Securitisation is seen as the ideal tool to address these issues in enabling banks to diversify their funding sources, transfer risk, free up capital and match fund to maturity. The Chinese Government has actively supported the development of the industry through regulatory reforms and actively encouraged Chinese banks to issue more securitisation bonds. The regulators continue to work closely with market participants to develop more efficient and flexible regulations and processes.

The emergence of a new Asian Supranational

The Asian Infrastructure Investment Bank (AIIB) is an international financial institution which is focussed on supporting infrastructure construction in the Asia-Pacific region. The AIIB Articles of Agreement were signed in June 2015 by 50 prospective founding members, including Australia. The bank is expected to begin operating as soon as next year. Although the initial capital outlay is US$100bn, it is expected that the AIIB will leverage up its capital by raising funds primarily through the issuance of bonds and inter-bank market transactions.

This will be a major boost of global financial markets, especially the regional debt capital market. The AIIB will raise funds primarily through the issuance of securities (i.e. bonds) in financial markets as well as through the inter-bank market transactions and other financial instruments, in addition to the initial capital of US$100 billion.

The AIIB will likely attain the same AAA rating as with similar organisation like the Asian Development Bank which is a regular participant in the debt capital market. In 2014, the ADB raised US$14 billion of medium and long-term funds of average maturity of 4.3 years in 11 currencies. Once the AIIB becomes more established, it will likely follow the practice of ADB.

The institution will also be engaged in currency and interest rate swaps to hedge their financial risk exposure. The new organisation will be an alternative player in Asia's sovereign space.

Spotlight on Europe

European markets had a bumper year, while the UK market continued to be dominated by local names

Andrew Santone

Euro market

2015 will be remembered as another bumper year in the Euro capital markets as the continued stimulus from the European Central Bank (ECB) and consequent low interest rate environment has resulted in attractive spreads for issuers and investors who are motivated to be fully invested in the market. Issuance levels for 2015 as at end October were €870 billion versus €864 billion at the same point last year.

However, despite the similarities in issuance volumes 2015 differed from 2014 as the market was subject to some significant bouts of volatility in the form of the Greek debt crisis which effectively shut the market down for issuance during the latter half of June and into the first half of July. Compounding this was an emerging market crisis developing through August as China growth numbers not meeting expectations impacted equity markets greatly and a subsequent follow on into credit markets saw issuance volumes dry up and credit spreads widen out to levels witnessed two years previously.

Mario Draghi the president of the ECB has pledged to keep ECB policy accommodative until the euro zone economy demonstrates a sustainable growth pattern and inflation targets are met. The accommodative policy is through quantitative easing and expanding the program to include a variety of assets.

Economic growth in the Euro zone whilst positive continues to be problematic with a non-consistent growth pattern causing concerns amongst policy makers. The continued high unemployment levels through southern Europe have led to the rise of anti-austerity/populist political parties. These parties are strong proponents of utilising fiscal policy in order to generate growth. Should these parties start to take power it could have significant consequences on growth levels but, particularly issuance levels of governments which could impact corporate and financial issuance through 2016.

Australian issuers still found the market attractive for tenor, volume and price, as highlighted in the table below. The table below highlights the corporate issuance undertaken by Australian based issuers during the year.

Issuer	Amount (m)	Coupon	Benchmark	Spread	Maturity	Moody's	S&P
Transurban Finance	€ 500	2.00%	Mid swaps	+103 bps	28 Aug 2025	Baa1	BBB+
Scentre Management Ltd	£400m	2.38%	UK Gilts	+110 bps	08 Apr 2022	A1	A
APT Pipelines	€700m	1.38%	Mid Swaps	+100 bps	22 Mar 2022	Baa2	BBB
APT Pipelines	£600m	3.50%	UK Gilts	+142 bps	22 Mar 2030	Baa2	BBB
APT Pipelines	€650m	2.00%	Mid Swaps	+130 bps	22 Mar 2027	Baa2	BBB
Ausnet Services	€560m	1.50%	Mid Swaps	+73 bps	26 Feb 2027	A3	A-
Stockland Trust Management Limited	€300m	1.50%	Mid Swaps	+82 bps	03 Nov 2021	NA	A-
Australia Pacific Airports (Melbourne)	€350m	1.75%	Mid Swaps	+75 bps	15 Oct 2024	A3	A-

The key theme for the year in the Euro market is issuance into the market at levels that are attractive compared to global comps with spreads continuing to be attractive despite the recent move wider. The basis swap market for global issuers has been favourable for the most part and encouraged issuers particularly those based in USD to launch transactions. Through the first half of the year new issues continued on from 2014 and were launched at the tight end of new issue price guidance and any new issue concession was in the low single digits with sought after corporate/infrastructure names bringing new issues on top of their secondary curve. As we emerged after summer and the volatility generated from Greece and China/ Emerging markets we have seen new issue concessions move out to the mid to high teens with corporates generating slightly tighter concessions than financials.

However, despite the recent widening which is in line with all global markets the Euro market continues to offer attractive tenor, volume and pricing for Australian issuers. Investors in this market are constructive on the diversification that Australian issuers bring to their portfolios and on the Australian economy in general. This is also reflected in the level of trading activity that we see in the issues from Australian companies with a number of market makers (including NAB) actively making markets in these names.

As can be seen from the table the issuers as with last year come from a variety of sectors with a leaning towards the infrastructure style companies which is more to do with issuance volume requirements for these companies rather, than a bias from European investors. The strong demand that each issue received upon launch is demonstrative of the comfort level that European investors have for Australian based company's issuance.

Financial Issuance has seen a significant pick up from the Australian sector through 2015. As with corporate issuance the European investor universe actively seek the diversification of the Australian banks and strong credit ratings offered. As with last year there, continues to be a focus on sub-ordinated capital issuance with investors chasing these transactions and bidding heavily into these trades due to the higher yield on offer.

Issuer	Amount (m)	Coupon	Benchmark	Spread	Maturity	Moody's	S&P
CBA	£300m		3 Month Libor	70 bps	26-Oct-18	Aa2	AA-
Wespac	€1,000M	0.75%	Mid Swaps	17 bps	22-Jul-21	Aaa	NA
CBA	€1,250m	2.00%	Mid Swaps	175 bps	22-Apr-27	A3	BBB+
NAB	£350m	1.88%	UK Gilts	78 bps	20-Feb-20	Aa2	AA-
NAB	€1,000m	0.88%	Mid Swaps	18 bps	19-Feb-27	Aaa	NA
CBA	€1,000m		3 Month Euribor	40 bps	21-Jan-20	Aa2	AA-
Macquarie Bank Ltd	€500m	1.13%	Mid Swaps	75 bps	20-Jan-22	A2	A
NAB	€1,250m		3 Month Euribor	28 bps	16-Jan-18	Aa2	AA-
NAB	€1,000m	0.88%	Mid Swaps	42 bps	20-Jan-22	Aa2	AA-
Westpac	€1,250m	0.63%	Mid Swaps	14 bps	14-Jan-22	Aaa	
Westpac	£350m		3 Month Libor	35 bps	28-Nov-17	Aa2	AA-
ANZ	€1,000m	0.38%	Mid Swaps	1 bp	19-Nov-19	Aaa	
NAB	€750m	2.00%	Mid Swaps	165 bps	12-Nov-24	A3	BBB+
ANZ	€1,000m		3 Month Euribor	40 bps	28-Oct-19	Aa2	AA-
CBA	€1,000m	0.75%	Mid Swaps	7 bps	4-Nov-21	Aaa	

Source: Informa Global Markets

Sterling market

The Sterling market has carried on from where it left off in 2014 with domestic issuers dominating the market for the most part. There have been some large global benchmark names in the market such as Apple but, for the most part it has been UK based names. Given the relative pricing witnessed earlier in the year lower volumes were issued. Pleasingly, this is changing as credit spreads have held in compared to global benchmark markets combined with the basis swap starting to work in these issuers favour and the UK investors are starting to look at non domestic names in order to put funds to work. Interestingly, with the various criteria of Insurance solvency 2 regulations being understood by investors we have seen a number of sub-ordinated issuances from UK insurance companies that have been received enthusiastically by the market.

Australian issuance into the Sterling market was again driven by financials however, there were issues by Scentre and APA Group which were met with a very positive response. APA Group in particular was met with an overwhelmingly positive response which allowed the issuer to price inside the initial guidance levels.

The institutional term loan market had a quiet year with a number of the UK infrastructure utility type companies going direct to investors for funding. However, with regulatory reset periods now being decided we expect the market to begin to pick up again through 2016 as companies in this sector continue to look for flexibility and diversity in their funding mix and profile.

Spotlight on North America

The US capital markets continue to be an attractive source of funding for Australasian issuers

Geoff Schmidt and Ashleigh Baxter

US Private Placement Market – the supply/demand imbalance continues

The US Private Placement market had another strong year, with over US$45 billion of issuance priced across more than 185 transactions.

The supply/demand imbalance continued to be a theme in 2015, with the level of oversubscription on transactions a testament to the strong demand from investors. Investors demonstrated an increased willingness to accommodate flexible issuance structures, direct A$ transactions, delayed funding, amortizing structures, and non-benchmark tenors. This was supported by NAB's H1 2015 US Private Placement Investor Survey, with 54% of investors indicating they would be amenable to funding in an issuer's home currency and over 90% of investors indicating they are able to delay funding over year end.

Australian and New Zealand issuers continued to be met with strong demand, with over 25 transactions completed from the region in 2015, accounting for a record 17% of total market volume (and 40% of cross border volume). Notable NAB led transactions included a A$750 million (equivalent) inaugural issue for NSW Ports (which received strong investor interest, with an order book of ~US$3 billion equivalent), a US$186 million (equivalent) inaugural transaction for Goodman Trust Australia (which marked NAB's fifth US Private Placement transaction for a Goodman Group entity in recent years) and a A$275 million (equivalent) inaugural transaction for the University of Melbourne which was 11 times oversubscribed.

NAB's US Private Placement business had a record year, taking the number one spot in Australasia and a top five position globally in the H1 2015 Thomson Reuters league tables. In addition, NAB was also awarded Peter Lee's coveted top US Private Placement award, #1 Lead Provider of US Private Placements, which is comprised of six separate #1 accolades.

2015 Australasian US Private Placement Issuance

Infrastructure/Utilities
Hallett Hill No. 2 A$206m*
NSW Ports A$750m*
SA Power US$235m
AquaSure A$750m*
Perth Airport US$530m*
Adelaide Airport US$265m*
ElectraNet US$275m
Australian Gas Networks US$155m
QML US$695m*
Contact Energy US$100m
Melbourne Train Station US$202m
UED US$205m*
NSW Ports US$363m

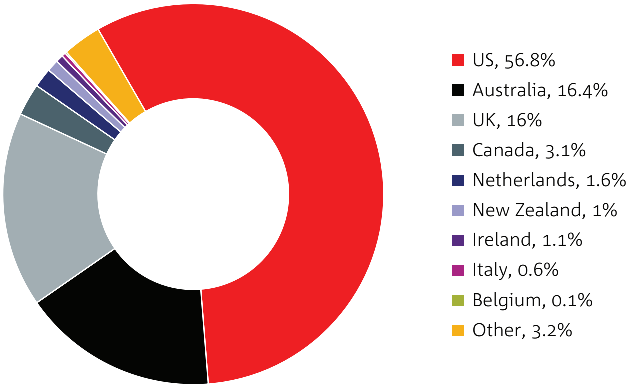
Property
Goodman Property Trust US$120m
Charter Hall Retail REIT US$200m
Stockland US$275m
Mirvac US$150m
Vicinity Centres US$303m*
Goodman Trust Australia US$186m*

Consumer/Other
Visy US$200m
Orora US$250m
CPH US$460m*
Downer US$125m*
Fonterra US$200m
CSL US$511m*
University of Melbourne A$275m*

*Equivalent. NAB led transactions highlighted in red.

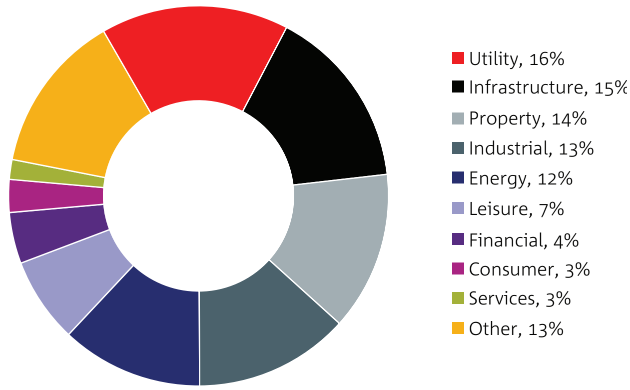
The US Private Placement market has been resilient during the 2015 market dislocations and remains a reliable source of long term funding for issuers. Conditions for issuance remain favorable, with a strong pipeline of activity anticipated in 2016.

2015 US Private Placement Issuance by Country



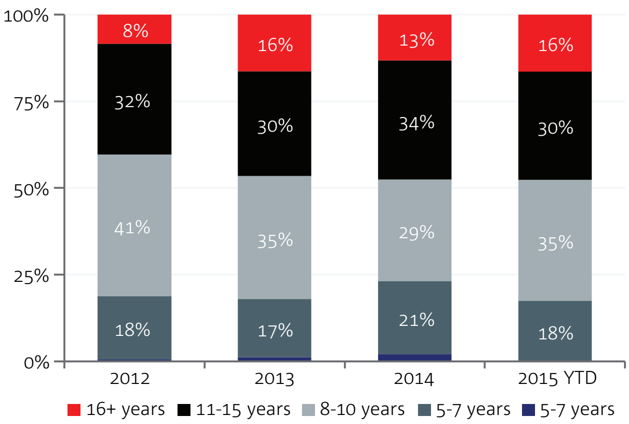
Source: Private Placement Monitor, NAB US Private Placements

2015 US Private Placement Issuance by Sector



Source: Private Placement Monitor, NAB US Private Placements

Historical US Private Placement Issuance by Tenor



Source: Private Placement Monitor, NAB US Private Placements

US Corporate Investment Grade Market – record issuance volumes

The US Investment Grade primary market turned in its third consecutive record year as volumes surpassed US$1.2 trillion (ex-SSA), up 16% year on year.

The 2015 primary market got off to a red hot start as the low yield environment provided attractive funding levels for corporate issuers. Monthly volumes eclipsed the US$100 billion mark eight times in 2015, including a stretch of four months from February to May. Volatility increased during the summer as global economic events such as the debt crisis in Greece, China's slowdown and a rout in commodity prices disrupted the world markets. This caused the US primary market to shut down on several occasions, including a stretch of thirteen straight sessions in August. Despite the periods of volatility, the new issue market forged on, showing resilience as investor demand for large/liquid transactions remained robust.

In addition to the low rate environment, 2015 volumes were boosted by record levels of M&A activity, which accounted for over US$250 billion, a 157% pick up from 2014. The increased activity resulted in some of the largest debt offerings on record, with transactions from Actavis, AT&T, AbbVie Inc., Charter Communications and CVS Health each in excess of US$15 billion. During the year, there were fourteen deals of US$10 billion or more, further proving that this was the "year of the jumbo deal".

Fixed rate borrowing accounted for 93% of all volume, and the 10 year tenor was most frequently used by issuers. Overall issuance was skewed toward the back-end of the curve as just over half of 2015's supply occurred in maturities of 10 years or longer.

Notably, there has been a significant increase in Australian corporates accessing the market in 2015, with benchmark transactions from a number of issuers including Scentre (US$1 billion), Telstra (US$1 billion) and Transurban (US$550 million), each hitting the market in 2015.

US Frequent Issuers in the Australian Market – Canadians expand AUD footprint

North American issuers remain active participants in the Australian primary market. During 2015, Canadian issuers grew their AUD footprint, with total volume outstanding growing from A$6.3 billion at the end of 2014 to over A$10 billion. Royal Bank of Canada raised A$2.3 billion in the Australian bond market this year compared to A$1.25 billion in the prior year. Toronto-Dominion Bank followed up its inaugural Kangaroo Covered bond trade last year with its debut A$650 million three year Senior Unsecured benchmark. Both Bank of Nova Scotia and Canadian Imperial Bank of Commerce returned to the Kangaroo market to raise a total of A$900 million in covered bonds between them, with neither having printed an AUD transaction in 2014.

Conversely, many US banks took pause from the Australian market to focus on the outcome of Total Loss Absorption Capital ("TLAC") standards and assess how the structure of their funding is positioned going forward. There were exceptions however, with Goldman Sachs Group Inc. returning to the market with a five year benchmark trade. Bank of America priced an inaugural AUD trade via its local branch (Bank of America N.A., acting through its Australian Branch), which qualified the bonds as "Domestic MTNs", hence making them RBA repo-eligible and attracting bank balance sheet interest.

In line with last year, the low rate environment has again encouraged yield-seeking investors to extend the duration of their portfolio. JP Morgan Chase & Co and Toronto-Dominion Bank in particular targeted this investor base to successfully establish 10.5 and 10 year transactions, respectively.

NAB continues to be considered the top Australian DCM house and partner of choice for financial issuers, which has been demonstrated by its leading position on the league table in this sector.

Northern Hemisphere Asset Backed Market – paving the way

2015 is the year in which the major securitisation markets played catchup with the Australian securitisation market. While total ABS and RMBS issuance in Australia did not reach the post-crisis high seen in 2014, the market supported a strong cross section of issuers offering investors diversity in both issuers and credit profiles.

One of NAB's biggest offshore successes this year was the ability to price a new non-conforming RMBS tranche in USD at an all-time tight level, reinforcing our commitment to investor engagement. This focus has ensured NAB is the top Australian bank offshore when it comes to execution and secondary support for Australian ABS and RMBS issuers.

Looking to the year ahead, expectations are of more of the same, with a strong pipeline of activity from a variety of issuers.

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Notes

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