Australian Investment Strategy

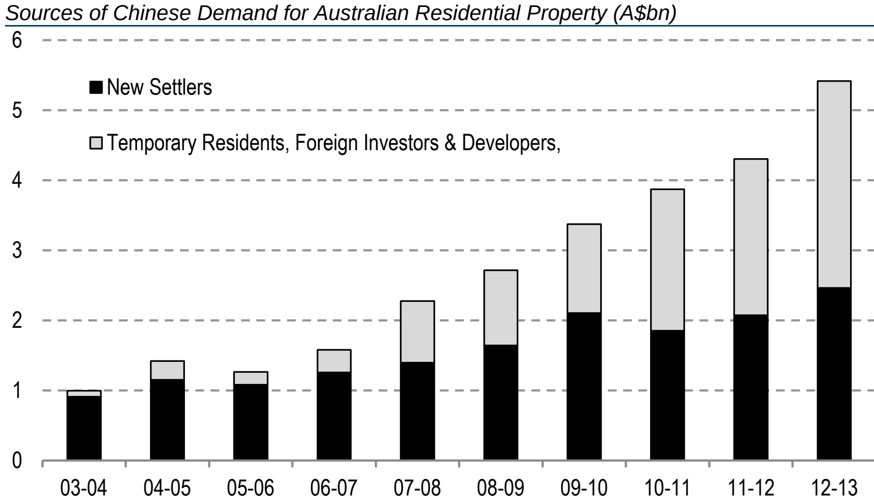
Research Analysts
Hasan Tevfik ,CFA
61 2 8205 4284
hasan.tevfik@credit-suisse.com
Damien Boey
61 2 8205 4615
damien.boey@credit-suisse.com

ECONOMICS AND STRATEGY

The Chinese Property Boom Down Under

- **An appetite for Aussie property**: The Chinese are currently purchasing more than $5bn of Australian residential property per annum. This accounts for 12% of new housing supply. They are concentrating their buying and acquiring 18% of new supply in Sydney and 14% in Melbourne. While Australia has some of the most unaffordable housing in the world, further strong Chinese demand can push prices even higher.
- **China is getting richer**: There are currently 1.1mn Chinese that can easily afford to buy an apartment in Sydney. We estimate the number will rise by 30% by 2020. This should support a further $44bn of Australian residential property purchases over the next seven years. They purchased $24bn over the past seven. As long as Australia remains open for business, our companies should also benefit from the *next* stage China's economic development.
- **Stocks**: Stocks that should continue to gain from this longer-term theme include the developers, building material companies, property websites and banks. We don't discount the possibility of a Chinese entity taking over one of these companies. Our portfolio is already long Mirvac, CSR and National Australia Bank; we now add Fairfax.

Figure 1: **The Chinese want to buy your house**
Sources of Chinese Demand for Australian Residential Property (A$bn)



Source: Foreign Investment Review Board, Australian Department of Immigration, Australian Bureau of Statistics, Credit Suisse estimates

The Chinese Property Boom Down Under

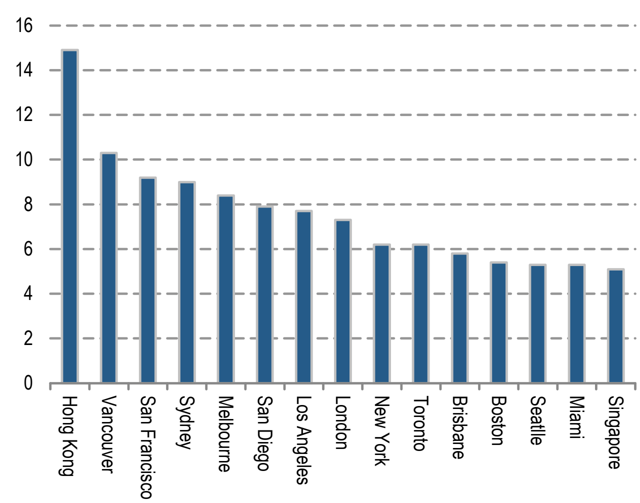
Australia has one of the most expensive property markets in the world. While there have been many drivers of higher house prices, one is being singled out more than any other at the moment — the Chinese. In this report we attempt to provide evidence of the extent of Chinese buying Australian property. Our analysis suggests they are currently pouring in more than $5bn into our residential property market per year. This accounts for 12% of new supply. The Chinese are clearly concentrating their buying in Sydney and Melbourne where they are purchasing 18% and 14% of new housing supply, respectively.

We forecast Chinese buying power will increase as the economy develops and the population becomes wealthier. They purchased $24bn of Australian housing over the past seven years; we forecast they will purchase $44bn over the next seven, to 2020. Local companies were major beneficiaries of the early stage of Chinese economic development. As long as Australia remains open for business, we expect our companies should also benefit from the next stage. Stocks that should continue to gain from this longer-term theme include the developers, building material companies, banks and property websites. We don't discount the possibility of a Chinese entity taking over one of these companies. Our portfolio is already long Mirvac, CSR and National Australia Bank; we now add Fairfax.

The Dragon Discovers the Quarter Acre Dream

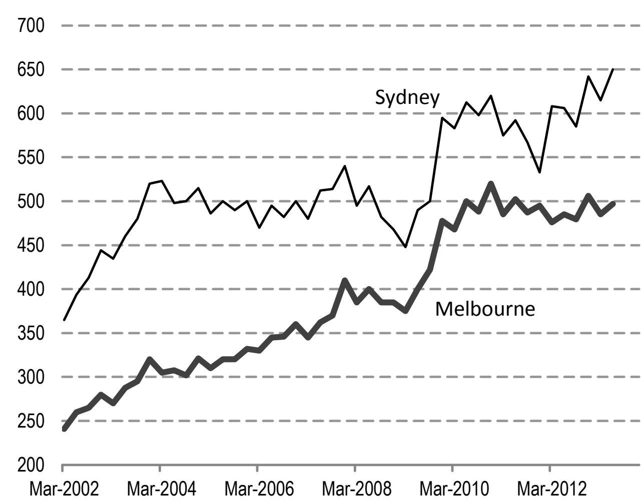
Australia has some of the most expensive property in the world. House price to income ratios rank Sydney and Melbourne four and five amongst the most expensive big cities in the world, surveyed by Demographia (Figure 2). The median house price has risen in both cities by 45% and 33%, respectively, since financial crisis lows (Figure 3). Incomes are up just 18% and 25%. A generation of Australians are being priced out of the property market. Many face a life time of renting. Others are considering a move to the cheaper city fringes, areas which are notorious for their considerable infrastructure deficit.

Figure 2: **The Aussie east coast is expensive**
Highest House Price to Income Ratio. Cities More than 2m People*



** Income per adult. Source: Demographia Int. Housing Survey*

Figure 3: **Sydney & Melbourne home owners are happy**
Median Established House Price in Sydney and Melbourne ($000)



Source: Australian Bureau of Statistics

Chinese buyers are often cited as a reason for unaffordable housing in Australia. The Australian media has been lit up with emotive reports of how the Chinese are pushing up prices to stratospheric levels. Data outlining the magnitude of flows into Australian property from China is difficult to gather. Below we have pieced together information from a number of sources including the Australian Foreign Investment Review Board (FIRB), Australian Department of Immigration (ADI) and Australian Bureau of Statistics (ABS) to provide a credible estimate of how much Chinese money is being invested in Australian residential property. Our assumptions are in Appendix 1.

Paths to the Quarter Acre Dream

Chinese money enters the Australian property market via four legal and observable routes.

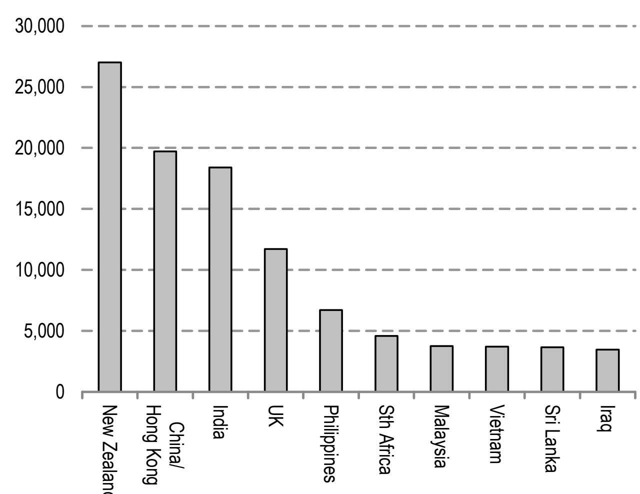
First, a Chinese citizen, who resides outside of Australia or is a temporary resident in Australia, buys a new dwelling. Often this purchase is off-the-plan. She, or the developer of the property, needs FIRB approval of the purchase/sale. There is no limit to the number of new dwellings that she can buy and we know that Aussie banks are happy lending to these buyers. They generally apply a loan to valuation cap of 80% to foreign residents and apply a 25% reduction to income when assessing the potential size of the loan.

Second, a Chinese citizen who resides in Australia on a temporary basis buys an established house to live in. Current rules allow for only one dwelling to be purchased. This is where we can capture the activity of the Significant Investor Visa (SIV) holders. The SIV was introduced in 2012 and allows high-net-worth individuals, and their families, to temporarily reside in Australia as long as they commit $5mn to approved Australian assets. This amount does not include their house. They can become permanent residents after four years or extend their temporary status. There have been 65 SIVs granted in 2013, 59 of which have been to Chinese citizens.

Third, a Chinese citizen, who resides outside of Australia or is a temporary resident, buys residential property for redevelopment. This buyer needs to ask the FIRB for approval which is usually provided as long as she will increase the Australian housing stock. The development should be at least two new dwellings for each one she is acquiring. Our discussions with real estate agents dealing on behalf of the Chinese suggest many of the smaller projects are done with little or no debt. Developers are looking for an asset to provide a positive real return and escape the repression of negative real yields in Chinese deposits.

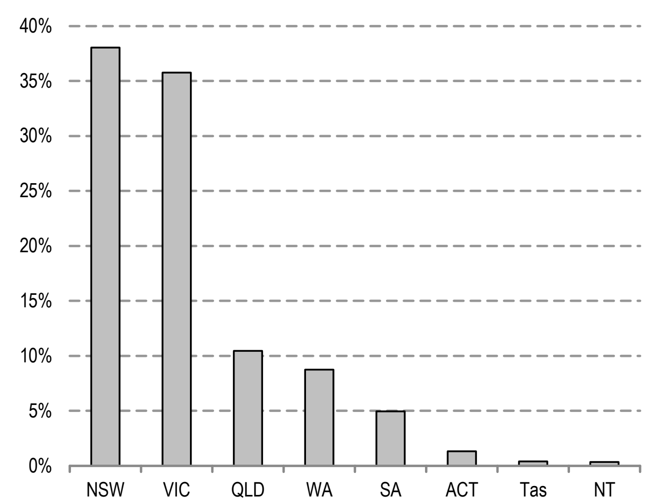
Fourth, a recent Chinese settler in Australia can buy property for investment or residential purposes. This buyer does not need approval to buy property as he is a permanent resident. To estimate this source of flows we employed data from the Australian Department of Immigration (ADI). In 2012–13 financial year there were 152,000 people permanently settling in Australia and almost 20 thousand (13%) were from either China or Hong Kong (Figure 4). Three-quarters of these immigrants settled in either NSW or Victoria and the ADI notes that most were in the capital cities of Sydney and Melbourne.

Figure 4: Chinese are 2nd biggest group of immigrants
Australian Settlers by Country of Origin 2012-13



Source: Australian Department of Immigration, Credit Suisse

Figure 5: Chinese love the east coast
Proportion of Chinese/Hong Kong Settlers by State of Settlement



Source: Australian Department of Immigration, Credit Suisse

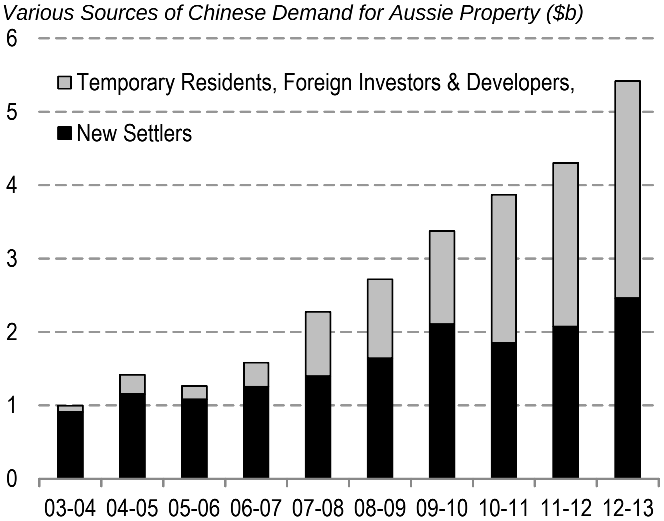
In addition to these observable flows, there are others we cannot accurately measure. For example, if a Chinese resident uses an Australian-based family member, friend or solicitor to buy property with their own money. Or when an Australian citizen sells her apartment in

Shanghai and switches into a Melbourne Docklands flat. While this is still money entering Australia from China, we are not able to measure it. For this reason, we believe our calculations may understate the potential Chinese flows into Aussie property.

Size of the flows

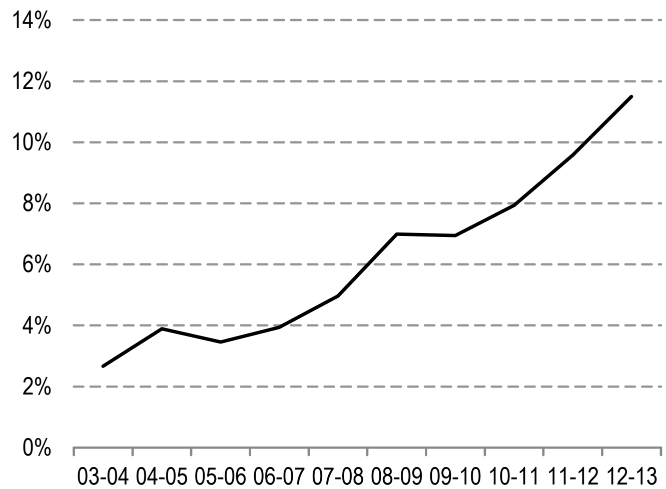
In Figure 6 we illustrate the demand for Australian property. In aggregate the Chinese are currently committing $5.4bn per year to Australian residential property. The flows are now evenly split between settlers and others. In previous years the biggest flows were from new Chinese settlers. The current value of total purchases is equivalent to 12% of the value of Australian building approvals. While significant, this amount is probably not enough by itself to significantly drive up property prices across Australia. However, it is clear the Chinese are concentrating their purchases.

Figure 6: Chinese demand for Aussie property
Various Sources of Chinese Demand for Aussie Property ($b)



Source: FIRB, ADI, ABS, Credit Suisse estimates

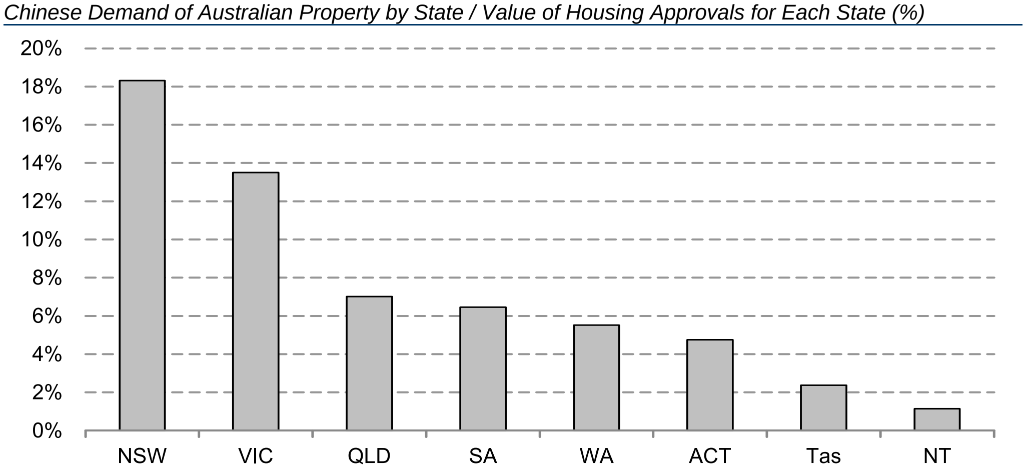
Figure 7: Chinese buying 12% of new housing supply
Value of Chinese Demand / Value of Aust. Housing Approvals (%)



Source: FIRB, ADI, ABS, Credit Suisse estimates

In Figure 7 we calculate the Chinese are buying 18% of new dwelling supply in NSW and 14% in Victoria. We can calculate this as the FIRB provides a breakdown of investment approvals by state and the Australian Department of Immigrations provides details of where immigrants settle. While the Chinese may not be a major player in the *national* housing market, they are clearly a much more powerful force in *Sydney* and *Melbourne*.

Figure 8: Chinese purchasing more than 18% of new supply in Sydney
Chinese Demand of Australian Property by State / Value of Housing Approvals for Each State (%)



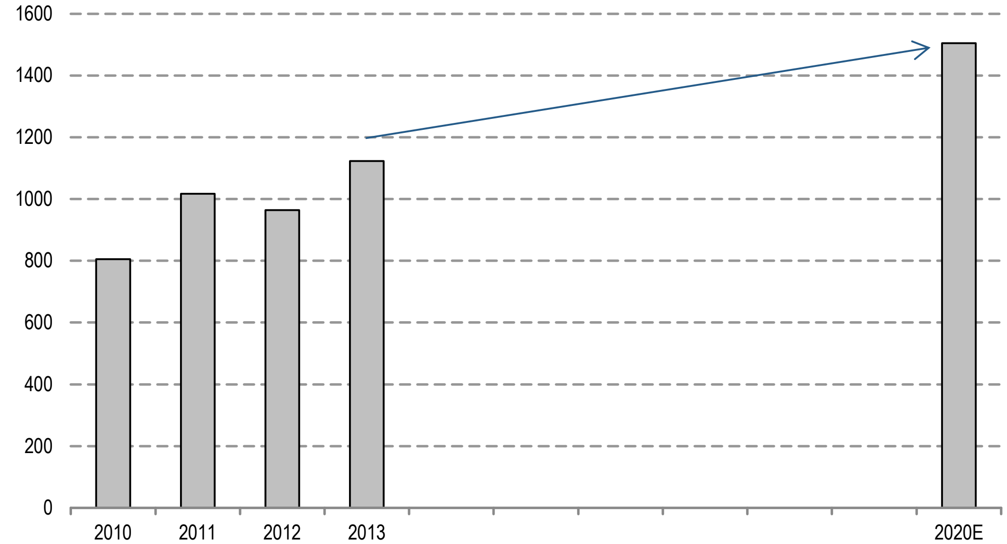
Source: FIRB, ADI, ABS, Credit Suisse estimates

Still More Money to Come

We believe these flows are likely to grow. The combination of rising income levels, lower capital barriers and further ease of doing an international property transaction should ensure there will be even more demand from the Chinese in the years ahead. We can estimate the potential growth in demand by forecasting the number of Chinese that can afford to buy a Sydney apartment.

Figure 9: More than a million millionaires in China right now

Number of Chinese Adults with more than 1m USD in Net Wealth Including Forecast ('000)



Source: Credit Suisse Global Wealth Databook, Credit Suisse estimates

There are currently 1.1mn US-dollar millionaires in China, according to the ***Credit Suisse Global Wealth Report***. These individuals can easily afford to buy an apartment in say Chatswood — an upper-middle class area of Sydney renowned to be popular with the Chinese. The median apartment in Chatswood currently sells for $700,000 and has risen by 15% over the past 12 months. If we assume growth in the number of Chinese millionaires slows to 5% p.a. for the next seven years, down from 12% over the past three, then there will be more than 1.5mn wealthy individuals by 2020 or 30% more than current. The IMF forecasts nominal GDP in China will double over the same period. This additional demand should support a further $44bn of Australian residential property purchases over the next seven years. They purchased $24bn over the past seven.

The Global Property Investor Based in China

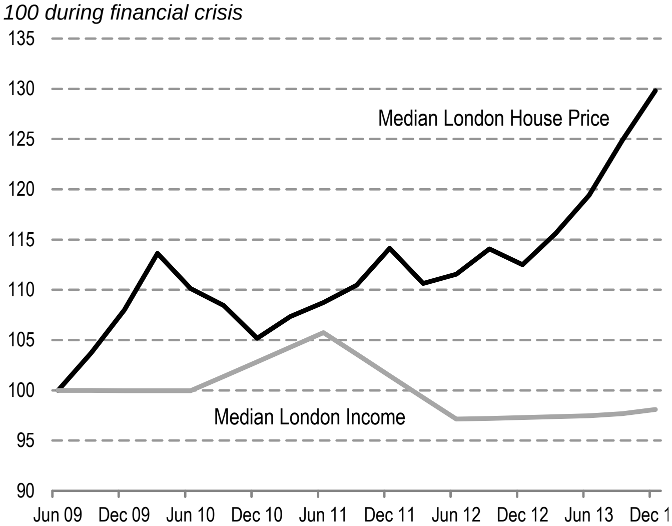
While Sydney and Melbourne are proving to be popular destinations for Chinese property buyers, they are not the only ones. Chinese investors are also big buyers of property in other cities around the world. There has been a fast growing web-industry to service these new global property investors. Even REA Group in Australia is developing a portal for Chinese investors. The most popular website for the Chinese buying international property is junwai.com. In addition to Sydney and Melbourne junwai.com notes that New York, Los Angeles, Vancouver and London are some of the most popular cities for Chinese buyers.

So Sydney apartments are now being compared to those on the other side of the world. We can only imagine that when the British pound depreciates the Chinese will focus less on Sydney property and more on London. Perhaps the recent decision by the Canadian government to end its version of the Significant Investors Visa (which was also exceptionally popular with the Chinese) will redirect demand to Australia — Hong Kong's 2012 introduction of a 15% stamp duty for non-local buyers would have. The marginal buyer of Sydney and Melbourne real-estate has changed, as have the drivers of property prices.

The emergence of the global property investor means that valuation methods like house price to local income ratios are becoming obsolete. Residents of central London have known this for some time (Figure 10). Many of which are well paid investment bankers but are still struggling to buy in the Capital where many of the owners are wealthy individuals from the Middle-East, North Africa and other parts of Europe. While the differences in recent house price and wage inflation in Sydney has not been as extreme as London just yet (Figure 11), we think the two cities have plenty in common. In both cities property rights are protected. Both cities are in transparent democracies and within an overnight flight away from less democratic countries with less transparent governments. And both the UK and Australia have their borders open to new immigrants, especially if they are rich.

Figure 10: London incomes down, houses up

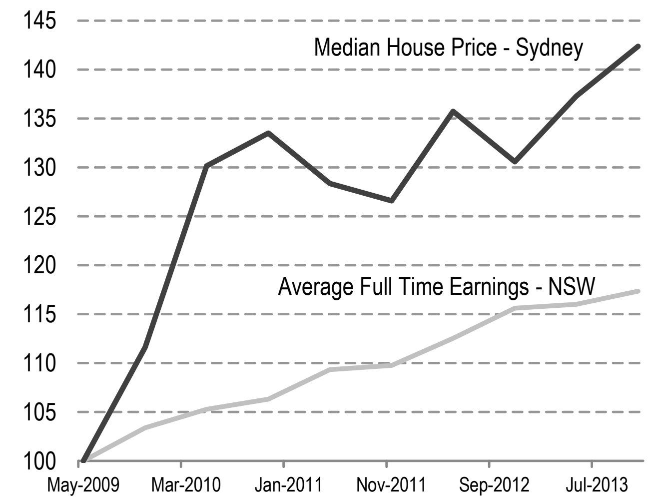
Median London House Prices vs Median London Incomes Rebased to 100 during financial crisis



Source: Halifax, Bank of England, Credit Suisse

Figure 11: Sydney incomes up, houses up more

Median Sydney House Price vs Average Adult Full-time Earnings in NSW. Rebased to 100 during financial crisis



Source: ABS, Credit Suisse estimates

Chinese Property Buyers and Aussie Stocks

Australian companies have clearly benefitted from China's first stage of development which involved rising commodity intensity. As long as Australia remains open for business we believe companies should benefit from the next stage of Chinese development which involves greater external investment. With the help of our Australian research team we highlight stocks which should continue to gain from the theme of Chinese buying Australian property (Figure 12). The obvious beneficiaries are the Australian developers with large residential exposure. Australand and Mirvac have noted that foreigners (primarily Chinese) are buying 10%–20% of new supply. Meriton (unlisted) has stated foreigners (mostly Chinese) are buying 12%–15% of its apartments. We don't discount the possibility of a Chinese entity taking over an Australian developer.

Other companies to benefit should include those in the building materials sector like CSR, Boral and Adelaide Brighton. Residential exposure for these companies is between 25%–60%. Also property website owners like Fairfax and REA Group should gain as housing transactions remain solid and house prices are supported. The latter is beginning to tap into the Chinese buyer directly. Rising **property transactions should support DIY retailers** like Bunnings (Wesfarmers) and Masters (Woolworths). The banks should be positively affected by this theme as house prices continue to rise and the Chinese provide a new, albeit marginal, source of mortgage demand.

Figure 12: Investment ideas for the Chinese property boom Down Under

Companies exposed to further Chinese residential investment in Australia

Company	Mkt Cap ($bn)	Comment
Developers		***Currently 10%–20% of residential sales going to foreigners, primarily Chinese***
Stockland	9.0	16% of operating profits from residential development.
Lend Lease	6.7	17% of EBITDA from residential development. Building high profile project Barangaroo.
Mirvac Group	6.4	23% of EBIT from residential development. Additional residential inventory.
Australand	2.2	31% of EBIT from residential development.
Building Materials		***Currently 25%–60% residential exposure***
Boral	4.3	35% of revenue from residential
Adelaide Brighton	2.7	24% of revenue from residential
CSR	1.6	60% of revenue from residential, $70m residential land-bank.
Property Websites		***Rising transaction volumes, direct business from China***
REA Group	6.5	Owns #1 property website in Australia. 80% market share and makes up +90% of group value.
Fairfax Media	2.2	Owns #2 property website in Australia. 20% market share and makes up half of group value.
DIY		***Pick up in residential transactions positive for DIY retailers***
Wesfarmers	48.9	DIY retailer Bunnings makes up 26% of EBIT.
Woolworths	45.9	DIY retailer Masters is currently loss making but being restructured.
Major Banks		***Supported by rising house prices. Chinese provide a marginal new source of mortgage demand***
Unlisted		
Dulux	2.0	Premium paints producer
GWA Group	0.9	Bathrooms and kitchens supplier

Source: Company data, Credit Suisse estimates

We already own Mirvac, CSR and National Australia Bank in our Long Portfolio. Today we add Fairfax Media as well. The company generates double-digit FCF margins and trades on almost an 8% FCF yield. This provides plenty of scope for dividend increases. Fraser McLeish and Lucas Goode **note the core business is stabilising and believe a partial IPO of Domain will be a significant catalyst**.

Strategy Outlook

The Chinese are currently pouring in more than $5bn into Australian residential property per year and are buying 12% of all new supply. We believe this demand will only increase as the Chinese become wealthier and the links between the two countries become even stronger. We forecast $44bn of Chinese property purchases over the next seven years to 2020. There was $24bn in the past seven years. While Australian companies were major beneficiaries of the early stage of Chinese economic development which involved rising commodity intensity, it seems our companies could also be beneficiaries of the next phase which involves more external investment. Australian residential property, especially in Sydney and Melbourne, are likely to remain expensive on price to local earnings measures. However, in the new world of the Global Property Investor, these valuation measures are now obsolete. Companies we believe should benefit as Chinese demand continues to grow include Mirvac, CSR, National Australia Bank and Fairfax.

Appendix 1 – Assumptions

As we highlight above, there are four forms of Chinese investment into Australian residential property. For three of these we employ data from the Foreign Investment Review Board (FIRB). In its annual report, which comes out eight to nine months after financial year-end, the FIRB details the number and value of investment approvals for property. It does this for both residential and commercial. Within residential it provides a further breakdown by established dwellings, new build and redevelopment.

In 2012–13 Chinese investors received approval to buy $5.9bn worth of Australian property but the FIRB does not provide the residential/commercial split. It notes "the Treasury is mindful of the need to protect commercially sensitive information and the privacy of applicants". We assume two-thirds is residential. We concede this is higher than the average for investors from all countries. But there is at least one clue to suggest the residential mix is considerably higher for the Chinese buyer. The average value of investment approval for China is the lowest of all countries. This suggests a large number of residential purchases, not commercial property or other assets which are transacted at much higher dollar amounts. In fact the average value of investment approval is low for almost all Asian-based investors. It seems that the biggest residential investors are our neighbours. It seems that investors from further afield are buyers of commercial property or other assets.

We assume the Chinese investor only takes up two-thirds of the value of their approval. We believe this is conservative; if an investor goes through the trouble of getting approval, she is highly likely to transact. If the transaction does not take place the investor will withdraw the proposal. This is not counted in the FIRB data. It takes about 40 days to be notified of an approval from the date of submission.

The FIRB also provides residential investor approvals by state. As of 2012–13 about 38% of approvals were for property in NSW, 40% in Victoria and 13% in Queensland. Again the FIRB does not provide the value of state approvals by country of investor. We assume the Chinese invest in line with all other foreigners.

The Australian Department of Immigration (ADI) provides details of the number of new permanent residents, countries they are from and which state they settle in. This detail helps us estimate housing demand from new immigrants. We are only interested in the permanent settlers as the temporary arrivals (students, temporary workers and those on working holidays) will need to apply for FIRB approval to buy a property.

We assume two-thirds of permanent Chinese settlers buy a house in their first year of arrival and the remainder rent for the rest of their lives. We assume only one property is purchased and there are three people per household. The national average is 2.5. Furthermore, we assume that the purchase price is the median for the state they settle in. We believe this is conservative as most immigrants settle in the capital cities where property prices are higher.

Through all our analysis of Chinese buyers we add those from Hong Kong as well. Investor demand from Hong Kong is relatively small. For example, there were 18,000 permanent settlers from the mainland in 2012–13 and only 1,600 from Hong Kong.

Companies Mentioned *(Price as of 04-Mar-2014)*

Adelaide Brighton (ABC.AX, A$4.19)
Australand (ALZ.AX, A$3.92)
Boral (BLD.AX, A$5.66)
CSR (CSR.AX, A$3.1)
Dulux Group (DLX.AX, A$5.42)
Fairfax Media (FXJ.AX, A$0.94)
GWA GROUP Limited (GWA.AX, A$2.95)
Lend Lease (LLC.AX, A$11.0)
Mirvac Group (MGR.AX, A$1.75)
National Australia Bank (NAB.AX, A$34.78)
REA Group (REA.AX, A$49.73)
Stockland (SGP.AX, A$3.92)
Wesfarmers (WES.AX, A$42.8)
Woolworths (WOW.AX, A$35.95)

Disclosure Appendix

Important Global Disclosures

I, Hasan Tevfik ,CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark*over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	43%	(53% banking clients)
Neutral/Hold*	40%	(49% banking clients)
Underperform/Sell*	15%	(43% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: http://www.csfb.com/research and analytics/disclaimer/managing_conflicts_disclaimer.html

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

Please refer to the firm's disclosure website at https://rave.credit-suisse.com/disclosures for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

The subject company (FXJ.AX, CSR.AX, WOW.AX, ABC.AX, NAB.AX, BLD.AX, DLX.AX) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (WOW.AX, NAB.AX) within the past 12 months.

Credit Suisse provided non-investment banking services to the subject company (ABC.AX, NAB.AX, BLD.AX) within the past 12 months

Credit Suisse has managed or co-managed a public offering of securities for the subject company (NAB.AX) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (WOW.AX, NAB.AX) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FXJ.AX, WES.AX, CSR.AX, WOW.AX, ABC.AX, REA.AX, NAB.AX, BLD.AX, DLX.AX) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (ABC.AX, NAB.AX, BLD.AX) within the past 12 months

As of the end of the preceding month, Credit Suisse beneficially own 1% or more of a class of common equity securities of (CSR.AX, SGP.AX, BLD.AX).

Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (FXJ.AX, WES.AX, ALZ.AX, CSR.AX, WOW.AX, MGR.AX, ABC.AX, SGP.AX, LLC.AX, REA.AX, NAB.AX, BLD.AX) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

Credit Suisse has acted as lead manager or syndicate member in a public offering of securities for the subject company (NAB.AX) within the past 3 years.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the

NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Credit Suisse Equities (Australia) Limited.. Hasan Tevfik ,CFA ; Damien Boey

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at https://rave.credit-suisse.com/disclosures or call +1 (877) 291-2683.

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: https://www.credit-suisse.com/who_we_are/en/This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, having registered address at 990 Abdulrahim Place, 27 Floor, Unit 2701, Rama IV Road, Silom, Bangrak, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.