

# ASU

## AUSTRALIAN SECURITISATION JOURNAL

Incorporating Australian  
Securitisation & Covered Bonds

>> Issue 01 • 2012

# Australia's *advance*

How the best-performing securitised  
product in the world strives towards  
global investor re-engagement





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## 2 FOREWORD

**The Hon. Wayne Swan MP**

Deputy Prime Minister and Treasurer of Australia

## 4 WELCOME

**Chris Dalton**

CEO, Australian Securitisation Forum

## 6 REFORM REVIEW

**Clayton Utz and Westpac**

**Institutional Bank** investigate whether government reforms have delivered on their intentions.

## 8 MARKET UPDATE

Challenging times: issuer perspectives on the Australian securitisation market late in 2011.

## 18 AOFM Q&A

The Australian Office of Financial Management's

director, financial risk, **Michael Bath**, reviews the agency's involvement in the securitisation market.

## 20 COVERED BONDS

With the passing of legislation allowing Australian banks to issue covered bonds in mid-October 2011, **Natixis** shares some insights on the implications.

## 26 MARKET OUTLOOK

**National Australia Bank's** securitisation team talks about the market's likely key drivers into the future.

## 32 ASF INSIGHTS

The ASF looks at how the Australian market has reacted to challenges in the wake of the first phase of the financial crisis and the threat of a second phase.

## 36 DELINQUENCIES

Australian mortgage delinquency report: mortgage arrears rates have increased, but the three major rating agencies say the impact on securitisation will be limited.

## 38 ASSET QUALITY

**Laminar Advisory** looks at the lending and regulatory environment supporting Australian RMBS performance.

## 40 ISSUER PROFILES

40 ALE Property Group

41 AMP Bank

43 Bank of Queensland

44 Bankwest

45 Capital Finance Australia

46 Citi Australia

47 Commonwealth Bank of Australia

48 Community CPS Australia

49 FirstMac

50 FleetPartners

51 FlexiGroup

52 Heritage Building Society

53 IMB

54 ING Bank Australia

55 Investec Bank Australia

56 Liberty Financial

57 Macquarie Group

59 ME Bank

60 MyState Financial

61 National Australia Bank

62 People's Choice Credit Union

63 Pepper

64 Police & Nurses Credit Society

65 Resimac

66 Suncorp Bank

67 Westpac Banking Corporation

68 Wide Bay Australia

# CANBERRA

SEPTEMBER 21 2011

It's fantastic to have the opportunity again this year to launch the Australian Securitisation Forum's annual magazine – it's such a great publication for all issuers, investors and other players in this critical funding market.

In December last year, I announced that the Gillard government would invest a further A\$4 billion in high-quality, triple-A rated residential mortgage-backed securities (RMBS), in addition to our existing A\$16 billion investment which has been stunningly successful in helping the Australian RMBS market again become a cheaper, more competitive source of funding for smaller lenders.

As anyone reading this publication well knows, investors globally lost confidence in the RMBS market during the global financial crisis – despite the securities issued by Australian lenders being backed by very safe loans – largely due to a reduction in liquidity and a contagion effect from the very poor credit quality of subprime loans being used to back these securities in the US.

The Australian Office of Financial Management (AOFM) investment programme has given private investors the confidence to invest increasing amounts of their own money in our domestic market, which is helping smaller lenders to continue lending at competitive interest rates and keep more market share than would otherwise be possible.

Right through the middle of the continued volatility in global capital markets, the government's investment programme has helped our RMBS market remain open for business.

*«It's great to see private investors have for some time accounted for a majority stake of overall market activity in RMBS.»*

As at September 21 2011, the AOFM has provided A\$13.6 billion in funding to 20 lenders including regional banks, building societies, credit unions and other institutions through 51 transactions since late 2008.

It's great to see private investors have for some time accounted for a majority stake of overall market activity in RMBS, having increased from around 20 per cent of total activity at the start of the government's RMBS investment programme in late 2008 to more than 80 per cent in 2011.

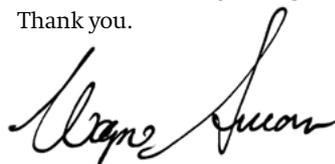
In addition, the government continues to work on ways to make the RMBS market more sustainable and diverse for smaller lenders in the years to come. In December last year, I tasked the Treasury to accelerate its work on promoting smaller lender issuance of alternative-style RMBS 'bullet securities'. The Treasury is making good progress in working with the industry and our regulators to develop the market for smaller lender bullet RMBS.

On top of all this, I recently introduced a bill into Parliament to allow Australian banks, credit unions and building societies to issue covered bonds. This is a critical economic reform to strengthen and diversify the Australian financial system's access to cheaper, more stable and longer-term funding in domestic and offshore wholesale capital markets. Treasury estimates this will allow Australian institutions to issue some A\$130 billion of covered bonds in coming years.

It has been enormously important to have the support of the Australian Securitisation Forum throughout this whole process – and I thank them sincerely for all of their hard work.

With that, I'll leave you to get on with reading this excellent journal.

Thank you.



**THE HON. WAYNE SWAN MP**  
DEPUTY PRIME MINISTER AND TREASURER OF AUSTRALIA



# From STRENGTH *to* STRENGTH



RESIMAC is a non-bank lender with a 26 year history as a loan servicer and securitiser of residential and commercial mortgage loans. A pioneer of residential mortgage backed securities (RMBS), RESIMAC has issued over 20 domestic and international RMBS issues, demonstrating an enduring presence as a leading non-bank issuer in Australia.

Four years after the disruption of global funding markets, the RESIMAC business is stronger and more diversified than ever. With committed shareholders, a Board and senior management team possessing a strong governance regime, support from our institutional investors, banking partners and the Australian Government, RESIMAC has been able to respond to changing market conditions.

RESIMAC has embraced regulatory and ratings agency changes; many of the proposals fitting well with RESIMAC's own conservative philosophies and low risk standards. A testament to this is Standard and Poor's assigning a 'STRONG' ranking to RESIMAC's servicing capabilities for both prime and non-conforming mortgages.

This year RESIMAC marked an important development in the Australian securitisation market when it priced a A\$250 million offering of non-conforming RMBS. This was RESIMAC's inaugural transaction in this space and only the second non-conforming public issue since the crisis. The transaction will be the first of many in this asset class for RESIMAC and has secured term capital markets funding support for its non-conforming business, which has become a core part of RESIMAC's overall product offering since launch in late 2007.

RESIMAC continues to be closely aligned to the term capital markets and believes that securitisation is a viable funding source for quality issuers with well-structured programs and strong underlying asset performance.

# WELCOME

**W**elcome to the first edition of the *Australian Securitisation Journal (ASJ)*. The ASJ is the official journal of the Australian Securitisation Forum (ASF). It is intended that the ASJ will be produced on a semi-annual basis and will focus on developments and issues pertaining to the Australian securitisation and covered bond markets. The ASJ will be directed by the new ASF Communications Subcommittee.

In reflecting on the year, 2011 has been a tale of two halves for the Australian securitisation market. The first six months witnessed a growing mood of cautious optimism that the Australian securitisation market was finding its feet after the impact of the 2008 financial crisis. However the re-emergence of financial market dislocation, particularly in Europe in the third quarter, dented that optimism and more challenging market conditions characterised the final part of 2011. Nonetheless the market was buoyed by an increased number of issuers of residential mortgage-backed securities (RMBS) and asset-backed securities (ABS) during 2011, including some who had been absent from the market for a period. The market also witnessed a number of large bank RMBS programmes including a A\$3 billion issue by Medallion, Commonwealth Bank of Australia's securitisation vehicle. Another encouraging trend was a number of issues including non-AUD tranches including yen, USD and sterling. A challenge for the Australian securitisation market continues to be attracting global investors to invest in Australian securitisation.

A notable milestone in the development of Australia's financial market was achieved with the legislation to allow Australian banks and credit institutions to issue covered bonds introduced into parliament in September. The ASF believes the approach taken by the government strikes the right balance in providing a clear and flexible legislative framework for the issue of covered bonds by either a specific institution or through an aggregated structure. The ASF plans to work with the industry on disclosure and reporting standards as issues come to market in 2012.

In pursuit of its primary objectives the ASF has had a productive year in 2011 promoting, representing and developing the Australian securitisation market. We have made a number of submissions to domestic and international regulators and policymakers, and held a number of investor seminars in London, Singapore and Hong Kong. We have continued our work on new market standards for Australian RMBS and ABS as well as developed new educational courses for the market. A new ASF Australian Covered Bond course has been constructed and will be offered throughout 2012. Also, the new ASF Applied Securitisation course is scheduled to be held in Melbourne and Sydney throughout 2012. The ASF is also pleased to have revamped its website in 2011 and hopes that it provides an easier and comprehensive tool for market participants to stay abreast of the work of the ASF and provides a comprehensive repository of information for the industry.

Finally I would like to thank the ASF chairman and the National Committee for their contribution and support to the work of the ASF executive team. The ASF also greatly appreciates and has benefited from the contribution made by its members who have provided their time, resources or facilities to support the work of the ASF.

As we end 2011 there is a number of positive developments to acknowledge but more progress has to be made to have the Australian securitisation market back on a sustainable and vibrant part of Australia's financial markets.



*Chris Dalton*

**CHRIS DALTON**  
CEO, AUSTRALIAN SECURITISATION FORUM



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# SECURITISATION REFORMS A GOOD FIRST STEP

*Clayton Utz and Westpac Institutional Bank investigate whether government reforms have delivered on their intentions.*

In December 2010, the Australian government announced a package of reforms aimed at increasing competition in the Australian banking sector. The proposed reforms included measures to improve funding options for Australian authorised deposit-taking institutions (ADIs) by allowing covered bonds. They also featured plans to support ADIs outside the big four, and thus bank competition, by permanently continuing the financial claims scheme, allocating a further A\$4 billion (US\$3.9 billion) to the Australian Office of Financial Management (AOFM)'s programme of investment in residential mortgage-backed securities (RMBS) issued by smaller ADIs, and accelerating the development of a bullet RMBS market for smaller lenders in order to increase investor demand.

These initiatives were generally welcomed by the securitisation industry. It saw them as providing a boost not only to smaller ADIs, who have traditionally placed heavy reliance on securitisation as a source of wholesale funding, but also to larger ADIs – who are active participants in the securitisation market as issuers, arrangers, investors and third party service providers to smaller ADIs as well as being potential covered bond issuers. However, nearly a year on, how have the reforms fared and have they delivered what was promised?

## AOFM PROGRAMME AND BULLET RMBS

Since the start of this year the smaller ADIs have issued approximately A\$6.4 billion of RMBS, with the AOFM only investing in A\$1.1 billion of total issuance. This relatively quiet market seems to indicate that the increase in the AOFM programme limit may not, in itself, provide a sufficient incentive to smaller ADIs to fund through securitisation.

Other initiatives that the government could pursue with more 'bang for its buck' include relaxing the AOFM's current triple-A investment mandate to allow the agency to

invest in subordinated tranches issued by smaller ADIs. In addition, other than AOFM support for various bilateral bullet redemptions and scheduled amortisation RMBS issuances, there seem to be no clear government guidelines to facilitate other types of structural bullet redemptions – such as bullets facilitated by master trust structures.

## COVERED BONDS

On October 17, legislation came into effect allowing ADIs to issue covered bonds, under either a single seller or an aggregation structure. Most of the details of the aggregation structure have been left to regulation which is yet to be released.

While the bigger Australian banks should be highly enough rated to issue triple-A bonds under the single seller structure, it is generally expected that the rating of the smaller ADIs, and their balance sheets and asset growth rates, will require them to issue under the aggregation structure to achieve a triple-A rated product.

Whether this will increase competition depends on whether investors prefer covered bond issuance under an aggregation or single seller structure. Investor feedback to date suggests that single seller issuance is likely to be more attractive than issuance under an aggregation structure. It will be interesting to see whether the regulations will assuage investor concerns with the aggregation structure. This will be critical to the ability of smaller ADIs to access the covered bond market.

## CONCERNS ON THE HORIZON

The importance of giving smaller ADIs access to covered bond funding to support their competitiveness is underscored by various regulatory developments since late 2010, which could make securitised instruments less attractive for both issuers and investors. These developments suggest that smaller ADIs could be placed at a competitive disadvantage to the larger ADIs if they are unable to issue covered bonds.

The developments include:

### ◆ 1,250 PER CENT RISK-WEIGHTING

Currently, ADIs are required to deduct certain unrated and non-investment grade securitisation exposures from regulatory capital (50 per cent from tier one capital and 50 per cent from tier two capital). However, the Australian Prudential Regulation Authority (APRA) has confirmed that under its implementation of Basel III, ADIs will be required to apply 1,250 per cent risk weighting to these exposures, resulting in significantly higher capital requirements (possibly 40-100 per cent).

Although ADI issuers are already exposed to harsh regulatory capital consequences if they retain subordinated RMBS issued under their programmes, these consequences would seem to be even more punitive under Basel III. APRA

has also indicated that certain deductions for securitisation transactions currently made from tier one capital generally – including unpaid gains on sale, funds lent to establish reserve accounts, overpayment for assets and capital expenses – will now be deducted from common equity tier one capital.

The combined effects of these higher capital requirements may affect the appetite of ADIs to provide unrated or non-investment grade securitisation facilities.

#### ◆ COLLATERAL HAIRCUTS

Under APRA's current prudential standards, an ADI can reduce its credit exposure to a counterparty by collateralising that exposure with eligible collateral. Basel III has introduced higher haircuts for collateral comprising asset-backed securities. In addition, resecuritisation securities, irrespective of rating, are ineligible as financial collateral. APRA has not indicated whether it will follow Basel III on this issue. However, if it does, it may reduce demand by ADI investors for asset-backed securities.

#### ◆ LIQUIDITY REFORMS

The Basel III reforms introduced two international minimum liquidity standards to promote stronger liquidity buffers and improve the banking sector's ability to absorb shocks arising from financial and economic stresses, of which the liquidity coverage ratio (LCR) – which requires banks to hold sufficient high-quality liquid assets to meet a significant stress scenario of 30 days – may be the most relevant to securitisation. APRA has indicated that the LCR will apply to the largest 40 ADIs from January 2015.

The assets that may be counted towards the LCR under Basel III include government bonds, covered bonds and highly rated non-bank corporate bonds. The inclusion of covered bonds evidences a clear policy preference, in Europe, at least, for these types of securities over traditional asset-backed securities (ABS). This further limits the viability of securitisation as a funding option for smaller ADIs issuing into Europe and other Basel III compliant jurisdictions.

#### ◆ OTHER INTERNATIONAL DEVELOPMENTS

The introduction of 'skin in the game' rules in both the US and Europe will require sponsors to retain a proportion of risk exposure in their securitisations. Given the dependency of ADIs on offshore capital, an effective mutual recognition regime is critical for Australia. However, Australian regulators have not yet indicated whether they will introduce similar skin in the game rules in Australia. Given that skin in the game is contrary to the current position under APS 120, such rules would seem to be difficult to implement successfully in Australia.

In November 2010, Germany introduced 'bail-in' laws requiring senior German bank bonds to be written down, or swapped for equity, before taxpayers are called on to support the issuing bank. The European Commission has proposed

similar laws to apply to all EU credit institutions. These laws do not apply to covered bonds, resulting in clear investor preference for covered bonds over senior bank debt. Although these laws will not apply to ADIs directly, any resulting shift in offshore investor preference towards covered bonds may indirectly assist the Australian covered bond market, to the detriment of smaller ADIs who cannot access this market.

### BUT SOME GOOD NEWS TOO

APRA announced on 28 February 2011 that neither corporate nor covered bonds will be eligible for ADIs to meet the LCR test when it is implemented in Australia, at least until a track record of liquidity has developed for those asset types. However, given the relatively low volume of Australian government bonds, APRA will permit ADIs to meet any shortfalls in their LCR through a committed secured facility with the Reserve Bank of Australia (RBA).

As Basel III recognises covered bonds as eligible assets for the purposes of the LCR, APRA's announcement was, on its face, disappointing for potential covered bond issuers. However, given that both RMBS and covered bonds qualify as eligible collateral under the RBA facility, APRA's stance on the implementation of LCR in Australia will not be as negative for covered bonds as the announcement suggests, and will be positive for the securitisation market as higher-yielding ABS should be a more attractive proposition for ADI investors.

Although the RBA will charge a commitment fee for its facility the expectation is that the fee will be set at a level which will result in the cost of the facility being absorbed on an equal relative basis by all ADIs, so smaller ADIs will not be penalised because of their relative size. Moreover, ADIs are likely to position themselves well ahead of the January 2015 start date for the liquidity standards, which means that covered bonds and RMBS will benefit from LCR driven demand ahead of this date. This will be positive for ADIs large and small, and may help to offset the higher capital requirements imposed on securitisation exposures under Basel III.

### CONCLUSION

The introduction of the new covered bond legislation is the biggest success of the Australian government's December 2010 reform package. However, the extent to which this will support competition from smaller ADIs depends on whether a viable aggregation structure for covered bond issuance can be developed. In the absence of this, regulation and volatile markets seem to be making securitisation a less attractive funding option for smaller ADIs.

While the RBA facility may help to offset the impact of higher capital requirements and other regulatory changes affecting securitisation, more measures may be required to improve support for the securitisation market if the Australian government wishes to see a significant uplift in competition in the Australian banking sector. ◆

# CHALLENGING TIMES

*Although the Australian securitisation market has taken large steps forward since the financial crisis, conditions have once again become challenging. However, even in the face of amplified volatility, deal flow continues and some securitised borrowers are confident that demand for the product will get back on track.*

**BY TARA SPENCER**

**B**y the end of the third quarter of 2011, the asset-backed market had seen a strong year of Australian dollar issuance with A\$17.4 billion (US\$16.9 billion) pricing. That figure was tracking close to the record post-crisis volume of A\$22 billion issued in full-year 2010, although it is still significantly below levels seen in 2006 and 2007 (see chart on this page).

The year has seen a revival of deal flow from Australia's big four authorised deposit-taking institutions (ADIs). Westpac Banking Corporation (Westpac) was the first issuer from any sector to complete a securitisation in 2011, placing a A\$1 billion residential-mortgage backed securities (RMBS) deal on February 18. It was the first RMBS priced by an Australian big four bank since Westpac issued in December 2009. The bank followed up its RMBS return with a A\$2.2 billion deal in June.

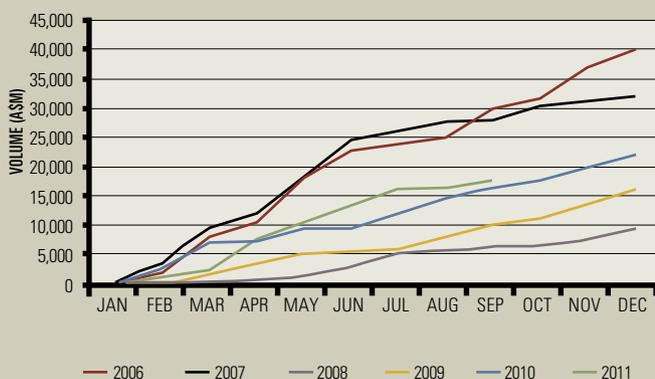
Having not visited the market since 2006, National Australia Bank (NAB) issued in asset-backed format twice in the first three quarters of 2011, placing a A\$1 billion transaction in May and a A\$1.5 billion equivalent deal in September, with the latter offer seeing a two-times upsize and the inclusion of a US dollar-denominated tranche.

Commonwealth Bank of Australia (CBA) also priced a A\$3 billion issue in April. Although CBA issued through its Bankwest subsidiary in November 2010, it had not completed a deal in its own name since 2007.

The proportion of Australian securitisation issued by the major banks in 2011 is greater than ever before, with the A\$8.7 billion priced by the majors by the end of Q3 accounting for nearly half the year's total issuance volume. In previous years the majors rarely accounted for significantly more than 10 per cent of the market (see chart on this page).

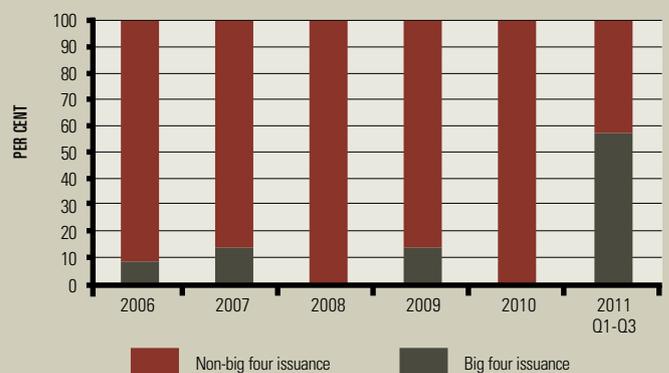
The big four do not appear to have had any trouble placing deals in large volume, even as the European and US sovereign debt crises sparked massive volatility. NAB's September deal

**CUMULATIVE ANNUAL AUD ASSET-BACKED ISSUANCE**



SOURCE: KANGANEWS OCTOBER 1 2011

**BIG FOUR PROPORTION OF AUD RMBS ISSUANCE**



SOURCE: KANGANEWS OCTOBER 1 2011

## CAIN BECKETT

Business Unit Manager, Trust and Fund Services  
Perpetual Corporate Trust



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"But I think what also defines us is the way we work when things don't go well; when there's an issue with one particular payment. We're extremely reliable at solving those issues, and we're currently running at one error per 153,000 trust transactions, where we've been responsible and have had to make a payment. The last time it happened, it cost us \$36."

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*“Although fund managers are being selective, I believe real money demand remains strong.”*

PETER RIEDEL LIBERTY FINANCIAL

was executed during a time of heightened market volatility, yet Eva Zileli, the bank’s Melbourne-based senior manager, group treasury, reports strong demand for the transaction. “There has been a flight to quality in RMBS product in recent times, especially from offshore investors who increasingly recognise the quality of Australian pools and the strength of the Australian economic story. There may be scope to downside risk in the property market but no one is expecting a significant downturn,” she comments.

The flip side of the demand for major bank RMBS is the claim from smaller securitisers that the market is only sporadically offering them worthwhile volume at a competitive margin relative to the majors. Some regional banks and non-ADI mortgage lenders suggest that the tight pricing of major bank deals – in which senior tranches have priced at around 100 basis points over the bank bill swap rate in less volatile times – has shifted the entire pricing dynamic of the market and, in the process, sacrificed real money participation.

## BANK BID

Market participants agree that the driver of demand in 2011 has been bank balance sheets, with the third-party market for lower-rated RMBS tranches in particular still challenged. While this has entailed a highly receptive environment for banks using securitisation purely as a funding tool, conditions remain difficult for those issuers seeking capital relief as well as funding – especially those looking to bring non-conforming deals (see box on p12).

Overall, the most active period of Australian securitisation issuance in 2011 was the second quarter – a time during which issuers say demand from bank balance sheets was at its strongest.

As banks started to prepare for the implementation of the Australian Prudential Regulation Authority (APRA)’s liquidity rules, balance sheets once again became significant buyers of other institutions’ RMBS paper – especially after it became clear that not enough asset classes would qualify as level one or two liquid securities to satisfy banks’ regulatory

needs. While RMBS is not currently included in APRA’s list of acceptable liquid assets, it is expected to play a significant role in the committed liquidity arrangements with the Reserve Bank of Australia that will make up the shortfall.

Even though NAB’s recent deal saw 35 per cent of paper distributed offshore, Zileli says the bank-dominant domestic investor base could not be diluted to a large extent, with the order book still seeing a concentration of balance sheets.

Once again, however, the benefit of this demand appears to have gone mainly to the major banks. Mary Ploughman, director, securitisation at Resimac in Sydney, cites lack of appetite outside balance sheets as the main reason her firm has been an infrequent RMBS issuer. “The market has regressed in 2011 as real money participation has decreased and the only investors buying in volume are bank balance sheets,” she argues.

Ploughman continues: “The amount issued by the major banks this year has taken up real money demand to a certain extent. Some real money investors are full on RMBS, while others are not buying for different reasons. The concern is that investors can now dictate a pristine pool and that can present a challenge for some borrowers.”

Peter Casey, head of treasury at ING Direct (ING) in Sydney, agrees. “The recent major bank issuance is a bit of a double-edged sword: it gives the market some momentum and proves to offshore investors that large deals can be executed frequently, but I do not think the market is big enough to absorb the size of these deals and still have fund manager demand for more,” he comments.

There is a consensus among borrowers that a stronger intimacy of dialogue has developed between investors and issuers – something which brings both advantages and burdens. As investors seek transparency, issuers are

*“This year pricing dynamics supported an issue into the domestic market and local support was sufficient for our funding needs. Nevertheless, we are really pleased that other issuers are testing offshore demand through innovative foreign currency tranches.”*



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### Portfolio Acquisition Residential Mortgages

A\$5,000 Million  
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### FLEXI ABS Trust 2011-1

A\$133 Million  
Consumer Asset Backed Securities  
Arranger and Sole Lead Manager  
June 2011



### Medallion Trust Series 2011-1

#### Residential Mortgage Backed Securities

A\$3,000 Million  
Arranger  
Sole Lead Manager  
May 2011



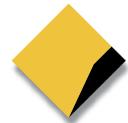
### ME Bank SMHL Securitisation Fund 2011-1

A: A\$934 Million  
AB: A\$46 Million  
B: A\$ 20 Million  
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## Capital placement

THE PROFILE OF SECURITISATION DEMAND IN 2011 HAS MEANT ITS BIGGEST BENEFICIARIES HAVE BEEN ISSUERS SEEKING PURE FUNDING TRANSACTIONS. ACHIEVING CAPITAL RELIEF FOR DEALS DEPENDS ON BEING ABLE TO SELL THEIR FULL CAPITAL STRUCTURE, BUT WHILE DEMAND FOR LOWER-RATED NOTES REMAINS CHALLENGED THERE ARE SOME POSITIVE SIGNS.

In December 2010 the Australian Prudential Regulation Authority (APRA) sent a letter to all authorised deposit-taking institutions (ADIs) announcing its revised capital relief approach to securitisation. The letter explained that, subject to the regulator's approval, an originating ADI retaining any subordinated tranches of a transaction would be able to deduct those holdings from tier one capital requirements.

The letter adds that the deduction will be capped at the volume of total capital that would be required if the assets were held on balance sheet, and will be reduced proportionately if the subordinated tranches in question are sold to "genuine third-party investors". That also precludes the effective sharing of subordinated notes between banks, in line with the regulator's already-stated opposition to that practice.

The letter marked a change of direction from APRA's previous position, set out in prudential standard APS120 and clarified in another letter sent to ADIs in August 2010. Under the terms of that standard, APRA denied any capital relief to banks which did not in the regulator's opinion adequately transfer the risk in securitisations off balance sheet. Specifically, that referred to the retention of subordinated, first-loss tranches of asset-backed transactions

which have been and continue to be hard to place with third-party investors post-crisis.

In its December 2010 letter, however, APRA said: "Following discussions with industry, APRA is prepared to approve an alternative capital treatment to that required under APS120, but one that is consistent with the intent of the standard. Subject to APRA's prior approval, an originating ADI retaining any subordinated tranche(s) of a securitisation will be able to deduct those holdings from tier one capital."

While potentially positive, the revision resulted in smaller borrowers being forced to work through a longer process to bring a deal to market, with regional banks reporting timelines of up to six weeks. Early in 2011, this meant the major banks – who do not require capital relief and can therefore retain the subordinated tranches of their deals – were able to swoop in and take advantage of burgeoning demand.

### Subordinated demand

Issuers acknowledge that the investment universe for subordinated tranches remains small in the wake of the crisis. Paul Williams, Heritage Building Society's treasurer, comments: "Selling tranches right down the credit spectrum requires active engagement

with a small investor base as well as an appreciation of the regulatory sensitivities." He adds that subordinated tranches remain a tough sell despite the Australian Office of Financial Management's participation since the financial crisis, and the process is not made any easier by the uncertainty created by external stakeholders such as APRA and the rating agencies.

However, other securitisers say they are not without hope. Mary Ploughman, director, securitisation at Resimac, says: "I think the subordinated market has deepened because of added yield in those pieces. There is still not a whole stream of investors but there is certainly more than just one buyer interested. From the deals that have been issued it appears that subordinated tranches will get away when yield is given."

In the ADI sector, some regional banks that have been active securitisers in 2011 say they have been able to sell the full capital structure of deals – including subordinated notes – and as a result have been able to continue to claim capital relief.

Although Suncorp Bank has not sold any subordinated notes of its securitisation deals since 2008, its head of funding, Simon Lewis, points out there is a high degree of sophistication among the investors who are willing to engage in such notes. "Even with the recent volatility the, admittedly small, group of investors that have supported the subordinated market are not showing any trepidation in terms of willingness to participate as they understand the underlying strength of the product, and they appreciate that the current spreads on offer are unusually wide," Lewis says.



*"Even with the recent volatility the, admittedly small, group of investors that have supported the subordinated market are not showing any trepidation in terms of willingness to participate."*

**SIMON LEWIS** SUNCORP BANK



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*“We could have sold something bigger and we have since received requests to complete further transactions. It is apparent that where there is yield, there are buyers.”*

MARY PLOUGHMAN RESIMAC

progressively open to offering more disclosure regarding underlying assets.

While Zileli does not think the smaller proportion of real money participation is a problem, she acknowledges that investors are becoming increasingly choosy with regard to mortgage pools. “Compared with our previous public deals in 2006, investors are really honing in on the quality of the two transactions we have issued this year. They are really scrutinising the structure of pools and looking at features such as geographic concentration,” she reveals.

## GROUNDS FOR OPTIMISM

Some regional banks agree that the makeup of the investor base is not a concern, while others note that the reduced role of the Australian Office of Financial Management as a buyer of RMBS is a clear sign of the sector’s continued recovery (see box on p16). “The large-ticket fund manager bid has remained fairly quiet in recent times but it is important to note fund managers still understand the integrity of the Australian property market and I am confident they will return to the market once volatility has subsided,” predicts Simon Lewis, Brisbane-based head of funding at Suncorp Bank (Suncorp).

Other regional banks insist that while some ticket sizes remain smaller, the number of real-money RMBS buyers has actually increased in recent times. One bank funder says an RMBS deal his firm placed in the first half of the year actually saw two-thirds of its paper sold to fund managers, for instance.

It is also notable that non-ADI securitisers, especially those basing deals on non-mortgage assets, are often competing for a different investor base from the majors. “Our transactions are a little different in all respects and, although fund managers are being selective, I believe real money demand remains strong,” comments Peter Riedel, general manager at Liberty Financial (Liberty) in Melbourne. Liberty’s non-mortgage asset-

backed securities (ABS) transaction issued in July saw four new investors – three of whom were fund managers – participate in a Liberty trade for the first time.

Riedel adds that appetite for non-conforming deals is slowly improving and he expects to see more issued in early 2012. Both he and Ploughman report reverse enquiry for non-conforming transactions following Liberty and Resimac’s issues in April and July, respectively.

Liberty’s A\$250 million non-conforming deal did not rely on mortgage insurance, with just 11.8 per cent of its underlying loans benefiting from lenders’ mortgage insurance. In addition, 9.9 per cent of the loans in the pool were originated without full income verification, while 73.2 per cent were originated for refinance or equity release purposes. The main form of credit enhancement was provided by note subordination.

Resimac’s transaction of the same volume was the borrower’s first non-conforming RMBS. Of the loans in the securitisation pool, 71.4 per cent were extended on a limited documentation basis. While 64.1 per cent of the loans were awarded to borrowers with a clean credit history, the remainder have suffered prior credit impairments.

Ploughman was thoroughly pleased with the result of this deal and has positive hopes for the market. “We could have sold something bigger and we have since received requests to complete further transactions. It is apparent that where there is yield, there are buyers,” she says.

## PRICING CONSIDERATIONS

While market conditions remained extremely turbulent as 2011 entered its final quarter, the most positive sign for the Australian securitisation market is that the full spectrum of potential borrowers continues to see the product as a potentially cost-effective funding source. For the big four, this is the case despite the expectation that



*“RMBS remains an important part of our ongoing funding mix and it provides access to a different investor base. We see the development of the covered bond market as a positive but not as a replacement for RMBS.”*

EVA ZILELI NATIONAL AUSTRALIA BANK

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## The role of the AOFM

THE AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT (AOFM) PLAYED A KEY ROLE IN GETTING THE SECURITISATION MARKET BACK ON ITS FEET FOLLOWING THE FINANCIAL CRISIS. BUT WHILE THE SCALE OF ITS BUYING OF RESIDENTIAL MORTGAGE-BACKED SECURITIES (RMBS) HAS DECLINED, ISSUERS ARE NOT YET READY TO SAY IT IS NO LONGER REQUIRED.

As of late September 2011, the AOFM still had around A\$6.4 billion (US\$6.3 billion) of its A\$20 billion RMBS mandate remaining – which, the agency points out, is a larger sum than it has injected into the market in any year since the investment programme began in 2008 (see Q&A on p18).

The remaining capital could in fact last for several years, if recent activity is a guide. The AOFM's role as a buyer has become less significant in 2011. By the end of the third quarter the agency had invested A\$1.1 billion out of the total A\$9.7 billion of RMBS issuance eligible for AOFM support sold in 2011, or 11.3 per cent. The

corresponding proportion for 2010 was 27.4 per cent (see chart on this page).

As borrowers continued to take up less support from the AOFM towards the end of 2010, the addition of a further A\$4 billion to its mandate, bringing it to the current A\$20 billion, was not entirely expected in advance. However, given renewed international instability, the additional investment has been welcomed.

And the majority of borrowers agree that, although the AOFM's role has clearly shifted over the course of 2011, it will continue to be crucial for the market's progress – especially during

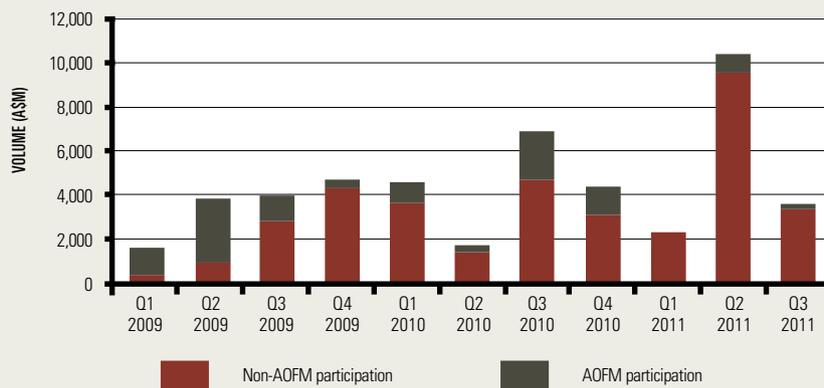
volatile periods when it may once again become a cornerstone investor.

"There is no doubt that the AOFM has wound back its involvement in the market," comments ING Direct's head of treasury, Peter Casey. "We have seen investors become comfortable with longer weighted average life (WAL) notes. Investor demand has moved from a 1.5-2 year WAL to a 3-year WAL over the past year. Hence, although the AOFM is no longer required to take as much maturity, it still holds an important position as a cornerstone investor and provides certainty around deal execution."

Not all RMBS issuers have felt a reduction in AOFM dependence. For example, Mary Ploughman, director, securitisation at Resimac, points out that the AOFM bought only A\$10 million of class A notes in Resimac's transaction in May 2010, but in the borrower's issue in May this year the agency took A\$192 million of class A and AB paper – almost half of the total transaction volume.

Suncorp Bank's head of funding, Simon Lewis, also notes that the AOFM has always taken a pragmatic approach in relation to the market, and suggests that the agency may look to be more subtle in the way it approaches its spread decisions going forward. "The AOFM's participation has reduced but I also expect there have been fewer transactions than the agency had expected," Lewis adds.

### AOFM PARTICIPATION IN RMBS DEALS



SOURCE: THE AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT OCTOBER 1 2011

senior unsecured bonds will remain their main source of wholesale funds – to be joined, in due course, by the new option of covered bond issuance.

Ross Aucutt, head of structured funding and capital management at Westpac in Sydney, notes that his bank will consider securitisation when it is cost effective to do so. "We compare the cost of a securitisation, which has a weighted average life of around three years, to where we

could issue three-year unsecured paper," he comments. NAB's Zileli notes that it has often been more expensive to issue RMBS than senior unsecured bonds in recent times. "Nevertheless, RMBS remains an important part of our ongoing funding mix and it provides access to a different investor base. We see the development of the covered bond market as a positive but not as a replacement for RMBS," she notes.

*“I do not think the market is big enough to absorb the size of these deals and still have fund manager demand for more.”*

PETER CASEY ING DIRECT



For the lower-rated banks, meanwhile, the triple-A nature of senior securitisation tranches allows them to price deals significantly cheaper relative to senior unsecured levels. Triple-B rated ADIs such as Heritage Building Society (Heritage) and ME Bank, for example, are also able to tap a diversity of investors that they would otherwise not have access to. “Our goal is to establish sustainable and diversified funding options, which means the proportion of funding sourced from securitisation is likely to reduce as other retail and wholesale channels are accessed to fund future balance sheet growth,” says Paul Williams, treasurer at Heritage in Brisbane. “This is not necessarily reflective of our view on the market but what we believe is a prudent approach given long-term business objectives.”

Even ING, which has a credit rating of A+ from Standard & Poor’s, has not issued a non-government guaranteed senior unsecured deal since May 2008. “Securitisation is ING’s cheapest form of wholesale term debt and it is consequently going to be part of our overall funding mix – more than we thought it would be a year ago,” Casey explains.

The offshore markets are increasingly becoming an option for Australian borrowers as well, with three asset-backed transactions pricing in the first three quarters of 2011 containing a US dollar-denominated tranche as well as one issue containing a sterling tranche and another containing a yen piece.

Despite the chinks of light, and while most banks are closely observing prospects, foreign issuance largely remains more expensive than the local option. “Heritage has issued three foreign currency securitisation transactions in the past and the organisation continues to monitor opportunities. This year pricing dynamics supported an issue into the domestic market and local support was sufficient for our funding needs. Nevertheless, we are really pleased that other issuers are testing offshore demand through innovative foreign currency tranches,” Williams comments.

One positive sign is the fact that issuers like Suncorp have been met with a positive response during several international roadshows, according to Lewis. “Offshore investors understand the integrity of the Australian property market, and the credit quality of the underlying assets remains very strong – something which is not available in other markets. I predict we will see offshore investors increasingly looking at the Australian market and that will manifest itself in more participation,” he forecasts. ■

## ABS issuance windows home and away

OPPORTUNITIES HAVE CONTINUED TO EMERGE PERIODICALLY FOR AUD SECURITISATION OUTSIDE THE RESIDENTIAL MORTGAGE SECTOR IN 2011. THE MOST NOTABLE MARKET PROGRESS FOR THESE BORROWERS, HOWEVER, HAS BEEN IN OFFSHORE CURRENCIES.

The first three quarters of 2011 saw A\$1.2 billion (US\$1.2 billion) of securitisations backed by non-mortgage assets issued, and a further A\$600 million of commercial mortgage-backed securities. These figures compare to the A\$2.6 billion and A\$370 million issued in those formats in full-year 2010.

Issuers say demand for non-mortgage securitisations is generally coming from the same areas as the residential mortgage-backed securities (RMBS) sector has seen in 2011. Capital Finance Australia (Capital Finance) issued A\$1.7 billion of asset-backed securities (ABS) between the start of 2010 and the end of September 2011, and Lloyds Bank Capital Markets’ Sydney-based head of securitisation, Steven Mixer, says: “Demand is still driven by bank balance sheets. There is a real money bid for ABS but it is definitely being dwarfed by the size of the tickets that banks can bring. We are generally still seeing interest in the product growing.”

ABS issuers have also experienced some joy in offshore markets. Capital Finance placed a £185 million (US\$287.8 million) tranche in May 2011 while Macquarie Leasing has issued nearly US\$1.9 billion in three transactions since July 2010. Market sources say demand in the US in particular is very resilient with pricing inside RMBS – a reversal of the norm in Australia.

With regard to the Australian market, Mixer acknowledges the investor preference for RMBS but adds: “ABS is also attractive because of the short duration of the product and the fact that the deals are not particularly sensitive to prepayment rates.”

# AOFM PROGRAMME REVIEW

In 2008, the Australian Office of Financial Management (AOFM) was assigned an initial A\$4 billion (US\$3.9 billion) by Australia's federal Treasury to support the country's smaller mortgage lenders by directly participating in their residential mortgage-backed securities (RMBS) deals. With the end of the investment programme – which grew via several additional capital injections to a final size of A\$20 billion – now on the horizon, KangaNews – publisher of the ASJ – asked the AOFM's director, financial risk, **Michael Bath**, to review the agency's involvement in the securitisation market.

**What is the most up-to-date status of the AOFM's RMBS investment programme in terms of the funds available to invest and the size of the outstanding portfolio?**

◆ As at September 23 2011 we have invested just over A\$13.6 billion, with A\$10.7 billion of that outstanding. The Treasurer has made up to A\$20 billion available if required.

**How much of the volume already invested has been repaid to date, and is there any expectation or instruction that funds will be reinvested following RMBS repayments?**

◆ We have had around A\$3 billion in repayments. These funds are not reinvested, so you can think of them as government bonds we haven't had to issue over the last few years. Our mandate

is clear on this front – it is to purchase up to A\$20 billion in RMBS, not to hold a portfolio of up to A\$20 billion in RMBS.

**How much trading, if any, of its RMBS portfolio has the AOFM conducted?**

◆ In March 2010 we sold just over A\$70 million of mezzanine, or junior triple-A notes. Part of the reason for doing this was to demonstrate that the secondary market had improved to our entry level. We haven't operated in the secondary market since then.

**How has the RMBS portfolio performed over its life?**

◆ Very well, thank you for asking! It has been in line with our expectations. We are earning around 1.3 per cent over the bank bill swap rate across the portfolio. Our 30-day-plus arrears are running at around 1 per cent across the portfolio, which is well below any index you might care to benchmark it against.

Subordination levels have increased as the portfolio has seasoned.

Despite a number of methodological changes among the rating agencies, none of our investments have been downgraded from triple-A. That said, as at June 30 we prudently declared a negative revaluation of around A\$80 million for our portfolio, based on secondary market bid rates.

**What measures are being put in place to manage the winding up of RMBS investment?**

◆ Given that it amortises and we are not reinvesting, the portfolio will naturally pay back over time. We have no plans to sell our holdings but we wouldn't rule this out completely if circumstances change. However, I note that the Treasurer's direction is very clear on the need for us to avoid adding to market volatility, so issuers and investors should take comfort from that.

**Does the AOFM expect to have any role in the RMBS market – either as a direct buyer or otherwise – once its investment programme ends?**

◆ No. Our only remaining role will stem from continuing to hold RMBS until maturity.

**The original purpose of the investment programme was to support the RMBS market and, by doing so, the plurality of the Australian mortgage-lending sector. How successful does the AOFM believe it has been in meeting this goal and what evidence would you point to in support of your view?**

◆ Since the programme's inception we have helped 20 lenders raise nearly A\$34 billion – of which we have directly purchased A\$13.6 billion – through 51 transactions priced at rates that have enabled them to compete. The Australian consumer has choice in terms of selecting a mortgage and competitive pressures remain in the mortgage space.

It is impossible to say how different the situation would be had the government not established this programme, but it is hard to imagine that there would be the same level of mortgage-lending competition as there is today.

**What developments in the way the AOFM invests its RMBS allocation that have occurred during the life of the programme do you feel have most contributed to its success – and why?**

◆ While our tactics have varied over time, the overarching strategy has been to encourage issuance that would engage positively with investors. We see this as being crucial.

For example, the strategy underpinned the decision in May 2010 for the AOFM to buy five- or six-year paper to facilitate the issuance of 1.5-year notes to meet balance sheet demand pending the clarification of Basel III liquidity rules. It also underpinned our willingness to buy longer tranches in 2011 to accommodate the return of demand to the three-year part of the curve once this clarification arrived. And it was also behind our preparedness to support innovative bullet and scheduled-amortisation structures.

**In retrospect are there any ways in which the AOFM's investment programme could have been altered, or changes that could have been made sooner, that would have made it more successful in achieving its aims?**

◆ We'll let others be the judge. We have certainly listened to market participants throughout the programme and, where we thought it made sense, we have made use of the market's advice. Ultimately we will stand on our record.

**How has the RMBS market progressed over the life of the AOFM's investment programme, especially in terms of the breadth and depth of third-party investment?**

◆ When we kicked off in late 2008, our investment was around 80 per cent of each of the deals we supported. Over time, that ratio has reversed, such that for the current year to date our investment accounts for around 20 per cent of the total volume of deals we have supported. If you include deals we haven't supported, this percentage drops to under 10 per cent for the current year.

The re-engagement of offshore investors and additional demand in lower-rated tranches have also been welcome developments.

**How close to self-sustaining does the AOFM now believe the Australian RMBS market is?**

◆ The market is now less reliant on the AOFM for funding and we are delighted



*“It is impossible to say how different the situation would be had the government not established this programme, but it is hard to imagine that there would be the same level of mortgage-lending competition as there is today.”*

**MICHAEL BATH** AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

to have been completely scaled out of one transaction.

Having said that, the market continues to face challenges. Demand is reasonably healthy for investments with weighted average lives of up to three years. Beyond this tenor we are still called upon to fill the gap from time to time, but there have been a few facility-type solutions that have been brought forward this year to achieve the same end. This will be resolved in time, either as prepayment rates pick up again or canny investors extend their investment horizons slightly to close the gap. As I said earlier, it is also good to see improved demand in the lower-rated tranches.

**There were proposals earlier this year that the AOFM's mandate be extended to allow the purchase of RMBS down to single-A level as opposed to the triple-A only initial mandate. Has there been any progress on this?**

◆ Our mandate has not changed in this regard, although I wouldn't necessarily call this a lack of progress.

**Are you aware of calls, especially from the mortgage-lender community, for the AOFM's programme to be extended either by a further injection of new money or by the reinvestment of maturing capital in new RMBS deals?**

◆ Suggestions are made from time to time, but I am not aware of those particular suggestions particularly

at this phase of the programme. It is understood that we still have around A\$6.4 billion available for investment and this is more than we have invested in any calendar year since we started.

**Has the return of the big four banks to securitisation issuance caused any change in thinking around the AOFM's RMBS involvement. For example it could be suggested that the majors are taking third-party investor funds, that might have gone to smaller issuers, off the table?**

◆ Not really. We see the return of the big four as a very positive sign that the market is getting close to where it needs to be. ■

# AUSTRALIAN COVERED BONDS ... ONE STEP CLOSER TO REALITY

*With the passage of legislation allowing Australian banks to issue covered bonds, Natixis shares some insights on the implications for both issuers and investors. And together with ASJ's publisher, KangaNews, Natixis presents commentary from the big four banks on their covered bond strategy. Introduction by Cristina Costa, head of covered bond research, Natixis, London.*



**CRISTINA COSTA**  
HEAD OF  
COVERED BOND  
RESEARCH, NATIXIS



**CEDRIC PERRIER**  
COVERED BOND  
FIG SYNDICATE,  
NATIXIS

**A**lthough the origins of covered bonds are deeply linked to the financial tradition of the European continent, today there is growing appetite for this asset class, with market stakeholders pushing for covered bond legislation in Australia, Brazil, Canada, Japan, Mexico, New Zealand, South Korea and the US. Until recently, Australian banks were unable to issue covered bonds as the Australian depositor preference provisions in the 1959 Banking Act were intended to ensure that depositors are not subordinated in the event of default. However, on March 24 2011 the Treasury of the Australian government published an exposure draft to make amendments to the act to facilitate covered bond issuance by Australian deposit-taking institutions (ADIs).

The government's promise to allow covered bonds came to fruition with the introduction in Parliament of the Banking Amendment (Covered Bond) Bill 2011 on September 15 2011, that was subsequently passed by the House of Representatives. On October 13 Australia's upper house Senate passed the new covered bond legislation which then received the governor general's assent and passed into law on October 17. The next step is the publication of Australian Prudential Regulation Authority (APRA) regulation, although banks can issue in advance of final rules.

The bill provides a less prescriptive regime than the exposure draft of March 2011. And although many elements are still missing, the expectation is that these will be included in the explanatory memorandum to the bill. Some of the main elements of the bill are as follows:

#### ◆ COVERED BOND STRUCTURE AND RINGFENCING OF COVER POOL ASSETS

The cover pool has to be held by a special purpose vehicle (SPV) separate from an ADI. The bill sets out an SPV covered bond structure specifying that the purposes of the SPV must relate "only to covered bonds".

#### ◆ CAP ON COVERED BOND ISSUANCE

The bill imposes a cap on covered bond issuance (8 per cent of an ADI's total Australian assets). Should the assets in the cover pool exceed this cap, APRA may impose different – and more stringent – prudential requirements on the excess assets. This should ensure that sufficient quality assets are left to support the claims of unsecured creditors. Thanks to this limit, the ratings of senior unsecured debt will be unaffected by the arrival of Australian covered bonds.

#### ◆ MAINTENANCE OF COVER POOL

The ADI is required to maintain a minimum 3 per cent overcollateralisation, although any amount – including the legislative minimum of 3 per cent – will count towards the 8 per cent issuance cap.

#### ◆ ASSET ELIGIBILITY

The ADI can include in its cover pool cash, government debt instruments, derivatives and loans secured by residential and commercial mortgages. Loans secured by residential mortgages – including second-ranking mortgage loans – can be included in the cover pool with a loan-to-value (LTV) ratio greater than 80 per cent, provided such loans are only ascribed a cover pool value of 80 per cent of the value of the residential property. A similar test applies to loans secured by commercial property, but the limit is set at 60 per cent of the value of commercial property. The bill also specifies the ADI must ensure that the value of bank accepted bills and certificates of deposit in the cover pool is no greater than 15 per cent of the assets in the cover pool.

#### ◆ AGGREGATING ISSUANCE

Covered bonds can be issued by two or more ADIs through an arrangement with another entity. Moody's Investors Service highlights that the proposed structure does not address liquidity which is an important rating consideration.

#### ◆ COVER POOL MONITOR

The ADI issuing the covered bonds must appoint a cover pool monitor independent of the ADI. This role can be performed by registered auditors.

#### ◆ PRUDENTIAL STANDARDS

APRA has the power to restrict the issuance of covered bonds where the ADI has not complied with the covered bond legislation. In addition, APRA may provide prudential standards with respect to the issuance of covered bonds, assets in cover pools and maintenance of the cover pools.

### WHO CAN ISSUE?

Currently, the Australian banking sector is dominated by four major banks: ANZ Banking Group (Aa2/AA/AA-), Commonwealth Bank of Australia (Aa2/AA/AA), National Australia Bank (Aa2/AA/AA), and Westpac Banking Corporation (Aa2/AA/AA). These large banks are poised to become the main covered bond issuers. Based on the 8 per cent issuance cap, the total possible covered bond issuance out of these four main institutions is A\$152 billion.

Three of the four major Australian banks have been issuing covered bonds via their New Zealand subsidiaries.

Other banks with both balance sheet size and the credit rating to issue triple-A covered bonds include Macquarie Group, Citigroup, Suncorp Bank, Bendigo and Adelaide Bank and ING Bank (Australia). If we include these

*“Covered bonds will be a permanent part of our funding options and as such we are not so worried about the initial speed to market.”*

**SIMON MAIDMENT** COMMONWEALTH BANK OF AUSTRALIA



	CBA	WESTPAC	ANZ	NAB
LONG-TERM ISSUER RATINGS (M/S/F)	Aa2/AA/AA	Aa2/AA/AA	Aa2/AA/AA-*	Aa2/AA/AA
BANK'S FINANCIAL STRENGTH (MOODY'S)	B-	B-	B-	B-
AUSTRALIAN RESIDENT ASSETS (A\$BN)	537	555	373	439
8% COVERED BOND LIMIT (A\$BN)	43	44	30	35

SOURCE: APRA STATISTICS, RATING AGENCIES, NATIXIS. DATA AS OF JULY 31 2011

\* Positive outlook

five smaller banks, total covered bond issuance could amount to A\$168.2 billion.

### WILL AUSTRALIAN COVERED BONDS COMPETE ON AN EQUAL FOOTING WITH EUROPEAN PRODUCT?

Australian covered bonds, to the extent they are not issued out of an EEA entity, will not be UCITS 52(4) compliant. This will have consequences for insurance companies subject to Solvency II, because they will likely be subject to a 100 per cent risk weight, rather than 10 per cent risk weight. In addition, Australian covered bonds will not be repo eligible with the European Central Bank. However, the Reserve Bank of Australia has indicated that it is likely to add Australian covered bonds to the list of open market operations eligible collateral.

### BIG FOUR BANKS TALK COVERED BOND STRATEGY

In the days leading up to the passage of the Banking Amendment (Covered Bond) Bill 2011, the executives in charge of covered bond issuance at the big four banks spoke to ASJ's publisher, *KangaNews*, about their plans for this new asset class. With commentary from Natixis syndicate in London.

#### PARTICIPANTS

**Ross Aucutt** Head of Structured Funding and Capital Management, Westpac Banking Corporation (Westpac)  
**Simon Maidment** Head of Group Funding and Execution, Commonwealth Bank of Australia (CBA)  
**John Needham** Head of Structured Funding, ANZ Banking Group (ANZ)  
**Eva Zileli** Senior Manager Group Treasury, National Australia Bank (NAB)  
**Cedric Perrier** Covered Bond Syndicate, Natixis

#### How has the experience of the Canadian and New Zealand issuers affected your plans for covered bonds?

◆ **AUCUTT** The jurisdictions that have issued covered bonds have helped us shape our views on the product. Westpac

has structured and issued the Westpac New Zealand covered bonds issued earlier this year.

- ◆ **MAIDMENT** We have taken note of how these deals have worked as they have come to market, but we are placing greater weight on precedent from peer northern hemisphere issuers in the EUR and USD markets. The Kiwi issuers provide an Antipodean reference point, but it's fair to say that investor knowledge of the Australian banks and their mortgage collateral is higher than that of our New Zealand subsidiaries.
- ◆ **NEEDHAM** Kangaroo covered bond issuance highlights that there is domestic investor support for this product. However, traditionally Australian fund managers have been happy to buy our senior unsecured bonds and many have said they would prefer to buy our bonds in this format. Nevertheless, investor diversification is a key reason for ANZ to issue covered bonds and we think there will be additional demand from offshore for AUD-denominated covered bonds from rates-based investors – such as central banks and banks.
- ◆ **ZILELI** Our subsidiary, Bank of New Zealand, has established a very successful covered bond programme and we will seek to achieve this over time with our own programme.

#### How soon do you plan on accessing the covered bond market?

- ◆ **AUCUTT** It will be a case of getting a covered bond programme up and running and making sure we are ready to take advantage of any market openings.
- ◆ **MAIDMENT** We have been working internally and with external parties to ensure we are in a position to use covered bonds once the legislative and regulatory processes have been completed. It's important to acknowledge that covered bonds will be a permanent part of our funding options. As such we are not so worried about the initial speed to market, but we are more concerned about ensuring we have the right platform for issuance and that our approach to the market is disciplined.
- ◆ **NEEDHAM** We had been planning for the ability to issue covered bonds by Q1 2012. With the passage of the legislation, Australian banks may now look to issue covered bonds before the end of 2011. How quickly we move will be a function of asset and deposit growth and general market conditions.
- ◆ **ZILELI** This is really a function of the markets at the time of legislation passing, consistent with execution for all our bond issuance.

#### What are your plans regarding investor education? What key messages do you plan to bring to investors?

- ◆ **AUCUTT** We will have to wait until APRA approves issuance before we begin marketing too actively. A big part of the covered bond conference in Barcelona in mid-September was to make sure investors are familiar with our name and Australian covered bonds in general. Clearly, as we get closer to deciding when to issue covered bonds we will look to formally market a trade.
- ◆ **MAIDMENT** CBA has a strong history of debt investor engagement. We regularly update investors in Australia, Asia, Europe and the US and updating covered bond investors on a regular basis will become part of that process. In terms of initial engagement, we certainly see the need to meet with potential covered bond investors to discuss the Australian product and collateral, as well as the issuer. In terms of education, we also expect to partner with our intermediaries to provide some foundation work for new-to-Australia investors, and some of that work has already begun.
- ◆ **NEEDHAM** All the Australian majors plus some of the regional banks, have attended covered bond conferences during Q3 2011, in both New York and Barcelona, during which time investor meetings were conducted to update investors on the Australian market. So the investor education has already started.

When we are ready to do a transaction we are likely to do a deal-specific roadshow. Among the key messages will be how covered bonds fit within our funding profile, the nature of Australian covered bonds and how they compare with European precedents – in particular some of the similarities with UK structures – and the Australian mortgage market. Regarding the latter, we will highlight the differences between the Australian and UK/US experiences, particularly those that arise as a result of Australian home loans being full recourse mortgages. We will also stress that the banks here have continued to originate mortgages under an originate-to-hold model, which means that underwriting standards have remained very strong.

- ◆ **ZILELI** A number of ADIs were present at the ECBC covered bond conference in Barcelona in September, with each undertaking investor work to increase offshore investors' understanding of what an Australian covered bond may look like. Further investor updates will be warranted in due course, highlighting the features of the Australian covered bond



*“Investors are keen to understand Australia’s macroeconomic backdrop, with product-specific questions around requirements on the type of collateral that could be included in the cover pool.”*

EVA ZILELI NATIONAL AUSTRALIA BANK

legislative framework. Investors at the Barcelona conference were keen to understand Australia's macroeconomic backdrop, with more product-specific questions around requirements on the type of collateral that could be included in the cover pool and the potential for property indexation.

◆ **PERRIER** Like other new jurisdictions, I think Australian issuers will need to make a significant marketing effort, first to promote the new legislation, second the country's economic story and the Australian residential market, and finally the strength of the issuer's specific credit. Investors will also expect an explanation of funding plans and how covered bonds will be used as part of the overall funding plan and approach to different maturities. I am confident non-domestic investors will be interested in this new asset, but they all need more information to open lines.

**The Australian Treasury has mentioned A\$130 billion of covered bonds could be issued by Australian banks. Regarding your own funding, how much do you expect the covered bond market will provide? And are you expecting to issue in jumbo/sub-jumbo format?**

◆ **AUCUTT** We look at our funding needs based on our net asset growth. While covered bonds will certainly be one of our key funding planks, it is still too early to say how much we will devote to that sector. It is important to note that we are limited by legislation, and we will be managing our funding in line with developments.

◆ **MAIDMENT** The 8 per cent cap would facilitate maximum covered bond issuance of around A\$35-40 billion for CBA, based on our current balance sheet. Given a current long-term wholesale funding portfolio of approximately A\$120 billion, that would mean over time covered bonds could account for around one third of our term debt outstandings. As we start issuance I expect covered bond issuance could be around A\$5-10 billion a year across all the markets we would contemplate accessing. We will look to establish benchmark/jumbo lines in key markets, but we will remain open to sub-jumbo and/or private placements in covered bond format.

◆ **NEEDHAM** Calculating 8 per cent of ANZ's Australian assets and allowing for overcollateralisation gives a total of just greater than A\$20 billion, so that is what we could issue in covered bond format over a number of years and in different markets. Our annual funding volume for next year is around A\$20 billion and we will be looking to do around half that volume in the domestic market and via private placements, with the remainder in the offshore markets. Of the A\$10 billion equivalent to be issued offshore, we expect half will be issued in covered bond format. This is likely to be

split between benchmark jumbos in the US dollar and euro markets, as well as AUD and other currencies.

◆ **ZILELI** We view covered bonds as another funding tool that we will use to diversify our funding base. Which security we issue into which market will be a function of the prevailing market conditions at the time of issuance.

◆ **PERRIER** Since the Lehman crisis, many investors are now examining the 'real value' of a deal – looking at factors such as name, spread and quality of book – rather than the one billion threshold (as secondary liquidity has sharply diminished). Investors have also lowered the minimum size required and a result is that the iBoxx indices will incorporate sub-jumbo deals (under one billion) next year. So, both jumbo and sub-jumbo deals should be issued.

**Do you expect covered bond issuance to replace longer-dated senior debt?**

◆ **AUCUTT** Covered bonds will certainly allow us another avenue to access the longer-dated maturities, but they won't necessarily replace our unsecured funding. Covered bonds simply become another part of our wholesale term funding access.

◆ **MAIDMENT** We will continue to be an active senior unsecured issuer. As noted, covered bonds will make up some, but not most, of our term funding going forward. So we will explore issuance of both products in the various markets in which we are active. Covered bonds represent a diversification opportunity that is incremental to our senior unsecured issuance strategy, not a replacement of that strategy.

◆ **NEEDHAM** Covered bond issuance will replace some of what we previously issued in senior unsecured format, and should provide longer-dated funding, while the remainder to be issued in senior unsecured format will be shorter-dated. We will not be increasing our annual funding volume requirements once covered bonds form part of our issuing strategy – we view covered bond issuance within the existing term funding requirements of the bank, which have consistently been in the A\$20-25 billion range in recent years.

◆ **ZILELI** Although we are likely to issue covered bonds with longer maturities, we do not expect covered bonds to replace longer-dated senior debt. Consistent with my response above, covered bond funding presents NAB with another alternative for longer-dated issuance.

◆ **PERRIER** If we look at the eurozone market, we clearly see that covered bonds are used as an efficient long-dated tool

*“Covered bonds will allow us another avenue to access the longer-dated maturities, but they won't necessarily replace our unsecured funding.”*

**ROSS AUCUTT WESTPAC BANKING CORPORATION**



by issuers for buy-and-hold investors. Covered bonds have shown their ability to provide liquidity even in adverse market conditions. So this tool should definitely be favoured by issuers to take advantage of funding in the long part of the curve as well as shorter tenors during periods of market stress. Having said that, senior funding remains key for issuers as regulatory limits are applied, and investors need more spread and risk credit portfolios.

**From a currency perspective, how important is diversification? What is your view of EUR covered bond investors versus the USD investor base?**

◆ **AUCUTT** Currency diversification is important, but it is not the only thing we look at when assessing a market. Our issuance into foreign currencies will always be based on a cost analysis. We do not have a preference between euro or US dollar investors, and both are core investor bases which we will try to access when it is economically viable to do so. We want to make sure we are accessing the most cost-effective markets where possible.

◆ **MAIDMENT** Diversification of currency, market and investor is critical. Clearly the EUR covered bond market has a greater level of depth than emerging markets like USD or GBP or even AUD, but our approach will be to look at each market based on its merits. As we have a predominantly AUD balance sheet, we look at all of our funding on an AUD cost-of-funds basis. The additional cost of swapping EUR to USD is something we have had to manage for our senior issuance but it hasn't prevented CBA accessing the EUR market over the last two years.

◆ **NEEDHAM** Maintaining a sustainable funding strategy is our focus, and so currency and investor diversification is a key reason why we are keen to issue covered bonds. When thinking about which markets we will access, the euro market is older, deeper and larger than the US market for covered bonds, but the US investor base is relatively sophisticated and investors understand the key technologies that are needed to assess covered bonds. So I see that market developing quite quickly.

◆ **ZILELI** Diversification is an important focus of our funding strategy and we will continue to assess all markets for potential issuance. Clearly the European covered bond market has significant depth. However, the investor base in the US is developing and certainly the cross-currency swap favours USD issuance at the moment.



*“We will not be increasing our annual funding volume requirements once covered bonds form part of our issuing strategy.”*

**JOHN NEEDHAM ANZ BANKING GROUP**

**Does the relative level of asset encumbrance for covered bonds versus residential mortgage-backed securities (RMBS) affect your plans on accessing either market?**

◆ **AUCUTT** The 8 per cent issuance limit will take some time before it becomes a binding constraint. So in the short term it is less of an issue.

◆ **MAIDMENT** No. We will continue to see each of senior, covered bonds and RMBS as diversified sources of funding available to the bank across various markets.

◆ **NEEDHAM** I agree that the 8 per cent limit will result in a lower level of encumbrance for Australian issuers of covered bonds, versus European banks. ANZ has a very small amount of RMBS on issue and no covered bonds yet, so this is not an issue for us. Under future regulatory requirements we will have to fund overcollateralisation with term funding but this will be at the margin. So at this point the benefits of diversification significantly outweigh any asset encumbrance issues.

◆ **ZILELI** The 8 per cent cap won't become an issue for a number of years so we don't think this will affect our decision to issue covered bonds versus RMBS. In any case, we view the two as different products so from a diversification perspective we would like to be able to access the market with either product.

**From a structuring perspective covered bonds will require a measure of indexation of mortgages. How do you think this point will be resolved?**

◆ **AUCUTT** The choice of using a housing price index depends on the particular housing market. For example, in the UK there are well-understood housing indices used nationally. In Australia, however, the use of similar indices is still being worked out. Decisions on the type of index and granularity are still to be agreed on.

◆ **MAIDMENT** The industry is working hard to ensure that we come up with a world-class product that includes the best elements of covered bond structures we have seen from other jurisdictions around the world. Indexation is one component which is being considered, along with transparency and reporting standards.

◆ **NEEDHAM** Indexation of mortgages is an issue we are considering as certainly there are pockets of investors in both Europe and the US that have expressed a desire to see this. We have to consider what are the most reliable data sources and methodologies.

◆ **ZILELI** The Australian legislation does not require indexation of mortgages and neither do the rating agencies. So indexation is an optional feature Australian issuers may incorporate in their programmes. ■

# NATIXIS VOTED 2011 BEST BANK FOR COVERED BONDS

The prize "Best Overall Bank for Covered Bonds - Covered Bond Awards 2011" was awarded to Natixis following a **poll of 340 international covered bond market players** (investors, issuers and dealers), organized by The Cover, EuroWeek's publication specializing in the covered bond market, in September 2011.



## Natixis, 12 years leading the covered bond market

### Active presence in all covered bond markets and recent transactions

- ✓ 55 transactions in the covered bond market in 2010 <sup>(1)</sup>
- ✓ 62 transactions in the covered bond market in 2011 <sup>(2)</sup>

### Excellent knowledge of investor and issuer needs

### Extensive expertise at our clients' service

- ✓ Primary market origination and execution
- ✓ Dedicated research
- ✓ Worldwide distribution
- ✓ Secondary trading
- ✓ Structuring

For more information, please contact

Anthony Whittaker, Head of UK and Australasian Bank ALM and Origination.

Tel.: +44-203-216-9165 • [anthony.whittaker@natixis.com](mailto:anthony.whittaker@natixis.com)

(1) Source: Dealogic -syndicated transactions 01/01/2010 to 31/12/2010. (2) Source: Dealogic -syndicated transactions - year to date 23/09/2011

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# MARKET INSIGHTS: TAKING THE PULSE OF AUSTRALIAN SECURITISATION

*As a lead manager on many of Australia's most groundbreaking securitisation deals in 2011, National Australia Bank (NAB) is uniquely positioned to analyse the state of play in the market and its future prospects. The bank's securitisation team talks to ASJ about the key market drivers at the end of 2011.*

**D**espite a background of credit market volatility, Australian residential mortgage-backed securities (RMBS) new issuance volumes in 2011 were up approximately 23 per cent on the previous year by the end of the third quarter (see chart on facing page). Major bank issuers have been far more active in 2011, accounting for 60 per cent of volume by early October as compared to 10 per cent for full year 2010. The market has also seen the return of targeted offshore issuance, in yen and US dollars, as well as the first Kangaroo RMBS issuance, by Lloyds Banking Group (Lloyds).

While reliance on the Australian Office of Financial Management (AOFM) appears muted in the headline figures (see chart on facing page) due to the prevalence of issuance by the major banks – which accounted for approximately 58 per cent of RMBS issuance in 2011 by early October – this understates the continued support required for smaller bank and non-authorized deposit-taking institution (ADI) issuers.

The fundamental performance of Aussie RMBS collateral has remained strong; however, arrears continued to trend upwards in the first half of the calendar year (see charts on p28). While the June Standard & Poor's arrears index showed delinquencies to be stabilising, noise in the data due to the dilution effect of large first half issuance volumes and awareness around the reporting of hardship arrears should be factors to consider when assessing performance.

Prepayment rates are at 10-year lows primarily due to lack of activity in the real estate market, which has introduced closer scrutiny of average life assumptions and extension risk resulting from slower amortisation.

That said, the Australian credit story remains relatively strong in a softening global economy. Unemployment fell slightly in September 2011, to 5.2 per cent, and NAB's view is that longer term prospects for unemployment remain positive. Despite weak housing activity, softening house prices and low credit growth, NAB sees Australia's economy as stable relative to global markets.

## INVESTOR UPDATE

**NAB's second self-led securitisation for 2011 had a sizeable USD tranche. What is your read on demand for Australian mortgage assets denominated in USD?**

◆ **BARRY** The response to that deal was certainly positive. In September we sold a National RMBS issue which included a two-year soft bullet USD tranche of around US\$400 million in 144A format alongside a A\$1 billion (US\$976.1 million), three-year amortising tranche. The total deal was upsized from A\$750 million to a final deal size of A\$1.5 billion. The success of the transaction, which included significant oversubscription in that USD tranche, was a result of significant exploratory work we conducted around potential offshore interest in the UK and US markets.

We planned a swift execution strategy designed to minimise event risk and enable successful navigation of extremely volatile market conditions. In the end, the deal attracted 12 investors with four of those based offshore.

There are encouraging signs that an increasing number of offshore investors are open to buying secured assets – either RMBS or covered bonds – from stable jurisdictions. Australian RMBS falls into that category so there is an opportunity to engage those investors on well-structured, fairly priced transactions.

**July 2011 saw the first yen-denominated Australian RMBS tranche, in a deal NAB jointly lead-managed for Bendigo and Adelaide Bank. Do you think increased use of other currencies – such as yen, euro and sterling – by Australian securitisers is likely?**

◆ **BARRY** The key point about the yen tranche is that the market is keen to broaden the offshore investor base. Japanese institutions have not been traditional buyers of Aussie RMBS but we're encouraged that several investors see relative value and have been preparing to invest – educating themselves on the market, structures and so forth.

**There has been a single securitisation of offshore mortgages in Australian dollars to date – from Lloyds in April 2011 – which NAB also jointly led. What are the prospects for this market?**

◆ **BARRY** We have met several European investors who seem comfortable with the credit risk of the underlying collateral backing Aussie RMBS, despite questions of overvaluation in the property market, and would value the diversification to their portfolios. However, discussions about participating in new primary issuance seemed largely theoretical given prevailing European spread levels. Aussie RMBS looks relatively expensive and in fact the funding arbitrage works the other way, encouraging other UK banks potentially to follow Lloyds' lead with a Kangaroo tranche.



**JOHN BARRY**  
HEAD OF  
SECURITISATION

As a result of the Lloyds transaction, a number of Australian investors have completed fundamental analysis on the UK prime mortgage market and the success of this transaction paves the way for more Kangaroo RMBS issuance. We're confident the Kangaroo RMBS will not be a one-off but activity will depend on relative cost of funds including the cost of the balance-guaranteed cross-currency swap – which NAB provided for Lloyds.

**NAB has also acted as arranger on the only non-conforming deals in recent years, including for Pepper Homeloans in late 2010 and for Resimac in mid-2011. Do you expect to see more of these types of deals?**

◆ **BARRY** Yes we do, based on the considerable investor interest shown in all offered note classes for the two recent non-conforming RMBS. Investors are rewarded with good margins that are well supported by higher interest rates charged on the non-conforming loans. The proven ability to release warehoused non-conforming mortgages into term



**JACQUELINE FOX**  
HEAD OF RMBS

markets also means we now expect to see stimulation of the specialists' loan origination programmes.

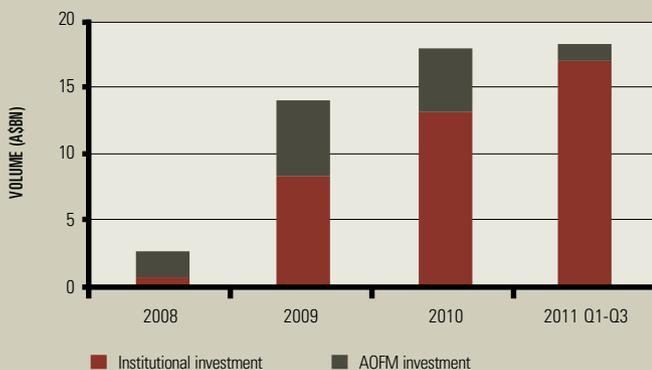
**Participation in the RMBS market from domestic real money investors still seems lacklustre. Why do you think that is, and what is required to re-engage fund managers?**

◆ **BARRY** We think there are two main factors behind this. The first is the heavy issuance in the first six months of the year, with strong participation from funds. This has meant that many accounts got close to fully invested in the asset class. While the amortisation of existing positions allows them to top up potential and continue to participate in new issuance, from a size perspective we have seen a paucity of larger orders from these accounts as the year has progressed. Based on year-to-date deals where NAB has held a role, bank balance sheets have been the most prevalent RMBS investors (see chart on p29).

Secondly, the market backdrop of increasingly volatile credit spreads has resulted in real money investors becoming negative on credit generally as the year has progressed. So from an asset allocation perspective their cash is being directed more towards cash, government and semi-government securities.

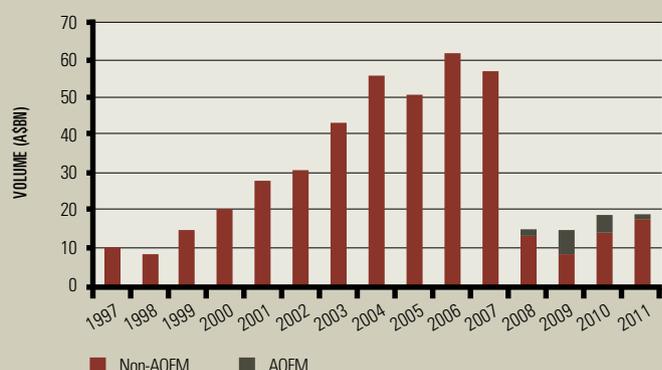
To re-engage these accounts I believe we will need to see some semblance of stability in credit markets, specifically some form of resolution to the European situation. Until the uncertainty is removed from investors' minds, it is doubtful that real money will look to meaningfully invest not just in RMBS, but in all AUD credit products.

## RMBS ISSUANCE NOV 2008 TO OCT 2011



SOURCE: AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT, NATIONAL AUSTRALIA BANK, STANDARD & POOR'S OCTOBER 2011

## AUSTRALIAN RMBS ISSUANCE



SOURCE: AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT, NATIONAL AUSTRALIA BANK, STANDARD & POOR'S OCTOBER 2011

**Is there a concern among offshore investors that Australia has not experienced the property market correction seen in Europe and the US, and that such a correction inevitably lies ahead?**

◆ **BARRY** In our experience investors are generally very comfortable with the Australian mortgage market and they understand the supportive dynamics which have driven our relatively stable house prices over the past five years. Having said that, there are an increasing number of economists or hedge fund investors who put the Aussie housing market into the 'bubble' category. To date we haven't come across any investors, either domestic or offshore, who have used it as the sole reason for not investing in an RMBS deal.

**Do offshore investor views differ from those of Australian buyers?**

◆ **BARRY** Domestic investors will always have a greater level of comfort, as it is their home market. International investors are still very comfortable though, and the resilient performance of the RMBS product from a credit perspective over the past seven years is a strong selling point. With few exceptions, this is very different from what they have experienced in their home markets. Improved collateral-level transparency will also assist with offshore investor engagement.

**DEAL STRUCTURES**

**There have been a number of RMBS tranches structured as bullet repayments in Australia, though they are still far from the norm. Do you expect to see more?**

◆ **FOX** While we have seen a number of positive developments for Australian RMBS in bullet format we do not think this will immediately translate into a significant new market. Primarily this is due to the additional costs associated with issuing in this format, which makes it difficult to justify for issuers.

We expect to continue to see intermittent use of bullet structures as issuers seek out alternative buyers to supplement their core investor base. To the extent there are successful regulatory developments for the use of 'UK-style' master trust structures for Australian RMBS, there will be more significant development of the bullet market. These changes would reduce costs and increase the incentive for issuers to make further use of bullet structures.

**Will bullet structures become more prevalent in offshore deals from Australian issuers?**

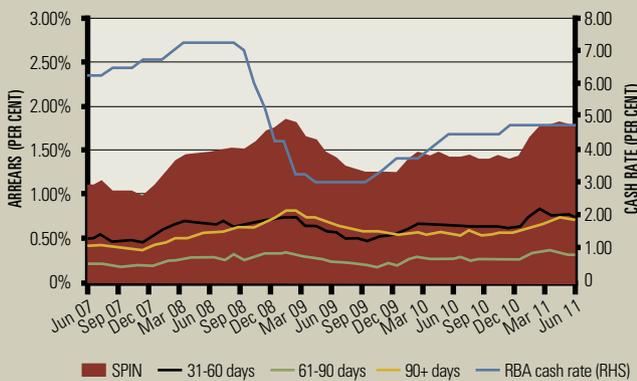
◆ **FOX** To the extent we see more offshore deals from Australian issuers we expect that some of these transactions will look to utilise a bullet repayment profile. For investors, the bullet repayment profile, coupled with support facilities, reduces the extension risk in relation to their investment. Many offshore investors have indicated that extension risk is one of their key concerns in relation to longer-dated securitisation assets, such as residential mortgages.

For issuers, the bullet structure provides increased access to offshore investors as well as cost savings in relation to cross-currency swap hedging due to increased certainty for the timing of payments. In addition, using a facility to support the repayment of the bullet structure allows a greater proportion of bullet notes to be incorporated into the structure.

**What do you see as the most significant changes in deal structures demanded by rating agency methodology changes, and how much impact are these having on deal flow and structure?**

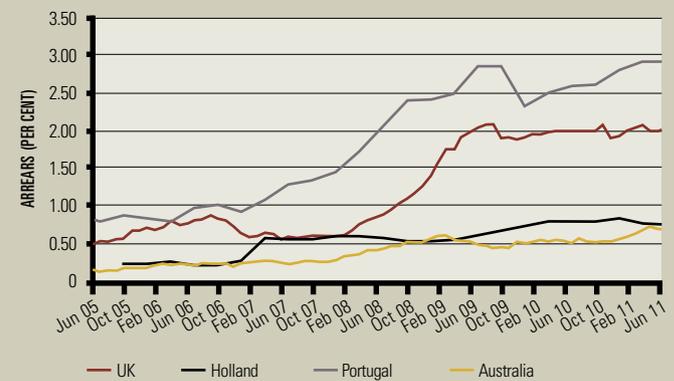
◆ **FOX** We have seen all three rating agencies revise their RMBS credit criteria over the past 12 months, and the baseline credit enhancement required to achieve triple-A ratings has generally increased across the board.

**AUSTRALIAN RMBS ARREARS**



SOURCE: RESERVE BANK OF AUSTRALIA, NATIONAL AUSTRALIA BANK, STANDARD & POOR'S JUNE 2011

**PRIME DELINQUENCY BY JURISDICTION (>90DPD)**



SOURCE: NATIONAL AUSTRALIA BANK, STANDARD & POOR'S JUNE 2011

We have also seen changes to counterparty criteria – affecting parties providing swaps, bank accounts, and other support facilities – liquidity requirements addressing servicer and operation risk, and regulatory requirements in the form of Securities and Exchange Commission rules 17g-5 and 17g-7. While these do not necessarily directly affect capital structure, they have increased the lead time to take transactions to market.

Overall, the rating agency changes introduced what we believe to be an unacceptable level of uncertainty to some investors in the market during the course of the year as most of the criteria were in ‘request for comment’ format prior to being finalised and published, despite many transactions having the ‘worst case outcome’ already factored into the structure. However, now that most of the criteria are final and understood in the market, we expect investors may be more willing to participate in RMBS going forward

**The status of lender’s mortgage insurance (LMI) has also become more questionable. Why is this, and what could reduced use of LMI mean for the market in future?**

◆ **FOX** The first thing to note is that LMI remains a valuable and vital credit enhancement in the rating and distribution of prime Australian RMBS. We expect the role of LMI to continue in this manner, but we also expect that more reliance will be placed on additional credit enhancements in prime RMBS – principally through higher levels of initial subordination but also in additional excess spread trap mechanisms.

These additional enhancements are being adopted to protect against RMBS ratings transitions, in circumstances where LMI may show reduced willingness or capacity to make full payouts on policies in the face of sustained and systemic mortgage distress. Recent changes to rating agency methodology and views on loss cover provided by LMI,

particularly by Fitch Ratings, have created additional incentive to structure other forms of enhancement.

We now expect prime RMBS structures to evolve where unrated or lowly-rated subordinated notes will anchor the capital structure and support the higher ratings of more senior notes.

**The placement of subordinated notes continues to be a challenge for securitisers. What implications does this have for the market overall, and how hopeful is NAB that subordinated demand will grow – at pricing levels that are economic for issuers – in future?**

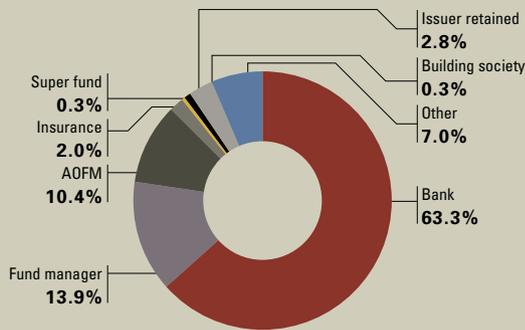
◆ **BARRY** The lack of appetite and pricing tension in the B note market has been a common theme since the onset of the financial crisis and the Basel III enhancements to APS 120 and recent correspondence from the Australian Prudential Regulation Authority (APRA) has broadened the concern for ADI issuers that traditionally retained the subordinated notes.

We feel it’s an important aspect of a fully-functioning securitisation market to have participation right down the capital structure. We’re actively working to open up demand for B notes both domestically and offshore and, while recent credit market volatility doesn’t help, we are cautiously optimistic that we will see expanded interest in the B notes from those investors seeking a yield pick-up.

**When bringing international deals, how much of a challenge is it that regulators have differing RMBS treatments. For instance, in bringing its US dollar transaction how did NAB deal with the issue that US regulators demand ‘skin in the game’, while Australian regulators demand full risk transfer for capital relief purposes?**

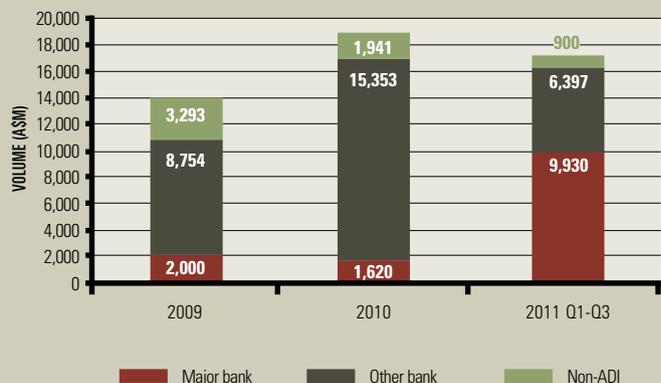
◆ **FOX** There’s no doubt that the flood of regulatory reform that we have seen in the last 12-18 months has created some

**2011 RMBS ISSUANCE BY INVESTOR TYPE (NAB-LED DEALS)**



SOURCE: NATIONAL AUSTRALIA BANK OCTOBER 2011

**RMBS BY ISSUER TYPE**



SOURCE: KANGANEWS, NATIONAL AUSTRALIA BANK OCTOBER 2011

additional challenges. In terms of skin in the game, the real issue at the moment is the lack of harmonisation and clarity around the proposed rules. Although the European buy side rules under CRD2 have been in force since January 2011, the US sell side rules under Dodd-Frank are still in draft form.

We can't market a US deal as compliant until they're finalised.

Although the risk retention options available under CRD2 and those likely under Dodd-Frank are similar enough to allow an issuer to satisfy both, many of the options do not lend themselves well to non-ADIs' business models. They don't necessarily reflect the Australian market, particularly the skin in the game represented by the originator's right to excess spread as residual income beneficiary. We certainly hope to see further developments with respect to harmonisation in the longer term.

There's certainly some tension between these risk retention initiatives and the lack of clarity around the full impact of the Basel III enhancements to APS 120. The ability for originating ADIs to retain their own subordinated notes, and the availability of the alternative capital treatment post-2011, has caused concern. While that broader dynamic is still playing out, APRA has made it clear that it will deal with each ADI individually so it's doubtful whether we'll see any industry-wide guidance. I'd argue that may actually be preferable to ending up with a rule for everyone that suits no-one.

## FUTURE MARKET DEVELOPMENTS

**Is there any solution to the risk transfer versus skin in the game conundrum?**

◆ **FOX** The conundrum is that market regulators want securitisers to retain risk in securitisations of their balance sheet assets, while APRA looks for ADI securitisers to place risk with external investors.

The solution to this, we believe, is at two levels. First, skin in the game regulations should focus more on retention of economic incentives, without demanding first-loss risk retention by securitisers. While Australian regulatory

requirements are not yet final, regulations governing offshore issuances by ADIs allow for various note or balance-sheet asset-retention options that align interests without forcing significant loss risk onto the ADI. Second, if APRA was to recognise the significant risk transfer to securitisation investors, that would allow for an associated and quantified reduction in regulatory capital for the securitised assets.

## How will Australia's covered bond market affect the RMBS landscape?

◆ **BARRY** Let's be clear: the inclusion of covered bonds is a really positive development for the domestic market. The ability for the major banks – and a handful of others – to tap deep liquid markets in Europe offers the potential to further diversify funding and lengthen tenors inside the cost of senior unsecured funding levels.

However, the Australian regulators haven't handed covered bonds the preferential treatment that they enjoy over RMBS in Europe. For Basel III purposes, covereds will be used by Aussie banks to help satisfy their net stable funding ratio even though, from an investment perspective, they will not qualify as level two liquid assets for the purposes of satisfying the liquidity coverage ratio. Additionally, while AUD covered bonds will qualify as eligible collateral for the Reserve Bank of Australia liquidity facility, that doesn't differentiate them from RMBS so they will still be competing with what at this stage is a higher-yielding product.

Meanwhile, although some fund managers will see covereds as a highly-rated relative value play most have indicated that they view covered bonds as a credit product. It is difficult to see how real money investors will justify investing in size; from a yield pick-up perspective, we think they will still look to RMBS.

Overall, we see covered bonds complementing rather than competing directly with RMBS, particularly domestically. The majors have soaked up a lot of domestic demand for RMBS by hitting the market with large deals in recent years so the ability for them to source cheaper funding offshore may actually open up the domestic RMBS market a little for other issuers. ■

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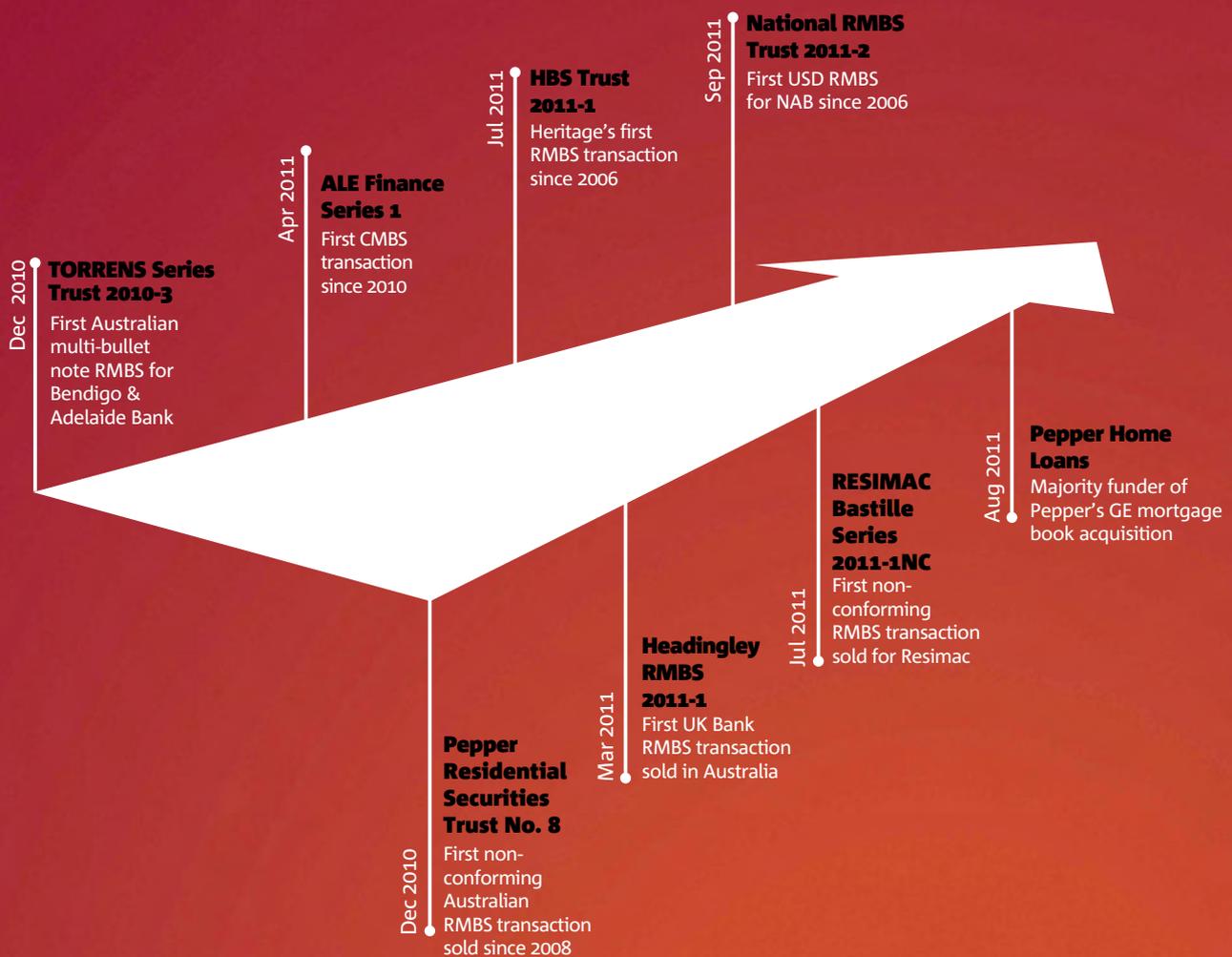
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# ASF NEWS AND INSIGHTS

*The Australian Securitisation Forum (ASF), the Australian securitisation market's industry association since 1989, offers insights into how the domestic market has reacted to challenges in the wake of the first phase of the financial crisis and the threat of a second phase, as well as its role going forward.*

**A** current goal of the ASF is work with members to restore confidence in Australia's securitisation brand by promoting the fundamental quality of Australian collateral and transition structures. An important part of this is to communicate the market improvement being pursued in Australia. The role of the ASF, therefore, has been and continues to be:

## **To facilitate reform.**

Whether initiated internationally or domestically, the ASF's reform initiatives have been embraced by the local industry. The International Organisation of Securities Commissions's Task Force on Unregulated Markets and Products recommendations are in the process of being fully implemented by way of industry-designed, regulator-supported minimum common standards. In time, the minimum standards threshold will be raised as both investor expectations and issuer capability towards meeting a standard set of disclosures increase. Feedback from investors is always welcome so do not hesitate to reach out.

Residential mortgage-backed securities (RMBS) was first out of the blocks, with disclosure and reporting standards for pre- and post-issuance deal information now published. These are accompanied with standards on arrears – a single definition – and representations and warranties.

Continuous improvement and vigilance are watch words for the ASF because we recognise that as a net importer of capital Australia must maintain high standards in keeping with international norms. A synthetic RMBS version of Libor-like reference curves is being explored by the Australian industry in order to see whether or not – with an archetypical pool of collateral – a curve can be constructed to assist pricing and valuation for the buy-side, sell-side and broker-dealers.

Another example is securitisation bondholder communication. This has been an issue for trustees, particularly in the wake of the financial crisis, with bondholders proving difficult to locate so as to seek their consent. The ASF is exploring ways to improve what seems to

*«Continuous improvement and vigilance are watch words for the ASF because we recognise that as a net importer of capital we must maintain high standards in keeping with international norms, but also lead the global market.»*

work well for equity-related corporate actions but not so well for debt securities.

Asset-backed securities (ABS) disclosure and reporting is our next big project, and this too will seek consistency with the soon-to-be released European Central Bank ABS standards. As the market changes we plan to do likewise for Australian covered bonds, in keeping with both central bank as well as industry associations' expectations, including the International Capital Markets Association/Covered Bond Investor Council and the European Covered Bond Council.

## DIRECT SUPPORT INITIATIVES

But we also work with the government and the central bank to ensure there are measures – temporary and permanent – to support the market appropriately, be that through liquidity provision by way of central bank repo or through hard investment dollars to get deals away at this fragile time.

Accordingly, the ASF lobbied three years ago for the Australian government to assist in ensuring that, during the depths of the financial crisis, credit could continue to flow to the economy and the nation's securitisation infrastructure did not disappear, which would have left a gaping competitive hole.

Now in its fourth year, the Australian government's RMBS investment programme – administered by the Australian Office of Financial Management (AOFM) (see Q&A on p18) – plays a crucial support role in the domestic RMBS market. The government has allocated A\$20 billion to the programme and it is expected to be available while market conditions remain volatile. While the ASF has been supportive of the AOFM programme and helped in its design, it has tried to persuade the government that the AOFM should be permitted to invest lower down the credit curve – such as single-A or double-A rated subordinated notes – so as to support smaller authorised deposit-taking institutions that can neither sell those notes nor fund them economically on balance sheet. To do so would promote the government's policy objective of increased competition through lower 'all-in' cost of funds.

Encouragingly, investors – not just issuers – believe this would produce a leverage effect that would benefit issuers and the government alike. Investors would also prefer the Australian government to get out of what they regard as their space – the senior notes – because they regard such participation as distorting natural market price tension. And credit risk retention requirements from various jurisdictions need not be offended given they can be met in a number of ways, not just hard first-loss retention, so we do not have difficulty from that perspective. And it is certainly academic to those that cannot justify securitisation in the first place!

## REGULATORY REFORM INITIATIVES

In addition to the direct support initiatives and the responses to global reform, we also work on a number of strictly domestic matters such as the prudential regulator's

## Spotlight on Australian RMBS: they continue to be the best in the world

No Australian RMBS has ever been downgraded for performance reasons – only lenders' mortgage insurance ratings migrations. We unashamedly publicise the fact that Australian prime RMBS is the best performing in the world.

- ◆ No Australian prime RMBS has defaulted.
- ◆ No Australian prime RMBS has had notes written down.

A combination of mutually-reinforcing factors underpin this performance:

- ◆ More than 20 years of economic growth.
- ◆ Conservative underwriting.
- ◆ Strong prudential and conduct-of-business regulation;
- ◆ Tax incentives to repay loans, and no tax incentives for owner-occupied properties to offset interest payments, unlike in the US market.
- ◆ Perpetually rising property prices, in line with an increasing population, a shortage of housing stock and full employment.

"Australian RMBS are as close to bullet-proof triple-A as you can find, as long as you're choosing the right securities," says PIMCO's Sydney-based managing director, Robert Mead. "They are very attractive at current spreads."

administration of APS120, which governs the way in which deposit-taking institutions conduct securitisation activities. We believe we are deepening our relationship with the Australian Prudential Regulation Authority and hope that, through a deeper mutual understanding of deal mechanics in the context of prudential supervision, we can enhance the securitisation value proposition for capital as well as funding.

**To ensure that regulations emanating from the EU and US in particular do not unduly or unintentionally limit Australian issuers from accessing those markets.**

Efforts by the industry to rebuild the base of Australia's RMBS and ABS market since 2008 have worked well – with issuance

*«Part of the ASF's work is about fostering understanding and relationships between different global investor groups. This means engaging with supranationals, sovereign wealth funds, banks and life companies, and real money accounts.»*

doubling year-on-year – but the offshore investor remains, well, offshore and barely in sight. It will come as no surprise that the ASF reacts swiftly to regulatory initiatives from offshore jurisdictions that have the potential to disrupt our nascent recovery. Securities and Exchange Commission/Dodd Frank initiatives have taken up much time in this regard, especially those relating to Nationally Recognised Statistical Rating Organisations, where we believe we will be successful in turning permanent the current temporary 17g-5 exemption. We also have made representations to US rulemakers in relation to credit risk retention to ensure that our RMBS can compete on a level playing field.

The consequences of these developments have been twofold. In addition to contributing to global investor confidence in the long term – albeit with uncertainty in the short term – it should serve to standardise the actual product as well as its by-products: for example, data transparency and reporting equivalence globally.

**To operate industry-designed, authored and delivered securitisation education courses to ensure the industry's people receive the very best in current, relevant, experiential teaching.**

The ASF's three education offerings – shortly to be four with the addition of covered bonds – have gone from strength to strength, witnessing year-on-year increases in enrolments. Reasons include the expectation of higher levels of securitisation awareness throughout organisations, especially by regulators of bank issuers, and a steady increase in issuance since 2009.

The year 2012 brings new opportunities. We will explore taking some of the education offerings online so a broader domestic and global pool of potential students can benefit. We will also roll out the covered bonds course, which has faithfully tracked the Australian legislation's progress. Finally, we will look to further embed our relationship with academic

institutions so that we can get up-to-date technical knowledge into existing modules of relevant university degrees and so we can establish research-related stipends to have discrete pieces of research conducted for the securitisation industry. For example, we are particularly keen to understand better the dynamics at play in fixed income asset allocation and the so-called 'equity bias' found in Australian pensions.

**To maintain a dialogue with investors and other stakeholders globally to ensure the challenges are understood and can be confronted so as to foster sustainable securitisation activity.**

Part of the ASF's work is about fostering understanding and relationships between different global investor groups. This means engaging with supranationals, sovereign wealth funds, banks and life companies, and real money accounts. We continue to face questions about the Australian economy, but the weight of evidence and opinion supports current growth rates – which are modest rather than frightening – and current house prices. The mixture of high employment, a shortage of housing stock, demographic changes (net inward migration and an ageing population) and healthy loan-to-value ratios, mean that what is indeed a very costly housing market is not just here to stay but, importantly, sustainable.

We also frequently point out what is obvious to us but not necessarily obvious to some:

- ◆ Full recourse borrowing nationwide.
- ◆ A culture of paying down the mortgage and not defaulting – similar to the Dutch.
- ◆ Structures that contain considerable skin in the game:
  - The originator usually remains servicer, collecting residual income.
  - Lenders' mortgage insurance companies protecting most loss.
  - Retention of subordinate tranches.

A formal process of industry-coordinated investor engagement started in 2009 whereby the ASF organises investor briefings, usually around the relevant annual industry gathering. The ASF has conducted seminars with end-to-end analysis of the securitisation value chain ranging from the macroeconomic backdrop in Australia and its property market to performance of the collateral and bonds, valuation and pricing, and regulatory and legal updates. This has found us in London, Brussels, Orlando, Washington D.C., Taiwan, Hong Kong and Singapore. We propose to look more closely at the Japanese investor market as well as sovereign wealth funds.

Each briefing and the important dialogue around it has reminded us that investors both within and between regions are far from homogenous, varying widely in their outlooks

# Bond and collateral performance

MODEST INCREASES IN ARREARS IN THE AUSTRALIAN MARKET POINT TO SUPERIOR PERFORMANCE.

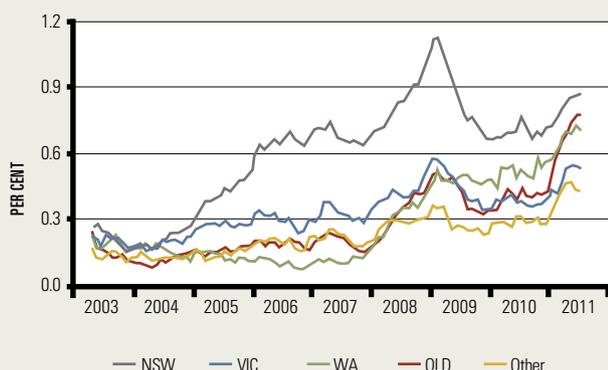
While arrears levels have ticked up a little since 2010 – due mostly to central bank interest rate hikes – most analysts are encouraged about the modesty of arrears increases. This is particularly because there have been multiple interest rate hikes – approximately 200 basis points in two years – and natural disasters mostly afflicting the state of Queensland.

The one state with isolated pockets of concern is New South Wales, the most populous state in Australia. Drilling down into the data, it is almost exclusively linked to western and south-western Sydney. Enticed to buy before the government removed its First Home Owner Grant scheme, some borrowers extended themselves too much without enough regard to how they

would maintain repayments should shocks occur. But as the graphs below illustrate, even at their worst they struggled to break 1 basis point, while delinquencies are even lower.

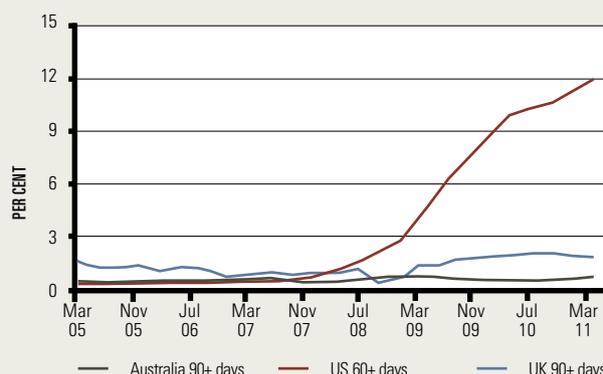
Certainly, the arrears performance speaks for itself. The question is, have the bonds performed similarly well? The short answer is, yes. No charge-off have occurred.

**AUSTRALIAN STATE-BY-STATE 90+ ARREARS COMPARISON**



SOURCE: RESERVE BANK OF AUSTRALIA, PERPETUAL CORPORATE TRUST SEPTEMBER 2011

**GLOBAL RMBS DELINQUENCIES**



SOURCE: FITCH RATINGS JUNE 2011

and mandates. Part of the ASF's role is to understand their challenges with a view to finding ways for the Australian market to cater better to their needs.

So the attention of Australian securitisers and their advisers has been on better understanding the obstacles to investment in offshore markets. Asia seems to be a good proposition with its high savings rates and low-yielding assets, but the brand damage remains front of mind for many Asian investors. The ASF will continue its work with governments, regulators, issuers, investors and others to understand these markets' requirements – in particular how they have changed since 2008 – so that we can re-open them, reiterating the macroeconomic, collateral and structural superiority of the Australian product (see boxes on p33 and p35).

We are still finding that investors prefer government-sponsored enterprise product in South East Asia particularly and covered bonds in Europe. On price, Australian RMBS is pricing wider than British or Dutch RMBS but with ABS there is a lot of US investor interest in view of the relative value pick-up

to be had against US ABS. The cross-currency basis swap makes the cost of swapping from AUD to EUR prohibitive, too.

In Australia, forthcoming covered bond issuance by Australian banks has concerned some smaller issuers, who fear it will cannibalise the RMBS investor base. But the ASF is not so sure given domestic investors in Australia mostly comprise credit investors rather than rates-like buyers. Some issuers have said it might even improve RMBS demand because the large banks will substitute some of their RMBS issuance for covered bond issuance – but going to the European markets to place them rather than distributing locally. ■

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# AUSTRALIAN MORTGAGE DELINQUENCY REPORT

*Australian mortgage arrears rates have increased. But according to the three major rating agencies the impact on securitisation will be limited.*

BY KIMBERLEY GASKIN

**D**ata from the rating agencies confirms what most residential housing market observers have been expecting for some time – that arrears rates rose in the first half of 2011. But the increases have been modest, quite distinctly localised and appeared to be slowing or even retracing by the second half.

Between March 2010 and June 2011 the national delinquency rate – as calculated by Moody’s Investors Service (Moody’s) – rose to 1.67 per cent from 1.36 per cent. Regions performing poorly or very poorly increased fourfold to 28 from seven, and of Australia’s 65 regions, those performing very poorly – that is, with more than 2.5 per cent delinquencies – increased to 11 from two, while those performing poorly rose to 17 from five.

## WA AND QLD FEEL THE HEAT

The location of the delinquencies is intriguing, given the recent commentary over Australia’s supposedly mining-fuelled two-speed economy. According to a report from Moody’s published on October 11 the regions performing very poorly include six from New South Wales (NSW), four from Queensland, and one from Western Australia (WA). NSW remains the worst-performing state overall, with six of its regions performing very poorly.

At the same time, the biggest declines in mortgage performance have been experienced in Queensland and WA, the two states which have been the biggest beneficiaries of the mining boom.

“This paradox is partly explained by the fact that non-mining jobs still account for most of the employment in both states, and such sectors lag the mining sector in growth. For

example, the strong Australian dollar has weakened the tourism industry, which accounts for more than 5 per cent of employment in Queensland,” notes Arthur Karabatsos, vice president and senior analyst at Moody’s in Sydney.

James Zanesi, associate director in Fitch Ratings (Fitch)’s structured finance team in Sydney, which calculates arrears in the state of Queensland as rising to 2 per cent of mortgages from 1.54 per cent six months earlier, believes the increase in delinquency is related to higher interest rates and increasing cost of living and changes in local socioeconomic factors. “On the Gold Coast, the stagnation in the housing market has also contributed to the increase in arrears during the six months to March 2011,” he comments.

Zanesi believes the decision by the Reserve Bank of Australia to keep cash rates unchanged since November 2010 will prove to have been a positive influence on mortgage performance in Q3 2011, after providing a certain degree of relief to borrowers in the previous quarter. The Fitch Dinkum 30+ Days RMBS Index, which tracks 30+ days delinquencies in the Australian prime RMBS sector, decreased to 1.69 per cent in June 2011 from the record high of 1.79 per cent in the first quarter of the year.

## A BETTER OUTLOOK

In spite of the increase in mortgage delinquencies, the agencies believe the impact on securitisation will be negligible while, according to Standard & Poor’s (S&P), improvement is on the horizon. Loans underlying Australian prime residential mortgage-backed securities (RMBS) that are greater than 30 days in arrears eased to 1.69 per cent in June 2011, from 1.77 per cent a month earlier, according to an S&P report published in June. Subprime RMBS arrears were lower, down 102 basis points to 11.65 per cent, with less than A\$1.92 billion (US\$1.88 billion) in subprime RMBS outstanding. In June full-documentation and low-documentation loan arrears fell by 7 basis points to 1.36 per cent, and 8 basis points to 5.71 per cent respectively, according to S&P.

“The arrears levels decreased across the board from May to June. While these levels are still higher compared with the same time in 2009 and 2010, which saw 1.44 per cent and 1.43 per cent of loans being greater than 30 days in arrears, the overall trend is positive,” comments Melbourne-based credit analyst at S&P, Vera Chaplin.

She adds that Australian households are more cautious as uncertainty in the global economy and financial markets increases – preferring to reduce debt, build savings, and defer major purchases. Says Chaplin: “While this is good from the perspective of overall household financial management, it affects the economy by, among other things, negatively affecting the retail sector. This also means borrowers in more severe arrears could find it more difficult to recover – particularly the affected self-employed borrowers whose cash flows are sensitive to non-mining sector activities.” ■

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# AUSTRALIAN MORTGAGE FUNDAMENTALS

*The lending and regulatory environment of the Australian mortgage market has remained a driving force behind the strong performance of Australian residential mortgage-backed securities (RMBS). In Australia, the strong credit culture and robust underwriting standards, compared to global peers, are supported by a regulatory framework governing consumer credit and lending.*

## BY LAMINAR ADVISORY

In Australia, personal bankruptcy and default are not widespread. One of the major deterrents to personal bankruptcy and default is the difficulty the borrower faces in obtaining credit post such an event, because the non-conforming lending market is not deep in Australia. Another deterrent to default lies in the fact that the lender may pursue the borrower's personal assets, not just the security property, in order to recover any losses associated with foreclosure or loss on sale (see 'full personal recourse').

The Australian mortgage product mix is fairly simple despite the increased competition in the market following the deregulation of the banking sector. Compared with the US, for example, we have not recently seen teaser-rate products whereby the interest rate on the loan is heavily discounted for a period of time, following which it would revert to a much higher rate, thereby creating significant payment shock for borrowers. In Australia there are some products which offer what is known as a 'honeymoon' rate for a short period. However, the discount to the actual variable rate is typically marginal, mitigating significant payment shock when the interest rate reverts to the standard variable rate.

The Australian market is predominately a variable-rate market and interest rates on mortgage loans reset to the movements in the Reserve Bank of Australia (RBA) overnight cash rate. This means the RBA's monetary policy

is highly effective in alleviating stress in the market, or even influencing underlying house prices.

Other products, which require the borrower to demonstrate only a marginal ability to afford and repay the loan, are uncommon. In Australia lenders are required under Commonwealth law to make enquiries as to the ability of the borrower to afford the loan, and the lender must be satisfied that the loan is appropriate given the borrower's circumstances (see 'national consumer credit protection').

## RMBS structural features

### PASS-THROUGH STRUCTURE

Both insured and uninsured structures are typically pass-through in nature. Pass-through essentially means that as borrowers in a securitised pool pay down the principal balance of their mortgages, the special purpose entity will pass this principal through to RMBS noteholders as a reduction of the face value of their note holdings. The notes will amortise in order of priority designated in the transaction documents, with senior notes receiving principal first, followed by the more junior notes. This is called sequential payments.

Many structures also allow for a pro rata allocation of principal to all, or some, classes of notes, provided that certain performance metrics are met. This is called serial principal payments and is used to manage the weighted average margin of the structure. Pro rata allocation of principal is also often used to reduce the weighted average life of the more junior notes, which are typically outstanding for longer than the more senior notes.

### ALLOCATION OF LOSSES

Typically, losses with respect to mortgage loans are assigned to the lowest-ranking class in the RMBS structure first. Once losses exceed the entire principal balance of the lowest-ranking class, they begin to be allocated to the next class in the structure, and so on.

### CALL OPTIONS

The option, but not the obligation, to call the outstanding RMBS notes is held by the issuer. Calls may be date-based – for example, three years after the issue date – or when the note balance reaches, for example, 10 per cent of its original balance.

### UNDERWRITING POLICY

Lenders in Australia must (see 'national consumer credit protection') be satisfied that the borrower can afford to service and ultimately repay the loan. When assessing the borrower's ability to service a mortgage, Australian lenders frequently use a buffer over the prevailing standard variable rate. This buffer typically ranges between 0.5 per cent and 2 per cent over the standard variable rate.

## ORIGINATOR/SPONSOR ALIGNMENT OF INTERESTS

One of the increasingly important structural aspects of the Australian RMBS market is the alignments of originators' or sponsoring entries' interest with those of their investors. One of the driving forces behind the alignment of interest, or 'skin in the game', demonstrated by originators, is that Australian lenders largely operate under an originate-to-service (and not sell) model, ensuring that the commitment of the originator to the loans remains throughout the life of the loan.

There are significant incentives for Australian mortgage originators or sponsors of RMBS programmes to write and securitise quality loans. The alignment of interests, with those of investors is seen at a number of levels:

### ◆ **HOLDER OF THE FIRST-LOSS PIECE**

Typically, the originator of the mortgages is also the holder of the first-loss piece in the RMBS structure or, at the very least, retains the residual capital and income units.

Excessive losses due to poor underwriting or servicing will firstly affect the level of residual income available to be distributed to the sponsor or holder of the residual income unit. Secondly, these losses may be allocated to the first-loss piece, potentially adversely affecting the principal balance of this tranche, which may also be held by the sponsor.

### ◆ **ORIGINATOR'S ROLE**

The originator of the loans is often the servicer of the loans and, in some cases, the originator may also provide other supporting party functions to RMBS transactions. In doing so, this demonstrates the ongoing commitment the originator has to the loans they have written and securitised. As the originator earns a fee for provision of these roles, excessive losses will also adversely affect this fee.

In Australia it is not often that loans are on-sold to third parties and/or serviced by third parties. This compares with the US mortgage model, commonly characterised as an 'originate-to-sell' business model, where loans that are originated by one party are sold on the secondary market.

### ◆ **BROKER INCENTIVES**

If brokers or third-party introducers are used as part of the originator's distribution network, they too are incentivised to refer strong candidates and recommend suitable products to potential borrowers. This incentive comes from the fact that many originators typically cut trail commissions once a loan falls into arrears or even claw back losses of underperforming loans from the wider trail and commission book of a broker.

Another more qualitative aspect to a broker's link to the quality of loan referrals is that as the lender does not typically on-sell the mortgages, the relationship between the broker and lender is ongoing in its nature. The lender is able to continually monitor and manage pockets of poor referrals or poor-performing loans. The lender has the ability to work with the broker in order to improve referrals, or, on the other hand, discontinue the relationship in a timely manner.

## FULL PERSONAL RECOURSE

In Australia the mortgagee or lender has full recourse to all the borrower's personal assets in the event the borrower defaults. The lender may sue the borrower for additional funds to recover outstanding losses following foreclosure. This is an important discrepancy between the Australian mortgage market and some jurisdictions in the US.

## TITLE REGISTRATION

The Australian system for title registration is supported by strong infrastructure. The most common system of land title in Australia is Torrens Title. The Torrens Title system requires that the register of land holdings is held by the relevant state. Each parcel of land is assigned a unique number and all interests and transfers of the land are noted on the title as they occur. Those noted on the register hold indefeasible title to the land parcel.

From a securitisation perspective, the originator makes representations to the issuer that it has duly registered any interests in security properties.

## UNIVERSAL CONSUMER CREDIT CODE

Historically, the Australian regulatory environment has assisted to preclude predatory lending. Prior to 2009 the Universal Consumer Credit Code (UCCC) was the body of law that protected many borrowers from fraud, deception and other illegal activities by lenders and financial institutions. The UCCC has now been superseded by the National Consumer Credit Protection Act.

An important component to the UCCC was the borrower's right to information which required lenders to reveal important details such as the annual percentage rate, comparison rate, additional fees, and other charges that add to the total cost of the loan. It is usually applicable to home, domestic and personal loans. The UCCC applied to individuals and strata corporations, but not to any other entity or corporation.

## NATIONAL CONSUMER CREDIT PROTECTION

The Australian consumer credit market is now regulated under Commonwealth legislation. Lenders are required to lend responsibly and conduct themselves in an ethical manner under the National Consumer Credit Protection Act, which is regulated and enforced by the Australian Securities and Investment Commission. Under the Act, lenders cannot offer aggressive products where the borrower demonstrates a marginal ability to service and repay the loan, as ultimately the lender must be comfortable that the borrower can afford to service the loan.

As well as lenders being required to hold a credit license, the act also governs the minimum standards by which the lender must ensure that the loan is appropriate for the borrower and that the lender understands the borrower's financial position. In addition, the Act sets out the minimum income and financial position verification standards. ■

# ALE PROPERTY GROUP



AUSTRALIAN ADI	NO
ISSUER NAME	ALE FINANCE COMPANY
SECURITISATION PROGRAMME NAMES	ALE FINANCE SERIES 2006-1 ALE FINANCE SERIES 2011-1

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	CMBS – INCLUDING FRNs AND CAPITAL-INDEXED BONDS (CIBs)
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	100%: A\$290M
NUMBER OF SECURITISATIONS ISSUED	3
TOTAL VOLUME ISSUED	A\$865M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$290M COMPRISING: <b>CIB</b> (CLASS AA): A\$130M ISSUED MAY 2006, SCHEDULED MATURITY NOV 2023 <b>CMBS</b> (CLASS AB): A\$146M ISSUED MAY 2011, SCHEDULED MATURITY MAY 2016 <b>CMBS</b> (CLASS B): A\$14M ISSUED MAY 2011, SCHEDULED MATURITY MAY 2016

## About ALE Property Group

**A**LE Property Group (ALE) was established in 2003. It is the largest freehold owner of pub properties in Australia. The properties enjoy long-term leases to Australian Leisure and Hospitality (ALH) with an average remaining term of more than 17 years. ALH is a 75% owned subsidiary of Woolworths Limited. Pubs include the Young and Jackson in Melbourne, Breakfast Creek Hotel in Brisbane and the Crows Nest Hotel in Sydney.

ALE is also the best-performing A-REIT in terms of total security holder returns since its 2003 listing on the Australian Securities Exchange (ASX).

## Securitisation and funding strategy

Securitisation is used by ALE for the secured debt component of its funding. ASX-listed debt is used for unsecured funding and ASX-listed shares are used for equity funding. ALE has tapped the CMBS market three times over the past eight years.

ALE's securitisation is one of the Australian market's limited number of whole-of-business securitisations. The capital-indexed bond and CMBS holders in a coordinated sale are entitled to recover any shortfalls from property sales from ALH's business assets (goodwill, fittings and licences) at ALE's locations. It is also the only Australian securitisation to include a super-senior CIB tranche. The CIB was issued in May 2006 with a term of 17 years and 6 months and it continues to remain in place after the CMBS issue in 2011. ■

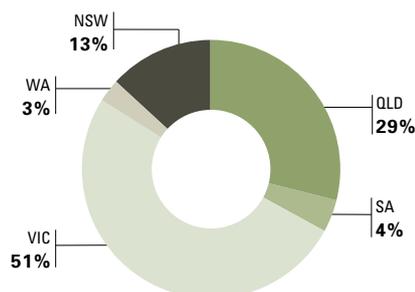
## ASSET SPECIFICS (CMBS)

### SUMMARY PORTFOLIO STATISTICS (JUNE 2011)

PROPERTY TYPE	87 FREEHOLD PUB PROPERTIES
WEIGHTED AVERAGE LVR (JUNE 2011)	CIB – SUPER SENIOR: 13% CMBS – SENIOR: 33%
LEASE DETAILS	100% LEASED TO ALH (75% OWNED BY WOOLWORTHS LIMITED)
WEIGHTED AVERAGE LEASE EXPIRY	17.3 YRS
TYPE OF COLLATERAL	
FIRST MORTGAGE PROPERTY SECURITY	A\$720.6M
SALE PROCEEDS COLLATERAL	A\$30M
DEBT SERVICE RESERVE	A\$8.3M
WHOLE OF BUSINESS SECURITY	VERY SIGNIFICANT – SEE COMMENTARY
DELINQUENCY & LOSS EXPERIENCE	NIL

As at June 2011

## GEOGRAPHIC BREAKDOWN OF COMMERCIAL PROPERTY BOOK (% BY VALUE)



SOURCE: ALE PROPERTY GROUP JUNE 2011

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Capital Manager  
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[www.alegroup.com.au](http://www.alegroup.com.au)



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	PROGRESS TRUST

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
WHOLESALE FUNDING VOLUME	A\$6.2BN
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	34%
NUMBER OF SECURITISATIONS ISSUED	13
TOTAL VOLUME ISSUED	A\$11.89BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	68% DOMESTIC, 32% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$2.7BN AND US\$351M

All data as at June 30 2011

### About AMP Bank

**A**MP is a leading wealth management company operating in Australia and New Zealand, with selected investment management activities in Asia and a growing banking business in Australia. AMP Financial Services provides financial planning advice, superannuation, retirement savings and income products, investments, risk insurance and selected banking products. Following its merger with AXA Asia Pacific Holdings in March 2011, AMP has the largest financial planner network in Australasia, with more than 4,000 financial planners.

AMP Bank is a wholly-owned subsidiary of AMP, and part of AMP Financial Services. AMP Bank is an authorised deposit-taking institution operating as a specialised home loan lender and loan servicer. AMP Bank provides loans for the purchase and refinance of residential property, catering to the owner-occupier and investor markets. AMP Bank interacts with customers through financial planners, mortgage brokers and managers, and directly through call centre and internet channels.

For H1 2011, AMP Bank contributed operating earnings of A\$31 million, up 48% from H1 2010. The bank also delivered a return on equity of 18% and a cost-to-income ratio of 32%. AMP Bank is well positioned with a capital adequacy ratio of 11.6% (tier one 8.4%), managed total home loan assets of A\$11.0 billion and a deposit book of A\$5.6 billion.

### Funding strategy and securitisation

AMP Bank's funding strategy is to ensure a diverse funding mix including retail and wholesale deposits, short-term and long-term debt issues and securitisation (see chart for funding mix as at June 30 2011).

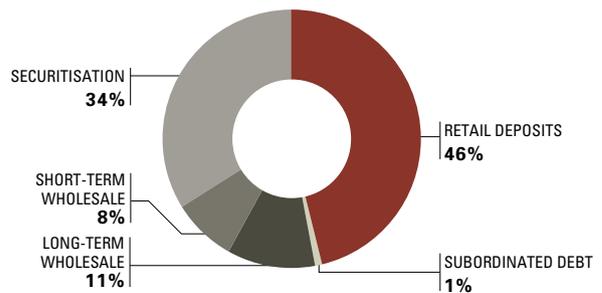
Securitisation of residential mortgages has been integral to AMP Bank's capital, liquidity and funding management.

### ASSET SPECIFICS

WEIGHTED AVERAGE LVR	FOR DATA ON EACH PROGRESS TRUST LVR GO TO: <a href="http://www.amp.com.au/securitisation">www.amp.com.au/securitisation</a>
ARREARS PERFORMANCE VS SPIN: AMP BANK (1)	1.23% VS 1.80%
TOTAL (2) LMI CLAIMS INFORMATION	
LIFE TO DATE CLAIMS PAID	A\$9.1M
LIFE TO DATE TOTAL LOSS	A\$5.32M
LMI PROVIDERS	GENWORTH, QBE

(1) Source: Standard & Poor's May 31 2011 (2) Includes on and off balance sheet loans All data as at July 31 2011

### FUNDING MIX



SOURCE: AMP BANK JUNE 30 2011

AMP Bank regularly issues RMBS in the domestic and global securitisation markets both to source funding and to gain regulatory capital relief.

AMP has consistently provided quality collateral through best practice origination, credit underwriting, servicing and collections procedures. ■

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[www.amp.com.au/securitisation](http://www.amp.com.au/securitisation)

# ASF 2012 PROFESSIONAL DEVELOPMENT COURSE DATES

DAY / DATE	COURSE	LOCATION
<i>22 Feb</i>	ASF COVERED BONDS	<i>Sydney</i>
<i>7 Mar</i>	ASF COVERED BONDS	<i>Melbourne</i>
<i>14 Mar</i>	ASF COVERED BONDS	<i>Brisbane</i>
<i>15 May</i>	SECURITISATION FUNDAMENTALS	<i>Sydney</i>
<i>16-17 May</i>	ASF DIPLOMA OF SECURITISATION	<i>Sydney</i>
<i>23 May</i>	ASF COVERED BONDS	<i>Sydney</i>
<i>14-15 Jun</i>	ASF DIPLOMA OF SECURITISATION	<i>Brisbane</i>
<i>15 Jun</i>	SECURITISATION FUNDAMENTALS	<i>Brisbane</i>



Further information on all these courses is available at [www.securitisation.com.au](http://www.securitisation.com.au)

# BANK OF QUEENSLAND



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	REDS

## USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	ABS, RMBS
PROPORTION OF ASSETS UNDER MANAGEMENT FUNDED VIA SECURITISATION	14%
NUMBER OF SECURITISATIONS ISSUED	27
TOTAL VOLUME ISSUED	APPROX. A\$15.3BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	APPROX. A\$13.6BN AND €1BN (A\$1.7BN EQUIV.)
OUTSTANDING VOLUME OF SECURITISED TERM ISSUES	APPROX. A\$4.1BN

All figures as at August 31 2011

## About Bank of Queensland

**B**ank of Queensland (BoQ) is a public company incorporated with limited liability under the laws of Australia. The bank is domiciled in Australia, listed on the Australian Securities Exchange (ASX), is regulated by the Australian Prudential Regulation Authority as an authorised deposit-taking institution, and has total assets under management of A\$39.9 billion.

BoQ operates a widespread network of 256 retail branches throughout Australia, including 106 located outside Queensland. A total of 72 branches are owned and operated by the bank, while 184 are owner-managed using BoQ's innovative owner-managed branch model. The bank's loans under management total A\$33.4 billion, of which residential property loans account for A\$24.4 billion, SME and commercial loans account for A\$5.4 billion, and leasing accounts for A\$3.5 billion – reflecting the bank's focus on well-secured housing and SME lending.

## Securitisation and funding strategy

BoQ's funding philosophy has been first and foremost to grow sticky retail deposits, then tap a diverse range of wholesale funding sources. The bank's assets under management are funded by retail deposits (52%), short-term wholesale funding (11%), long-term wholesale funding (16%), securitisation (14%) and capital (7%).

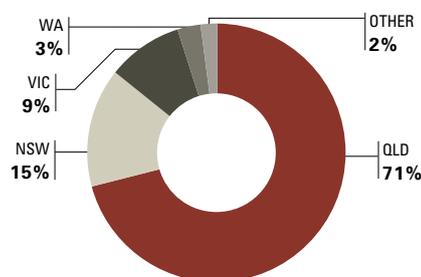
BoQ's diversified funding philosophy is complemented through its RMBS and ABS public issues under the REDS programme and its REDS RMBS warehouse facilities. The bank has been a regular issuer in the capital markets under the REDS programme since 1998, having issued over A\$12 billion of RMBS through 21 separate public bond issues and over A\$3 billion of ABS (via REDS EHP) through six separate

## ASSET SPECIFICS (RMBS)

WEIGHTED AVERAGE LVR	53%
ARREARS PERFORMANCE VS SPIN	REDS ARREARS HAVE HISTORICALLY TRACKED AROUND SPIN
LMI PROVIDERS	OBE, GENWORTH

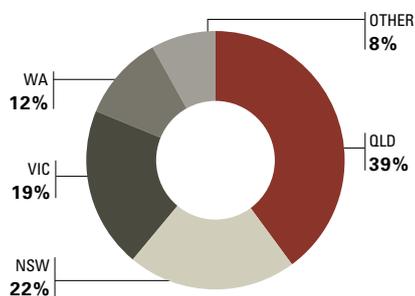
All figures as at August 31 2011

## GEOGRAPHIC BREAKDOWN: REDS RMBS



SOURCE: BANK OF QUEENSLAND AUGUST 31 2011

## GEOGRAPHIC BREAKDOWN: REDS EHP



SOURCE: BANK OF QUEENSLAND AUGUST 31 2011

bond issues. BoQ is an experienced servicer and the REDS programme has consistently delivered strong collateral pools. It continues to evolve and be responsive to investor needs, while the bank's strategy remains to issue structures which are attractive to investors. ■

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# BANKWEST



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	SWAN TRUST

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	APPROX. 10%
NUMBER OF SECURITISATIONS ISSUED	6
TOTAL VOLUME ISSUED	A\$10.6BN
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$3BN, INCLUDING US\$350M AND €350M

### About Bankwest

**B**ankwest provides personal and business banking solutions for more than one million retail and business customers across Australia. The bank's customers enjoy access to an extensive network of stores and business centres, direct and third-party distribution channels, agencies and electronic banking facilities, as well as 24-hour telephone and internet banking. For two consecutive years Bankwest has been chosen as the AFR Smart Investor Blue Ribbon Awards Bank of the Year – in 2010 and 2011. Bankwest is a wholly-owned subsidiary of Commonwealth Bank of Australia (CBA) (see p47).

### Securitisation and funding strategy

As a core subsidiary of CBA, Bankwest's funding is undertaken in the wider context of CBA's overall funding plans. Bankwest's funding includes a balanced mix of retail and wholesale deposits – which account for around 60% of funding.

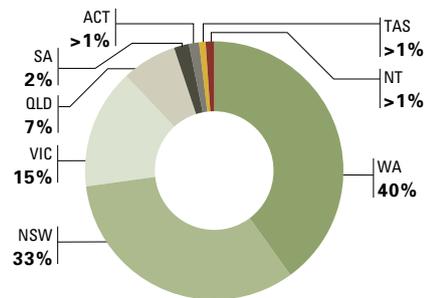
While CBA provides some funding for Bankwest (around 20%) through a diverse range of markets, Bankwest also maintains access to term debt markets through ECP and MTN programmes.

Additionally, Bankwest has conducted securitisation through its SWAN programme for many years –which currently accounts for approximately A\$3 billion of funding. ■

## ASSET SPECIFICS (RMBS)

WEIGHTED AVERAGE LVR OF CURRENT AMORTISED DEALS	52%
ARREARS PERFORMANCE VS SPIN (AT MAY 31 2011)	0.73% VS 1.77%
LMI PROVIDER	QBE

## GEOGRAPHIC BREAKDOWN OF SWAN POOL \*



SOURCE: BANKWEST SEPTEMBER 2011

\* average of SWAN deals

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# CAPITAL FINANCE AUSTRALIA



## CAPITAL FINANCE

AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	BELLA TRUST

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	AUTO AND EQUIPMENT RECEIVABLES ABS
NUMBER OF SECURITISATIONS ISSUED	5
TOTAL VOLUME ISSUED	A\$3.2BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	94% DOMESTIC, 6% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$2.2BN

### About Capital Finance Australia

Capital Finance Australia (CFAL) is one of Australia's leading asset finance companies, providing asset funding to all types of businesses and individuals. Its focus is on partnering with customers and offering the right asset finance solutions for their unique needs.

CFAL is a wholly-owned subsidiary of Lloyds International (ultimate parent: Lloyds Banking Group plc).

CFAL provides finance via four major channels:

- ◆ Motor dealers (motor vehicle wholesale funding for dealers and retail finance for individuals through those dealers).
- ◆ Finance brokers (motor and equipment finance for businesses).
- ◆ Vendors (equipment finance for businesses).
- ◆ Corporate asset finance (high-value and specialist assets for large corporate and government clients).

### Securitisation and funding strategy

Securitisation is a key funding tool for Lloyds Banking Group, with £37.1 billion of outstanding public issues as at June 30 2011. The Bella Trust forms a key component of funding Lloyds Banking Group's Australian businesses and CFAL expects to remain a frequent issuer via this programme.

### Delinquency and loss experience

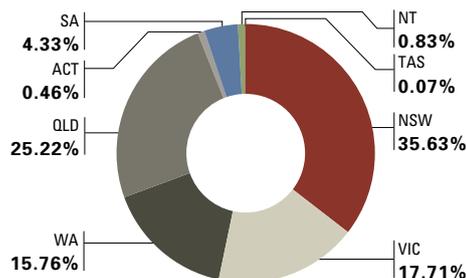
For detailed investor reporting please go to:

[www.lloydsbankinggroup.com/investors/debt\\_investors.asp](http://www.lloydsbankinggroup.com/investors/debt_investors.asp) ■

### ASSET SPECIFICS

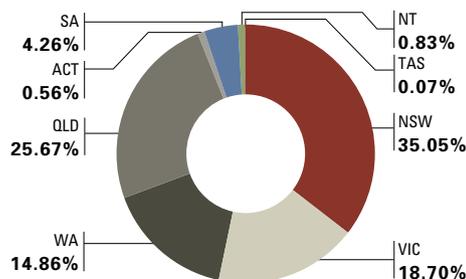
	BELLA 2011-1	BELLA 2010-1
CONTRACTS BY FINANCE TYPE		
TERM PURCHASE	9.39%	10.59%
SECURED LOAN	59.93%	51.60%
CHattel MORTGAGE	30.68%	37.82%
TYPE OF COLLATERAL		
NEW	63.55%	65.27%
USED	36.45%	34.73%

### GEOGRAPHIC BREAKDOWN OF ASSETS BELLA TRUST 2011-1



SOURCE: CAPITAL FINANCE AUSTRALIA SEPTEMBER 2011

### GEOGRAPHIC BREAKDOWN OF ASSETS BELLA TRUST 2010-2



SOURCE: CAPITAL FINANCE AUSTRALIA SEPTEMBER 2011

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# CITI AUSTRALIA



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	SECURITISED AUSTRALIAN MORTGAGE TRUST (SAMT)

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
NUMBER OF SECURITISATIONS ISSUED	30
TOTAL VOLUME ISSUED*	A\$9.45BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$1.98BN

\* Includes all RMBS issued by Citibank Australia, including deals issued under the Compass programme, which has now ceased.

## About Citi Australia

As part of one of the world's largest financial services companies with a presence in more than 160 countries, Citi Australia has provided financial services to Australian consumers, corporates, institutions and governments for more than 30 years. Recognised for its innovative range of global products and services, today Citi Australia counts more than one million Australians and 1,000 local corporate and institutional investors as clients.

Citi Australia has two major business divisions – the Global Consumer Group and the Institutional Clients Group.

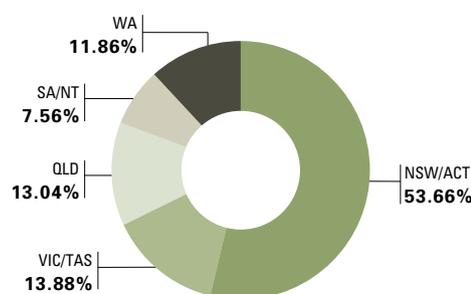
Citibank is the brand name for the consumer banking business. The business provides products and services to affluent and aspiring affluent consumers in Australia with global banking needs. It offers a full suite of products including mortgages, transaction and savings accounts, credit and debit cards, insurance and wealth management.

Citi Australia, through the Institutional Clients Group, is a major market player in Australia's equities, fixed income, foreign exchange, commodities and futures markets, and has been for more than two decades. The business provides corporate and investment banking services, capital markets capabilities and global transaction services. It is one of the few investment banking firms in Australia with a full range of services and the ability to tap capital and expertise around the world.

## Securitisation strategy

Citibank Australia has issued 12 RMBS deals in the domestic market off the Securitised Australian Mortgage Trust (SAMT) programme, which debuted in 1995. The most recent transaction was a A\$760 million three-tranche deal issued in April 2011. The two top tranches of the transaction, which

## GEOGRAPHIC BREAKDOWN: SAMT 2011-1



SOURCE: CITIBANK SEPTEMBER 2011

account for A\$691 million of total volume, were assigned triple-A ratings by Standard & Poor's and Moody's Investors Service. Citibank Australia's previous deal in the Australian RMBS market was a A\$500 million transaction priced in May 2008. The issuer also placed A\$1 billion the previous year and A\$1.5 billion in 2006. ■

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# COMMONWEALTH BANK OF AUSTRALIA



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	MEDALLION TRUST

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	4%
NUMBER OF SECURITISATIONS ISSUED	13
TOTAL VOLUME ISSUED	A\$36BN
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$8BN, INCLUDING US\$1.5BN AND €500M

## About Commonwealth Bank of Australia

Commonwealth Bank of Australia (CBA) is Australia's leading provider of integrated financial services including retail banking, premium banking, business banking, institutional banking, funds management, superannuation, insurance, investment and sharebroking products and services.

Australia's largest bank and second-largest listed company on the Australian Securities Exchange, CBA is:

- ◆ Market leader in household deposits with over 30% market share.
- ◆ Market leader in home lending with over 26% market share.
- ◆ Market leader FirstChoice platform with 11% market share.

The bank has a large distribution footprint, with 13 million customers.

## Securitisation and funding strategy

CBA's funding strategy builds from the leading market share it maintains in retail deposits in the Australian market. Of its approximately A\$580 billion of funding, 61% currently comes from this source. The bank's approach to wholesale funding is to remain diversified across markets and to maintain a degree of flexibility in terms of timing of transactions. The mix between short-term and long-term funding in wholesale markets is approximately 48/52%, respectively.

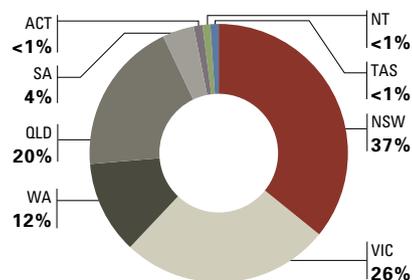
This wholesale funding is complimented by securitisation issues through the Medallion programme. After an inactive period across the Australian market following the onset of the global financial crisis through to 2010, CBA led the market with the largest Australian dollar securitisation deal on record in March 2011, issuing A\$3 billion through the Medallion programme. ■

## ASSET SPECIFICS (RMBS)

### SUMMARY PORTFOLIO STATISTICS

WEIGHTED AVERAGE LVR OF CURRENT AMORTISED DEALS	50%
ARREARS PERFORMANCE VS SPIN	30+ ARREARS AT MAY 31 2011: 0.43% VS 1.77%
LMI PROVIDERS	GENWORTH, QBE

## GEOGRAPHIC BREAKDOWN OF MEDALLION POOL\*



SOURCE: COMMONWEALTH BANK OF AUSTRALIA SEPTEMBER 2011

\* average of recent Medallion deals

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# COMMUNITY CPS AUSTRALIA



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	BARTON TRUST

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	98%
NUMBER OF PUBLIC SECURITISATIONS ISSUED	1
TOTAL VOLUME ISSUED	A\$300M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$275.8M

## About Community CPS Australia

Community CPS Australia (Community CPS) is one of Australia's largest and most influential credit unions, with more than 185,000 members, 580 employees and 48 branches across South Australia, the Australian Capital Territory (ACT), New South Wales (NSW) and Western Australia (WA).

Community CPS was formed in 2006 as a result of a merger between CPS Credit Union (SA) and CPS Credit Union Co-operative (ACT). In November 2008 Community CPS merged with United Credit Union in WA and now carries on business in WA as United Community. In January 2010 Community CPS merged with Companion Credit Union in NSW and now carries on business in the Hunter region of NSW as Companion Credit Union. In June 2011 Community CPS merged with Wagga Mutual Credit Union and now carries on business as Wagga Mutual in the Wagga Wagga region of NSW.

Community CPS offers a diverse range of financial services including savings accounts, loans, term deposits, insurance, financial planning, and tax and accounting. Community CPS does not use brokers and originates solely through direct channels, predominantly through Community CPS branches. It does not originate low-doc or no-doc loans.

Community CPS aims to build close relationships with its members to assist them to achieve their lifestyle goals and financial success, and to contribute to the improvement of their local communities through its community development programme.

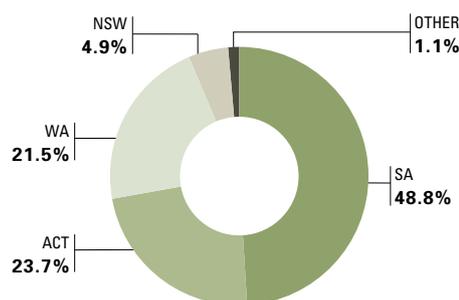
## Securitisation and funding strategy

The Community CPS board maintains a formal funding plan that is focused on ensuring a flexible, durable and cost-effective funding strategy is implemented. The funding plan sets out a framework and guidelines by which the funding strategy can be planned and implemented. The guidelines are

## ASSET SPECIFICS (RMBS)

WEIGHTED AVERAGE LVR	60.21%				
ARREARS PERFORMANCE VS SPIN:	APR 11	MAY 11	JUN 11	JUL 11	AUG 11
31-60 DAYS	0.05%	0.00%	0.00%	0.00%	0.23%
61-90 DAYS	0.10%	0.10%	0.10%	0.00%	0.00%
> 90 DAYS	0.00%	0.00%	0.00%	0.00%	0.00%
LMI CLAIMS INFORMATION	NONE				
LMI PROVIDERS	QBE (93.2%), GENWORTH (6.8%)				
LOSS EXPERIENCE	NONE				

## GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK



SOURCE: COMMUNITY CPS AUSTRALIA SEPTEMBER 2011

based on current market best practice and address funding mix, maturity and diversity.

The current funding strategy retains deposits as the primary source of funding but supplements them with a mix of funding sources from wholesale markets. The medium-term funding objective is gradually to reduce retail deposit funding to less than 80% of total debt funding, with the residual to be drawn from a range of wholesale funding options with a mix of maturity terms and sourced from a variety of different markets, as well as products and providers within those markets. The funding plan identifies the most suitable wholesale funding options as a combination of warehouse securitisation facilities, term RMBS securitisation and industry borrowing structures.

The Barton Trust programme was launched in April 2011 to pursue the funding plan's objectives and its first transaction received strong support from real money investors plus Australian Office of Financial Management participation. ■

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# FIRSTMAC



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	FIRSTMAC

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
CURRENT WHOLESALE FUNDING VOLUME	A\$4.5BN
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	90%
NUMBER OF SECURITISATIONS ISSUED	20
TOTAL VOLUME PUBLICLY ISSUED	A\$9.3BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	65% DOMESTIC, 35% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES (INCLUDING CURRENCY BREAKDOWN)	A\$3.6BN, A\$500M EQUIV. DENOMINATED IN EUR

## About FirstMac

FirstMac is an Australian-owned non-authorized deposit-taking institution operating as a specialised home loan lender and loan servicer. The company provides loans for the purchase and refinance of residential property, catering to both owner-occupiers and investors. Since the mid-1990s FirstMac has played an integral part in the evolution of the home loan market into a more competitive environment.

Since 2008 FirstMac has evolved its business strategy to focus on retail distribution of financial products. The group writes only prime fully-verified residential mortgages. FirstMac's delinquency performance has remained materially below industry SPIN for the past three years.

FirstMac has a fully-integrated, web-enabled loan origination, underwriting and servicing platform, as well as a long history of servicing loans, financial stability, a proactive compliance culture and a quality assurance framework.

## Securitisation and funding strategy

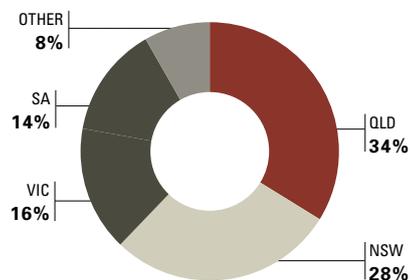
FirstMac is reliant on the issuance of RMBS in the securitisation market to source funding to enable it to continue to provide home loans in competition with the major bank lenders.

Since 2008 FirstMac's funding strategy has been to issue historically smaller transaction sizes on a more frequent basis. This maintains a higher percentage of longer match-term funding and ensures optimum liquidity for the group's short-term warehousing facilities.

## ASSET SPECIFICS (RMBS)

WEIGHTED AVERAGE LVR	71%
ARREARS PERFORMANCE VS SPIN	0.91%
LMI CLAIMS INFORMATION	
LIFE TO DATE CLAIMS MADE	A\$19.4M
LIFE TO DATE CLAIMS PAID	A\$18.5M
LMI PROVIDERS	GENWORTH, QBE

## GEOGRAPHIC BREAKDOWN OF ASSETS



SOURCE: FIRSTMAC SEPTEMBER 2011

The Australian Office of Financial Management (AOFM) has been a supporter of FirstMac's issuance programme, including FirstMac becoming the beneficiary of the AOFM's inaugural RMBS investment in November 2008. Since this time the AOFM has invested A\$1.4 billion in FirstMac's RMBS issuance. ■

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# FLEETPARTNERS



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAMES	FP TURBO TRUST FP IGNITION TRUST

## USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	MOTOR VEHICLE, NOVATED, FINANCE AND OPERATING LEASE-BACKED
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	100%
NUMBER OF ABS TRANSACTIONS ON ISSUE	2
TOTAL VOLUME ISSUED	A\$1.1BN EQUIVALENT
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	78.3% AUD 21.7% NZD
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$1.04BN EQUIVALENT

## About FleetPartners

FleetPartners provides fleet leasing products to the corporate business market. FleetPartners' market share positions it as one of the top three leasing companies in Australia and New Zealand. The company is based in Richmond, Victoria with sales offices throughout Australasia. In excess of 50,000 drivers in Australia and New Zealand drive vehicles supported by FleetPartners' fleet leasing and management services.

FleetPartners dates back to the 1980s, during which period ANZ formed two joint venture businesses to provide fleet leasing products to the corporate business market. In 1996 the two joint ventures were merged into a single legal entity and began trading under the brand FleetPartners. In November 2006 the business was acquired by a private equity group led by a former and now current FleetPartners chief executive officer, Nick Johnson.

Current shareholders include entities controlled, managed or advised by Government of Singapore Investment Corporation, Ironbridge Capital and the senior management team of FleetPartners.

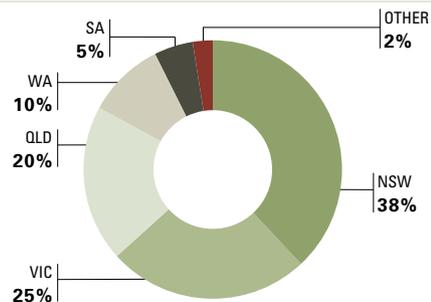
## Securitisation and funding strategy

FleetPartners aims to be a frequent and regular issuer of Australian dollar-denominated ABS for all lease types. In October 2011 the firm debuted as a securitised issuer in the New Zealand market via its subsidiary, Fleet Holding (NZ), in the country's first non-mortgage asset-backed deal since the financial crisis. ■

## ASSET SPECIFICS (AUD ABS)

CONTRACTS BY LEASE TYPE	NOVATED 20%, FINANCE 6%, OPERATING 74%
TYPE OF COLLATERAL	NEW 86%, USED 14%
WEIGHTED AVERAGE LIFE	29 MONTHS

## GEOGRAPHIC BREAKDOWN OF ASSETS



SOURCE: FLEETPARTNERS SEPTEMBER 2011

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# FLEXIGROUP

## FLEXIGROUP

AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	FLEXI ABS TRUST

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	ABS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	21%
NUMBER OF SECURITISATIONS ISSUED	2
TOTAL VOLUME ISSUED	A\$169M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$152M AS AT JUNE 30 2011

### About FlexiGroup

An Australian public company (ASX: FXL), FlexiGroup is a leading provider of vendor and retail point-of-sale finance and telecommunication services.

FlexiGroup's four business streams offer a broad set of products and services that can adapt to the specific needs of vendor partners from small ticket, highly transactional activities through to larger commercial transactions. Broadly, these products and services include lease, interest free, mobile broadband, cheque guarantee and lay-by. The company operates within a diverse range of commercial and consumer industries including IT and electrical, telecommunications, home improvement, solar systems, medical, furnishings, and travel.

Throughout its history FlexiGroup has diversified – through acquisition, product innovation and funding diversity – to deliver strong volume and profit growth while maintaining stable credit quality. The company remains focused on preserving its unique, fast-paced culture with a team of talented people who challenge themselves to make it 'too easy' for customers, retailers, funders and shareholders to interact with all levels of the business.

### Securitisation and funding strategy

FlexiGroup has pursued a simple and conservative funding strategy, based around its goals to:

- ◆ Grow and maintain a diversity of funding sources.
- ◆ Maintain strong, open relationships with all funding partners.
- ◆ Maintain adequate committed facilities to accommodate the group's continued strong growth.
- ◆ Match fund for term and rate to minimise risk.

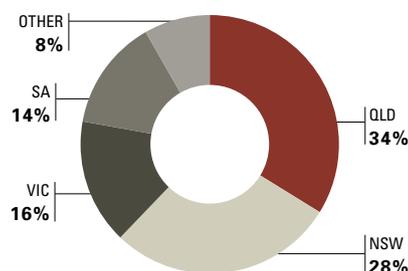
### ASSET SPECIFICS (ABS)

#### SUMMARY SECURITISED PORTFOLIO STATISTICS

NUMBER OF CONTRACTS	94,465
AVERAGE CONTRACT SIZE	A\$1,567
CONTRACTS BY FINANCE TYPE	
LEASE	12%
NO INTEREST PAYMENT PLANS	88%

All numbers are as at June 30 2011

### GEOGRAPHIC BREAKDOWN OF ASSETS



SOURCE: FLEXIGROUP SEPTEMBER 2011

Having completed its initial issuances in the 2011 financial year, FlexiGroup sees securitisation as an important part of its ongoing funding strategy. ■

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# HERITAGE BUILDING SOCIETY



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	HBS TRUST

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	APPROX. 55%
NUMBER OF SECURITISATIONS ISSUED	10 PUBLIC DEALS: 7 AUD AND 3 EUR (6 REDEEMED), 3 AUD WAREHOUSE ARRANGEMENTS, 1 AUD INTERNAL SECURITISATION ARRANGEMENT, 1 PRIVATE DEAL
TOTAL VOLUME ISSUED (PUBLIC)	APPROX. A\$5.7BN EQUIVALENT
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	DOMESTIC: APPROX. 57% OFFSHORE: APPROX. 43%
TOTAL OUTSTANDING VOLUME	APPROX. A\$1.2BN EQUIV. (A\$1BN, €101M)

## About Heritage Building Society

Heritage Building Society (Heritage) is Australia's largest building society, with approximately A\$8.04 billion in total consolidated assets as at June 2011. It is a public company, limited by shares and guarantee, that operates as a mutual organisation. Heritage is an authorised deposit-taking institution (ADI) and as such is regulated by the Australian Prudential Regulation Authority. Heritage's head office is in Toowoomba, Queensland.

Heritage offers its members a variety of retail banking products and services via a network of branches and mini-branches in south east Queensland, as well as through mortgage-broking intermediary offices across the eastern seaboard and South Australia. Heritage has a prudent risk appetite and does not originate low-doc or no-doc loans.

The mutual business structure is an integral component of Heritage's operating philosophy.

Heritage has a track record of robust financial performance over many years and, in the absence of shareholders pressuring for short-term outcomes, can focus on long-term objectives when making business decisions.

## Securitisation and funding strategy

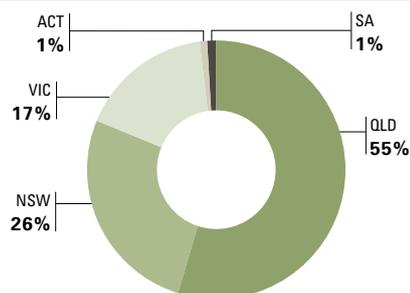
As a growth mutual Heritage relies on the funding and capital management benefits associated with securitisation. Accordingly, the building society has been an active issuer in the mortgage-backed securitisation markets since 2001, when it completed its first public deal. Since that time Heritage has sponsored 10 public Australian dollar and euro-denominated issues under the HBS Trust banner.

Transactions are typified by low-risk collateral, as evidenced by the extremely low arrears levels experienced within

## ASSET SPECIFICS (RMBS)

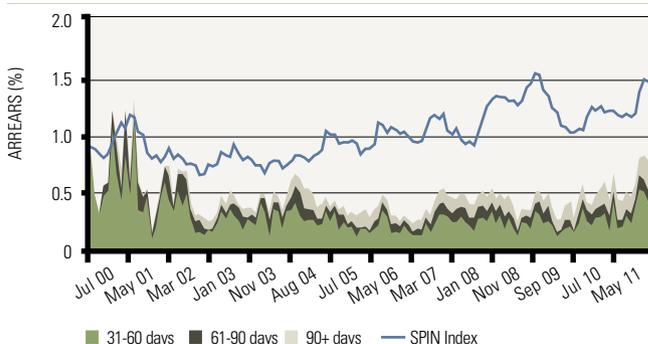
WEIGHTED AVERAGE LVR	60.5%
LMI PROVIDERS	PERMANENT LMI (HERITAGE PART-OWNED), GENWORTH, QBE

## GEOGRAPHIC BREAKDOWN OF ASSETS



SOURCE: HERITAGE BUILDING SOCIETY JUNE 2011

## HERITAGE SECURITISED LOANS ARREARS VS SPIN



SOURCE: HERITAGE BUILDING SOCIETY JUNE 2011

underlying mortgage pools. Heritage's strategy is to build a sustainable funding base across a diversity of channels while maintaining a strong, low-risk franchise in traditional mortgage-backed securitisation markets. In addition to its traditional retail deposit base and securitisation activities, Heritage has access to a diversity of wholesale funding options through a multi-faceted wholesale debt programme. Heritage has also accessed capital markets via an Australian Securities Exchange-listed retail bond, the first of its kind by a mutual ADI. ■

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AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	ILLAWARRA TRUST

### USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS/CMBS (small ticket)
TOTAL VOLUME ISSUED	A\$3BN
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	100%
NUMBER OF SECURITISATIONS ISSUED	RMBS: 5 CMBS: 3
CURRENT FUNDING TOTAL	A\$1.2BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$1.2BN

### About IMB

IMB is one of Australia's largest building societies with assets of more than A\$4.8 billion and over 180,000 members. Established in 1880, it is also the longest-standing building society in New South Wales (NSW).

IMB offers full-service face-to-face and internet and mobile banking facilities including home and personal lending, savings and transaction accounts, term deposits, business banking, financial planning, and a wide range of insurance products.

IMB has 43 branches throughout the Illawarra region south of Sydney, Sydney itself, the NSW south coast, the Australian Capital Territory and Melbourne. These branches are supported by an effective mobile lending team and ATM network. IMB also provides commercial loans through broker groups across Australia.

IMB is regulated by the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, and is a member of ABACUS, an independent organisation representing building societies and credit unions.

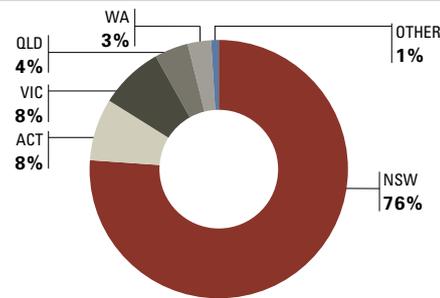
### Securitisation and funding strategy

IMB is predominantly funded by retail deposits but also has a diverse wholesale funding capability, including the use of securitisation, to diversify its funding base. IMB is a regular issuer under its Illawarra Trust programme and in August 2011 launched a A\$200 million CMBS issue, the third small-ticket CMBS deal completed by IMB. ■

### ASSET SPECIFICS (RMBS)

WEIGHTED AVERAGE LVR	63.4%
ARREARS PERFORMANCE VS SPIN	90+ DAYS: 0.08% VS SPIN 0.23%
LMI CLAIMS INFORMATION	5 CLAIMS MADE OUT OF 14,900 SECURITISED LOANS
LMI PROVIDERS	GENWORTH, QBE

### GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK



SOURCE: IMB SEPTEMBER 2011

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# ING BANK AUSTRALIA



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	IDOL TRUST SERIES

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
WHOLESALE FUNDING VOLUME (FY11)	A\$20.2BN
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	7.15%
NUMBER OF SECURITISATIONS ISSUED	2
TOTAL VOLUME ISSUED	A\$1.7BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$1.44BN

## About ING DIRECT

ING DIRECT – the trading name of ING Bank Australia – is a specialist retail direct savings bank. It offers customer-focused products in the retail mortgage, innovative direct banking and specialised commercial property markets.

With more than A\$24 billion in deposits, A\$37 billion in mortgages and 1.4 million customers in Australia, it is the fifth-largest retail bank in the country. ING DIRECT launched in Australia in 1999, its headquarters are in Sydney and it has more than 950 staff across the nation.

ING DIRECT is wholly owned by ING Group, a global financial institution offering banking, investments, life insurance and retirement services. ING Group serves more than 85 million private, corporate and institutional clients in more than 40 countries. ING Group has 105,000 staff.

## Securitisation and funding strategy

Securitisation is becoming a key part of ING Bank Australia's long-term funding mix to complement its unsecured medium-term note programme.

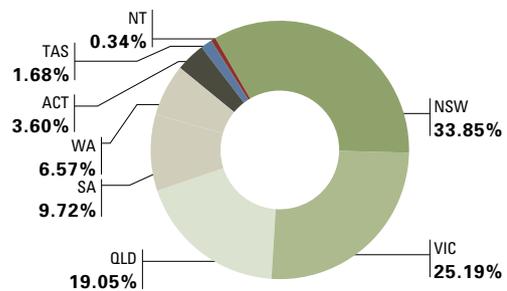
IDOL Trust Series 2010-1, which was issued in October 2010 with a total size of A\$900 million, was the inaugural external RMBS issuance for ING Bank Australia. This deal was supported by the Australian Office of Financial Management (AOFM), which bought the entire A\$250 million A2 tranche.

The IDOL Trust Series 2011-1 was issued in June 2011 with a total size of A\$800 million. This deal was also supported by the AOFM, which bought A\$200 million of the class A tranche. ■

## ASSET SPECIFICS (IDOL TRUST SERIES)

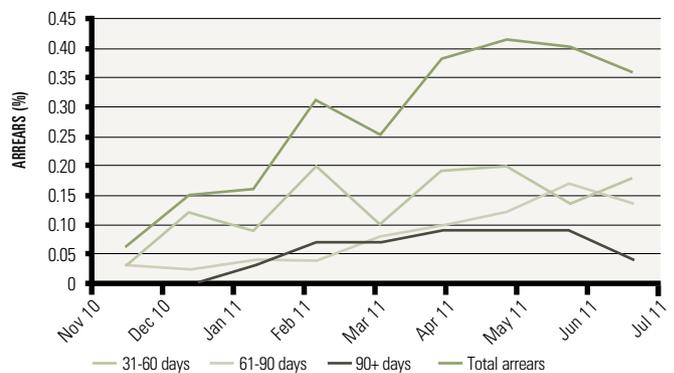
WEIGHTED AVERAGE LVR	65.74%
LMI CLAIMS INFORMATION	NO CLAIMS TO DATE
LMI PROVIDERS	GENWORTH, QBE

## GEOGRAPHIC BREAKDOWN OF MORTGAGE POOL (IDOL SERIES)



SOURCE: ING BANK AUSTRALIA SEPTEMBER 2011

## IDOL TRUST SERIES ARREARS LEVELS



SOURCE: ING BANK AUSTRALIA SEPTEMBER 2011

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# INVESTEC BANK (AUSTRALIA)



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	IMPALA TRUST

## USE OF SECURITISATION (1)

TYPE OF SECURITISATION ISSUED	ABS
WHOLESALE FUNDING TOTAL EX. SECURITISATION	A\$2.1BN (2)
NUMBER OF SECURITISATIONS ISSUED	2
TOTAL VOLUME ISSUED	A\$455.5M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$373M

(1) As at July 31 2011, except (2) As at March 31 2011

## About Investec Bank (Australia)

Investec Bank (Australia) Limited (IBAL) is a wholly-owned subsidiary of Investec plc. The Investec Group (comprised of Investec plc and Investec Limited) is an international specialist bank and asset manager listed on the London and Johannesburg stock exchanges with assets of more than £51 billion and market capitalisation of approximately £3.872 billion as at March 31 2011.

IBAL entered the Australian market in 1997. Since then IBAL has grown through a combination of organic growth and strategic acquisitions.

Employing over 400 staff in Australia, IBAL has offices across Sydney, Melbourne, Brisbane, Adelaide and Perth.

## Securitisation and funding strategy

IBAL's funding strategy is to ensure a diversity of funding sources, tenors and types to achieve a prudent mix. Securitisation is considered part of this strategy.

IBAL's funding strategy aims to:

- ◆ Allow IBAL to grow its lending activities organically and achieve its business objectives in Australia.
- ◆ Give IBAL the flexibility to explore loan asset acquisition opportunities as they arise.
- ◆ Ensure that all regulatory requirements in respect of funding and liquidity are met or exceeded on an ongoing basis.
- ◆ Broaden and diversify its retail deposit base by increasing product functionality and type, limiting concentration risk and building a retail franchise.
- ◆ Shift the balance of wholesale funding source towards relationship based clients.

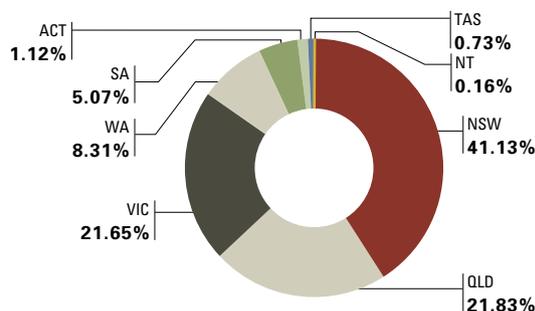
IBAL has adopted an 'over-funded' strategy to maximise balance sheet resilience, and continually focuses on diversifying funding sources. ■

## ASSET SPECIFICS (ABS)

SUMMARY PORTFOLIO STATISTICS	IMPALA 2010-1	IMPALA 2011-1
POOL BALANCE	A\$151M	A\$207M
NUMBER OF CONTRACTS	4,320	4,490
AVERAGE CONTRACT SIZE	A\$34,991	A\$46,051
CONTRACTS BY FINANCE TYPE (%)		
LEASE (FINANCE LEASE)	15.93	27.87
CHattel MORTGAGE	70.13	58.69
ASSET LEASE	12.28	10.37
BUSINESS LOANS	0.00	2.11
RENTAL	1.66	0.96
TYPE OF COLLATERAL (%)		
MOTOR VEHICLE	44.72	38.55
COMPUTERS	1.35	1.24
MEDICAL EQUIPMENT	31.60	25.56
DENTAL EQUIPMENT	21.46	17.05
OFFICE EQUIPMENT / FURNITURE	0.73	0.79
FIXTURES AND FIT OUT	0.00	14.02
OTHER ASSETS	0.14	2.79
DELINQUENCY & LOSS EXPERIENCE	NO LOSSES SUFFERED BY RATED NOTEHOLDERS	

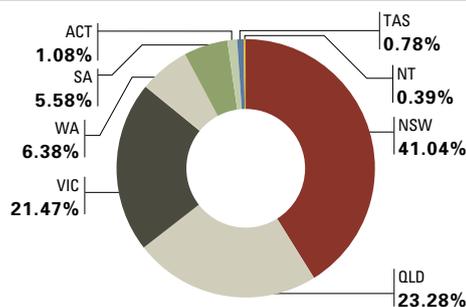
As at July 31 2011

## GEOGRAPHIC BREAKDOWN OF ASSETS (IMPALA 2011-1)



SOURCE: INVESTEC BANK AUSTRALIA SEPTEMBER 2011

## GEOGRAPHIC BREAKDOWN OF ASSETS (IMPALA 2010-1)



SOURCE: INVESTEC BANK AUSTRALIA SEPTEMBER 2011

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# LIBERTY FINANCIAL



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	LIBERTY

## USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	ABS, CMBS, RMBS
NUMBER OF SECURITISATIONS ISSUED	24
TOTAL VOLUME ISSUED	A\$10BN+
CURRENCIES ISSUED	AUD, EUR, NZD, USD

### About Liberty Financial

Liberty Financial (Liberty) is a leading diversified financial services company that offers a broad range of credit and retail investment products across Australia and New Zealand. Liberty's credit expertise spans residential and commercial mortgages, auto and equipment loans, dealer floorplan and invoice receivables finance.

Liberty remains one of few issuers worldwide that has not experienced any charge-offs, outlook warnings or downgrades to any security ever issued from any of its programmes.

### Securitisation and funding strategy

Liberty has been an active participant in the securitisation markets for more than 10 years and has successfully completed 24 transactions totalling more than A\$10 billion. Liberty has been able to issue seven securitisations to continue business lending throughout the recent market dislocation.

Liberty has supported its funding programme with a rigorous approach to servicing, and has received favourable servicer ratings from Standard & Poor's across a broad range of assets. Liberty remains committed to maintaining a sound financial base to underpin its funding activities, of which securitisation will remain an important component.

Since inception Liberty has been able to generate stable profitability. This has allowed the company to increase its equity capital to more than A\$250 million.

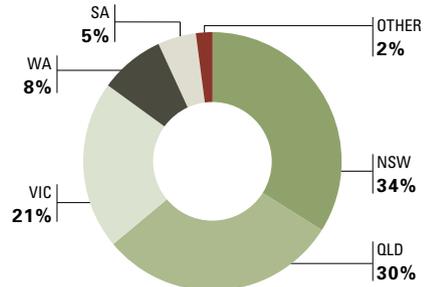
In addition to securitisation, Liberty accesses wholesale facilities, commercial paper markets and a growing retail investor base. Liberty is supported by its banking partners – Credit Suisse, Deutsche Bank, National Australia Bank and Westpac Banking Corporation. ■

## ASSET SPECIFICS (ABS, CMBS, RMBS)

### LMI CLAIMS INFORMATION

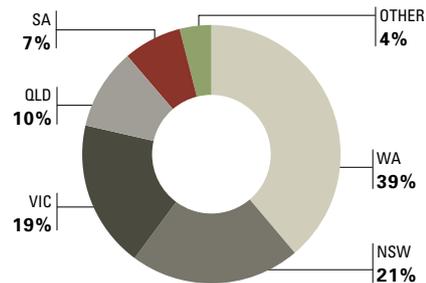
CLAIMS MADE TO DATE	ZERO
CLAIMS PAID TO DATE	ZERO
LMI PROVIDERS	GENWORTH, QBE

## GEOGRAPHIC BREAKDOWN: AUSTRALIAN ABS



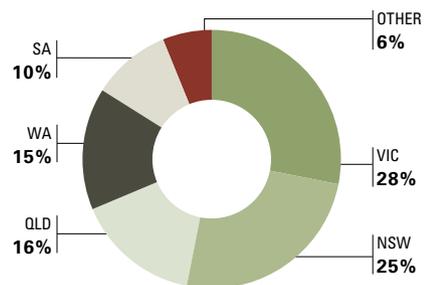
SOURCE: LIBERTY FINANCIAL SEPTEMBER 2011

## GEOGRAPHIC BREAKDOWN: AUSTRALIAN CMBS



SOURCE: LIBERTY FINANCIAL SEPTEMBER 2011

## GEOGRAPHIC BREAKDOWN: AUSTRALIAN RMBS



SOURCE: LIBERTY FINANCIAL SEPTEMBER 2011

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# MACQUARIE GROUP



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	SMART, PUMA, MEF

Macquarie Securitisation Limited (manager of the PUMA RMBS programme) and Macquarie Securities Management Pty Limited (manager of the SMART auto and equipment lease programme) are wholly-owned subsidiaries of Macquarie Bank Limited, which is a regulated ADI and part of Macquarie Group Limited.

## About Macquarie Group

**M**acquarie Group (Macquarie) is a global provider of banking, financial, advisory, investment and funds management services. Macquarie acts on behalf of institutions, corporate and retail clients, and counterparties around the world. Founded in 1969, Macquarie operates in more than 70 office locations in 28 countries and employs more than 15,500 staff. At March 31 2011 Macquarie had assets under management of A\$310 billion.

Macquarie is listed on the Australian Securities Exchange and is regulated by the Australian Prudential Regulation Authority as a non-operating holding company of an authorised deposit-taking institution, Macquarie Bank.

## Securitisation and funding strategy

Macquarie has been a leading participant in the securitisation market since 1991. It uses securitisation primarily to provide funding diversification. Issuance activity is a function of the level of business activity and group liquidity requirements. Macquarie mainly uses securitisation to fund consumer and small-ticket commercial receivables originated and managed by the group.

Macquarie-sponsored securitisation programmes have been regular issuers in the US, European, Asian and Australian capital markets since 1993. The firm has two strong issuance platforms: PUMA, which is used to fund Australian, insured residential mortgages, and SMART, which is used to fund Australian auto and equipment leases. A third platform established in 2011, MEF, is used to fund US equipment lease receivables. Smaller asset portfolios are securitised on an *ad hoc* basis.

The company's Canadian mortgage business also participates in the Canadian mortgage bond programme and is an issuer of NHA mortgage-backed securities.

Macquarie generally retains some credit exposure to collateral through residual interests and reputational risk through management and servicing of collateral. ■

## Smart programme

### USE OF SECURITISATION

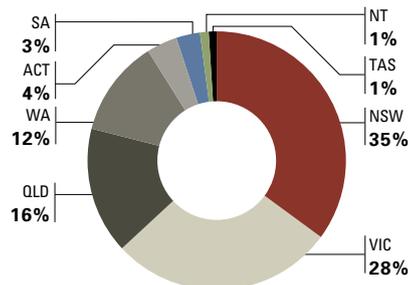
TYPE OF SECURITISATION ISSUED	ABS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	60% (MACQUARIE LEASING PORTFOLIO)
NUMBER OF SECURITISATIONS ISSUED	11
TOTAL VOLUME ISSUED	A\$8.5BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	A\$4.4BN DOMESTIC A\$4.1BN EQUIV. OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	9 ISSUES: A\$2.9BN A\$800M DOMESTIC A\$2.1BN EQUIV. OFFSHORE

### ASSET SPECIFICS (ABS)

PORTFOLIO SIZE	A\$2.9BN
MOTOR VEHICLE BREAKDOWN (%)	
CARS	80
TRUCKS < 1T	14
HEAVY HAULAGE	3
TRAILERS	2
OTHER	1
PORTFOLIO BY FINANCE PRODUCT (%)	
NOVATED	56
CHP	20
CHATTEL MORTGAGE	21
FINANCE LEASE	3

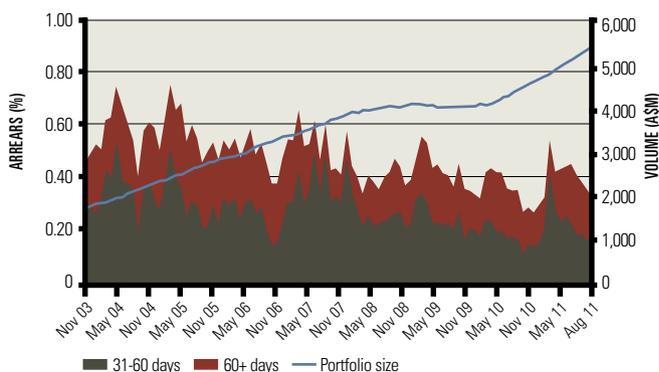
As at August 31 2011

### GEOGRAPHIC BREAKDOWN OF LEASING BOOK



SOURCE: MACQUARIE GROUP SEPTEMBER 2011

### ARREARS PERFORMANCE



SOURCE: MACQUARIE GROUP SEPTEMBER 2011

## Puma programme

### USE OF SECURITISATION

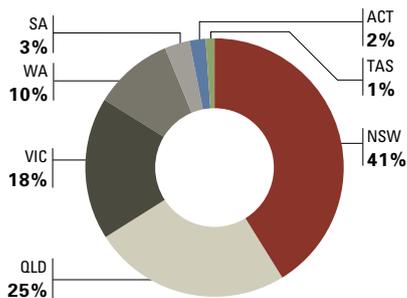
TYPE OF SECURITISATION ISSUED	RMBS	
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	65% OF AUSTRALIAN MORTGAGE BOOK IS FUNDED THROUGH SECURITISATION	
NUMBER OF SECURITISATIONS ISSUED	47	
TOTAL VOLUME ISSUED	A\$42.3BN (A\$24.6BN DOMESTIC, A\$17.7BN EQUIV. OFFSHORE)	
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$7.4BN VIA 20 ISSUES	
TOTAL OUTSTANDING DOMESTIC VS OFFSHORE LEVELS	A\$6.6BN DOMESTIC, A\$800M OFFSHORE	
<b>CURRENCY</b>	<b>TOTAL ISSUANCE (M)</b>	<b>OUTSTANDINGS (M)</b>
USD	10,500	465
€	400	113
AUD	24,611	6,621
<b>TOTAL (ASM EQUIV.)</b>	<b>42,337</b>	<b>7,417</b>

As at August 31 2011

### ASSET SPECIFICS

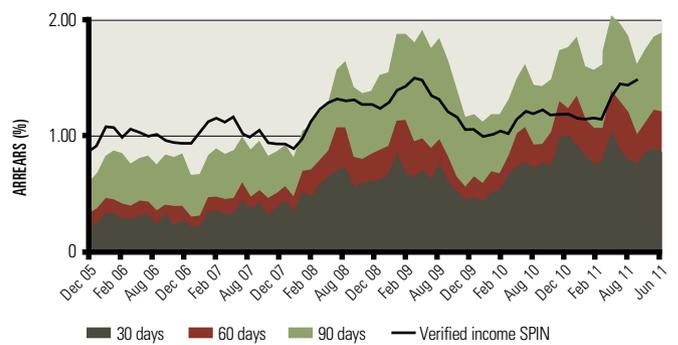
MORTGAGE PORTFOLIO SIZE	A\$11.2BN
WEIGHTED AVERAGE CURRENT LVR	67.3%
LMI PROVIDERS	GENWORTH (63.5%), QBE (34.8%), OTHER (1.7%)

### GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK



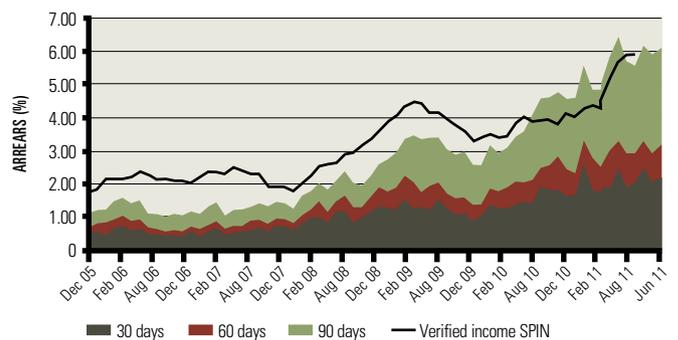
SOURCE: MACQUARIE GROUP SEPTEMBER 2011

### ARREARS PERFORMANCE VS SPIN: PUMA FULL-DOC LOANS



SOURCE: MACQUARIE GROUP SEPTEMBER 2011

### ARREARS PERFORMANCE VS SPIN: PUMA LOW-DOC LOANS



SOURCE: MACQUARIE GROUP SEPTEMBER 2011

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# ME BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	Maxis Loans Securitisation Fund, SMHL Global Fund, SMHL Securitisation Fund, SMHL Trust, SMHL Series Securitisation Fund

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
WHOLESALE FUNDING VOLUME	A\$13.8BN
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	57%
NUMBER OF SECURITISATIONS ISSUED	46
TOTAL VOLUME ISSUED	A\$38BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	A\$19.5BN, US\$10BN, €2.2BN
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$6.3BN, US\$1.1BN, €432M

As at August 31 2011

## About ME Bank

**M**E Bank is owned by 32 industry superannuation funds and provides low-cost home loans and banking products to its membership base. ME Bank was created in 1999, although its origins date back to September 1994 when, as an initiative of the Australian Council of Trade Unions, National Mutual launched Super Member Home Loans.

ME Bank's goal has always been to give industry super fund members better value banking and better service, with a no-nonsense approach to borrowing and with products that are simple, straightforward and offer value for money to working Australians.

## Securitisation and funding strategy

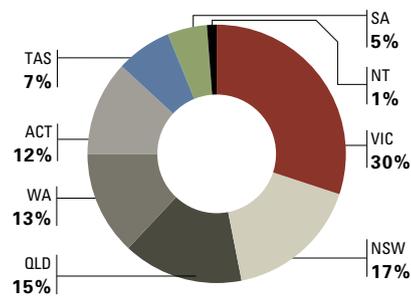
ME Bank has been an active RMBS issuer in the past and will continue to support the market through continued issuance of high-quality RMBS transactions under the SMHL securitisation programme.

Through ME Bank's subsidiary, ME Portfolio Management (MEPM), the SMHL programme has issued more than A\$35 billion of public term issuance since its inaugural transaction in 1995, while ME Bank's Maxis programme has issued more than A\$3 billion. In addition, MEPM is the manager of the A\$1.1 billion Mustang asset-backed commercial paper programme. ■

## ASSET SPECIFICS (RMBS)

CURRENT WEIGHTED AVERAGE LVR	65%
ARREARS PERFORMANCE	0.94% (30+ DAYS)
LMI CLAIMS INFORMATION	A\$2.9M of claims over all securitisation issues with no losses charged off on notes
LMI PROVIDER	GENWORTH

## GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK



SOURCE: ME BANK SEPTEMBER 2011

### ◆ FOR FURTHER INFORMATION PLEASE CONTACT:

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# MY STATE FINANCIAL



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	CONQUEST TRUST CONQUEST SECURITIES

## USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS AND ABCP
WHOLESALE FUNDING VOLUME FY11	A\$635.83M
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	68.98%
NUMBER OF SECURITISATIONS ISSUED	3
TOTAL VOLUME ISSUED	A\$670.16M*
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$430.29M

\*Figure includes the joint securitisation undertaken by MyState Financial and Queenslanders Credit Union in 2007

## About MyState Financial

**M**yState Financial (MSF) is a Tasmanian-based authorised deposit-taking institution. The company employs more than 280 staff and services more than 120,000 customers through 12 branches within Tasmania. It offers personal and commercial lending, mortgage lending, overdrafts, credit cards, term deposits, insurance, financial planning services and risk insurance.

MSF was formed through the merger of Island State Credit Union and Connect Financial on July 1 2007. Both Connect Financial and Island State Credit Union were the culmination of credit union mergers across Tasmania since 1959.

More recently, MSF demutualised as part of the merger with Tasmanian Perpetual Trustees. MyState Financial is now a wholly-owned subsidiary of MyState Limited, which is a non-operating company, approved by the Australian Prudential Regulation Authority and listed on the Australian Securities Exchange.

## Securitisation and funding strategy

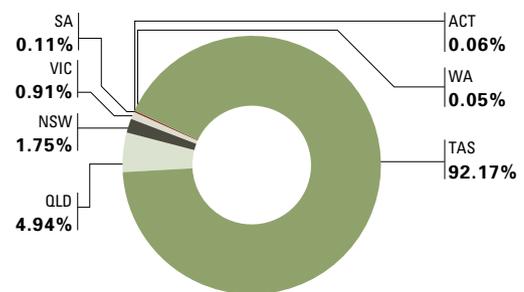
MSF looks to use securitisation to fund approximately 20-25% of the funding portfolio through RMBS and asset-backed commercial paper issuance. ■

## ASEET SPECIFICS (ABS, CMBS, RMBS)

### LMI CLAIMS INFORMATION

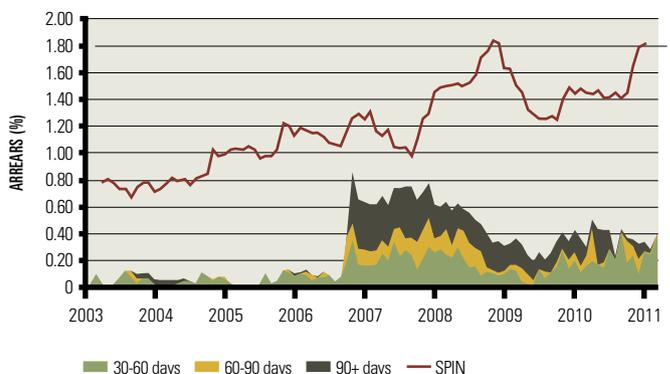
CLAIMS MADE TO DATE	A\$179,116 (5 CLAIMS)
CLAIMS PAID TO DATE	A\$179,116
LMI PROVIDERS	GENWORTH, QBE

## GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK



SOURCE: MYSTATE FINANCIAL SEPTEMBER 2011

## CONQUEST ARREARS PERFORMANCE VS SPIN



SOURCE: MYSTATE FINANCIAL SEPTEMBER 2011

◆ FOR FURTHER INFORMATION PLEASE CONTACT:

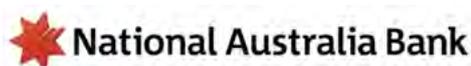
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Treasurer

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# NATIONAL AUSTRALIA BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	NATIONAL RMBS TRUST

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
OUTSTANDING SECURITISATIONS ISSUED	3 EXTERNAL, 3 RETAINED
TOTAL VOLUME ISSUED	APPROX. A\$22.8BN (includes retained RMBS)
TOTAL DOMESTIC ISSUES	4
TOTAL CROSS-BORDER ISSUES	3

## About National Australia Bank

**N**ational Australia Bank Limited (NAB) is a public company incorporated in Australia with limited liability. NAB is regulated by the Australian Prudential Regulation Authority as an authorised deposit-taking institution and is listed on the Australian Securities Exchange.

NAB is the holding company for the NAB Group, as well as being the main operating company. NAB has four wholly-owned main operating subsidiaries: Bank of New Zealand, MLC Limited, Clydesdale Bank and Great Western Bank. As at March 31 2011, NAB Group had total assets of A\$689 billion and shareholders' equity of A\$40 billion.

The NAB Group is an international financial services group, providing a comprehensive and integrated range of financial products and services. The principal activities of the NAB Group are banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance, and custodian, trustee and nominee services.

Strong international relationships combined with the local market knowledge of over 40,000 employees in more than 1,800 branches and service centres help NAB deliver efficient results worldwide.

## Wholesale funding strategy

NAB's term wholesale funding strategy is to maintain access to global debt capital markets in order to maximise issuance opportunities and deliver the annual wholesale funding target.

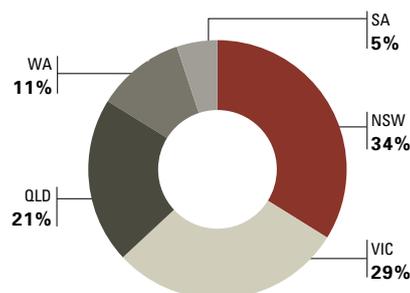
Key elements of the strategy include ensuring a well-diversified portfolio in terms of currency, markets and investor base.

NAB has been active in the RMBS market since 2001 and remains focused on its secured funding capability, which is considered an important funding tool. ■

## ASSET SPECIFICS (RMBS)

ARREARS PERFORMANCE VS SPIN	ARREARS HAVE HISTORICALLY TRACKED AROUND SPIN
LMI PROVIDERS	GENWORTH, QBE

## GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK



SOURCE: NATIONAL AUSTRALIA BANK

ALL INFORMATION IS CORRECT AS AT MARCH 31 2011

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# PEOPLE'S CHOICE CREDIT UNION (A TRADING NAME OF AUSTRALIAN CENTRAL CREDIT UNION)



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	LIGHT TRUST

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	45%
NUMBER OF SECURITISATIONS ISSUED	3
TOTAL VOLUME ISSUED	A\$1.14BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES (JUNE 2011)	A\$693M

## About People's Choice Credit Union

On December 1 2009 Australian Central Credit Union (ACCU) merged with Savings and Loans Credit Union (S&L). The merger created Australia's second-largest credit union by total assets – with more than A\$6 billion under management – and the largest in South Australia (SA). On June 27 2011 the members of Australian Central Savings and Loans voted in favour to change the trading name of the credit union to People's Choice Credit Union (People's Choice CU).

People's Choice CU has more than 350,000 members serviced through over 65 branches in SA, Northern Territory, Victoria, Western Australia and New South Wales. Australian Central Credit Union, trading as People's Choice CU, is an authorised deposit-taking institution, is subject to prudential supervision under Australia's Banking Act and is regulated by the Australian Prudential Regulation Authority.

## Securitisation and funding strategy

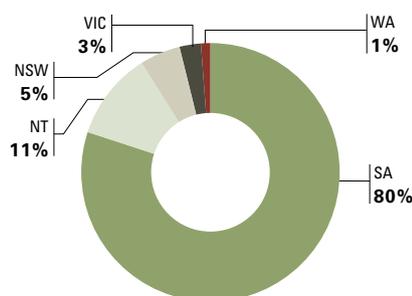
Securitisation forms an important component within a diverse range of strategies contributing towards People's Choice CU's funding base, and supports its continued growth and maintenance of a balanced funding platform. People's Choice CU has been a regular issuer through the Light Trust securitisation programmes with issues completed in July 2007 (A\$350m), July 2009 (A\$263m) and November 2010 (A\$530m). Light Trust RMBS issues have been well supported by a range of investors, with the last two issues attracting the support of the Australian Office of Financial Management.

These transactions continue to highlight the high quality and low risk of underlying assets, with low arrears levels driven by solid lending policies and practices. People's Choice CU's strategy in relation to RMBS is to issue on a regular basis, maintaining a presence within the RMBS market and renewal through its warehousing facilities. ■

## ASSET SPECIFICS (RMBS)

WEIGHTED AVERAGE LVR	70%
ARREARS PERFORMANCE VS SPIN	0.24%
LMI CLAIMS INFORMATION	NONE
LMI PROVIDER	QBE

## GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK



SOURCE: AUSTRALIAN CENTRAL CREDIT UNION TRADING AS PEOPLE'S CHOICE CREDIT UNION JUNE 2011

### ◆ FOR FURTHER INFORMATION PLEASE CONTACT:

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# PEPPER



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	PEPPER RESIDENTIAL SECURITIES (PRS)

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
NUMBER OF SECURITISATIONS ISSUED	8
TOTAL VOLUME ISSUED	A\$2.5BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	All PRS programme issuance to date has been in Australian dollars. Historically, the PRS deals have been supported by Australian domestic fixed income investors with as much as 40% of securities within any individual issue being acquired by a combination of European, US and Asian-based fixed income investors.
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$370M with a further A\$4.8BN outstanding across various warehouse trusts

## About Pepper

Established in 2001, Pepper is one of Australia's leading providers of specialist residential mortgage finance. It is also recognised as Australia's leading specialist servicer of third-party asset portfolios, including residential and commercial mortgages, equipment and auto leases, and unsecured business loans.

Pepper primarily focuses on providing residential mortgage loans to customers who do not meet the acceptance criteria of banks, building societies, credit unions and traditional non-bank lenders, in particular the self-employed, small business owners, and borrowers with irregular income, an unsubstantiated savings history or a prior record of minor credit impairment.

Pepper is a wholly-owned subsidiary of Pepper Group (Singapore), a Singapore-incorporated holding company owned by Seumas Dawes and a group of private individual and institutional co-investors, including Jonathan Laredo, Steven Simpson and IRG TMT Asia Fund. Pepper Group (Singapore) brings together Pepper's founder, Mike Culhane, and the existing senior management team led by the firm's CEO, Patrick Tuttle, with a group of high net worth private investors.

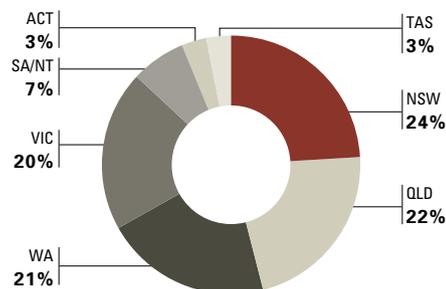
On August 5 2011 Pepper completed the acquisition of a A\$5 billion residential mortgage portfolio originated by GE Capital (GE). The acquisition of the GE loan portfolio has enabled Pepper to grow assets under management to more than A\$6.5 billion at a time when non-bank lenders are seeking to grow their market share, rebuild a competitive marketplace, and broaden the choice of home lending options.

The acquisition of the GE home loan portfolio will also accelerate Pepper's expansion into niche segments of the prime residential lending market in Australia and New Zealand.

## ASSET SPECIFICS (RMBS)

WEIGHTED AVERAGE LVR	TYPICALLY 71-75% FOR PRS ISSUES
LMI CLAIMS INFORMATION	Pepper portfolio acquired from GE is primarily insured through Genworth and QBE

## GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK



SOURCE: PEPPER SEPTEMBER 2011

## Securitisation and funding strategy

Like most non-bank lenders, Pepper relies on wholesale warehouse financing facilities to fund its lending activities. Currently these are provided by Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation and managed and serviced by Pepper through various Pepper Mortgage Warehouse Trusts. Pepper relies almost entirely on securitisation for long-term funding purposes.

Pepper has completed eight RMBS issues in the Australian market for a total value of over A\$2.5 billion, via its proprietary PRS programme. Since commencement of the financial crisis in 2007, Pepper has successfully exercised or refinanced all call options under its PRS programme, including PRS4 (A\$60 million) in November 2008 and PRS5 (A\$80 million) in July 2010.

In December 2010 Pepper completed the landmark Pepper Residential Securities Trust No 8 deal. This was the first non-conforming RMBS transaction in Australia since early 2008, marking the reopening of this important sector of the Australian RMBS market. ■

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# POLICE & NURSES CREDIT SOCIETY



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	PINNACLE TRUST SERIES

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	28%
NUMBER OF SECURITISATIONS ISSUED	1
TOTAL VOLUME ISSUED	A\$275M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$234M

## About Police & Nurses Credit Society

**P**olice & Nurses Credit Society (PNCS) is a 100% member-owned mutual with over 100,000 members. PNCS is the largest home-grown authorised deposit-taking institution in Western Australia (WA), with A\$2.8 billion of assets under management. PNCS was formed in 1990 through a merger of two WA credit unions – Police Credit and Nurses Credit.

PNCS offers a full suite of retail products for its customers with a member-first philosophy. The society operates with strict underwriting criteria, which require full documentation and a maximum loan-to-value ratio of 95% on all residential loans.

PNCS's balance sheet is reflective of the society's conservative strategy: more than 90% of all loans are prime residential mortgage loans.

## Securitisation and funding strategy

PNCS has used securitisation as a wholesale funding tool since 1995 and expects securitisation to be a key component to its funding strategy in the future. Currently PNCS operates two separate warehouse facilities. It is from these warehouse facilities that public deals will be sourced.

Proceeds from term RMBS transactions are used to:

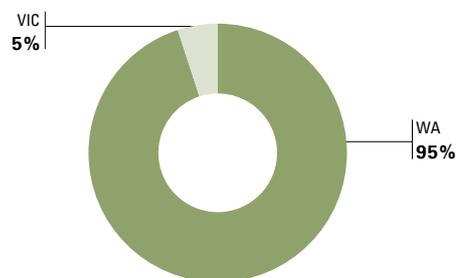
- ◆ Maintain capacity in warehouses, thus allowing new originations.
- ◆ Decrease reliance on the highly competitive market for deposits.

The Australian Office of Financial Management (AOFM) was a cornerstone investor in PNCS's first public residential mortgage-backed securities transaction launched in November 2010. ■

## ASSET SPECIFICS (RMBS)

WEIGHTED AVERAGE LVR	62.75%
ARREARS PERFORMANCE VS SPIN	0.69% (30+ DAYS)
LMI CLAIMS INFORMATION	NO CLAIMS TO DATE
LMI PROVIDERS	GENWORTH (12%), QBE (88%)

## GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK



SOURCE: POLICE & NURSES CREDIT SOCIETY SEPTEMBER 2011

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# RESIMAC



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAMES	Resimac Premier, Resimac Bastille, Resimac NIM

## USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, NIM BOND
WHOLESALE FUNDING VOLUME FY11	A\$3.4BN
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	80%
NUMBER OF SECURITISATIONS ISSUED	22
TOTAL VOLUME ISSUED	A\$12.7BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	45% DOMESTIC, 55% OFFSHORE
CURRENCY BREAKDOWN OF OUTSTANDINGS	89% AUD, 11% EUR

## About Resimac

**R**esimac was formed as a non-bank lender in 1985. It offers a suite of prime and specialist lending products tailored to the residential market sourced from a distribution network of aggregators, mortgage managers and retail channels.

Originally created to service and securitise residential loans for HomeFund as a New South Wales state government housing programme under the name of Fanmac, Resimac has evolved to become a wholesale lender providing many Australian borrowers with a lending alternative to the banking sector.

Resimac was the first Australian RMBS issuer debuting in the market in 1988. Since then it has completed just on A\$13 billion equivalent through 22 domestic and offshore RMBS issues.

Resimac is Australian-owned and headquartered in Sydney. It is supported by key strategic partners including Barclays Capital, Deutsche Bank, National Australia Bank, Perpetual Trustee Company and Westpac Banking Corporation.

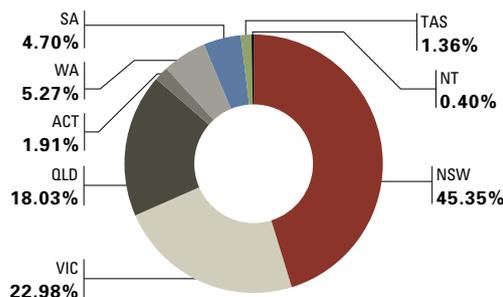
## Securitisation and funding strategy

Resimac, as a non-bank financial institution, uses the securitisation markets for the funding of its business. The funding strategy is to continue to securitise on a regular basis. Historically, this has included multi-currency offshore issuance, but in more recent times the issuance has been focused on the domestic market, with the Australian Office of Financial Management (AOFM) providing vital cornerstone support. This investment support from the AOFM has facilitated Resimac's continued lending throughout the financial crisis. ■

## ASSET SPECIFICS (RMBS)

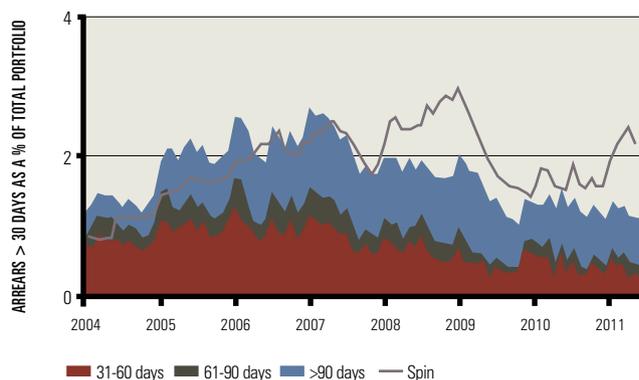
FULL-DOC LOANS	76.51%
LOW-DOC LOANS	23.49%
LMI PROVIDERS	GENWORTH, QBE

## GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK



SOURCE: RESIMAC SEPTEMBER 2011

## ARREARS PERFORMANCE VS SPIN



SOURCE: RESIMAC SEPTEMBER 2011

◆ FOR FURTHER INFORMATION PLEASE CONTACT:

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# SUNCORP BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	APOLLO

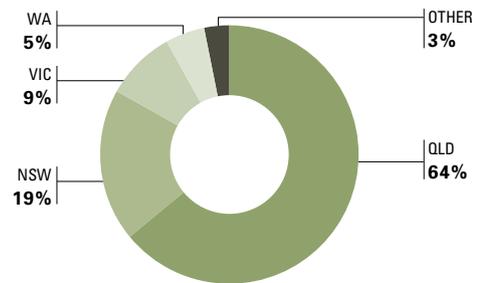
## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	15%
NUMBER OF SECURITISATIONS ISSUED	17
TOTAL VOLUME ISSUED	A\$17.8BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	A\$12.9BN, US\$: 825M €: 2.309BN DOMESTIC: 72.45% OFFSHORE: 27.55% (based on notes only)
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$3.2BN €460M

## ASSET SPECIFICS (RMBS)

WEIGHTED AVERAGE LVR	61.80%
ARREARS PERFORMANCE VS SPIN	SPIN 1.80% VS APOLLO 2010-1 AT 1.61%
LMI CLAIMS INFORMATION	CLAIMS AS % OF TOTAL ISSUE SIZE: 0.01%
LMI PROVIDER	QBE

## GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK



SOURCE: SUNCORP BANK JUNE 2011

### About Suncorp Bank

**S**uncorp Group is a unique, diversified financial services group with well-known businesses in general insurance, banking and life. Suncorp Group is a top 25 Australian Securities Exchange-listed company with more than A\$95.5 billion in assets. It has more than 16,000 employees and relationships with approximately nine million customers.

Suncorp Bank (Suncorp) is Australia's fifth-largest listed bank. From a Queensland base, Suncorp has expanded its banking operations throughout Australia, most recently in Western Australia and New South Wales. As Australia's largest regional bank, Suncorp services nearly a million customers across its personal, business and agribusiness portfolios with a strong suite of products including home, personal and business loans, savings, transaction and term deposit accounts, margin lending, credit cards and foreign currency services.

### Securitisation and funding strategy

Since 1999 Suncorp has been a regular issuer of prime RMBS through its APOLLO securitisation brand. Securitisation is an important part of the wholesale funding package for Suncorp, however it represents a modest 9% of overall funding for the balance sheet. Suncorp will continue to issue RMBS as part of the suite of available funding tools.

APOLLO has completed 16 public securitisation trusts since 1999, of which five since the start of the financial crisis in August 2007. Two of these transactions have been supported by the Australian Office of Financial Management. ■

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# WESTPAC BANKING CORPORATION



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	WESTPAC SECURITISATION TRUST, CRUSADE

## USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, ABS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	5%
NUMBER OF SECURITISATIONS ISSUED	RMBS: 35 ABS: 3
TOTAL VOLUME ISSUED	WST (RMBS): APPROX. A\$24.5BN CRUSADE (RMBS): APPROX. A\$39.6BN CRUSADE (ABS): APPROX. A\$2.1BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	Based on issues currently outstanding: A\$17.7BN US\$11.5BN €5.2BN
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$7.5BN US\$2.6BN €2.2BN

All numbers are as at 31 July 2011

## About Westpac Banking Corporation

**W**estpac Banking Corporation (Westpac) was founded in 1817 and was the first bank established in Australia. Westpac began trading on April 8 1817 as the Bank of New South Wales. In 1982, with the merger of the Commercial

Bank of Australia, it changed its name to Westpac Banking Corporation. In December 2008 Westpac merged with St.George Bank to become Australia's second-largest bank.

Today, the Westpac Group has branches and controlled entities throughout Australia, New Zealand and the near Pacific region and maintains offices in key financial centres around the world – including London, New York, Hong Kong and Singapore.

As at March 31 2011 the Westpac Group employed approximately 39,000 people in Australia, New Zealand and around the world, and had global assets of A\$622 billion. Lending accounts for approximately 80% of global assets, of which over A\$321 billion are residential mortgages.

## Securitisation and funding strategy

Westpac's funding activities are focused on diversity and flexibility, with a view to providing the bank with a stable and efficiently-priced wholesale funding base within the parameters of prudent liquidity management.

Westpac's wholesale funding strategy includes diversification of currencies, markets (retail versus wholesale), investors and programmes. Securitisation is one of the funding tools Westpac uses and the organisation will continue this tool to use to ensure a diversified funding base. ■

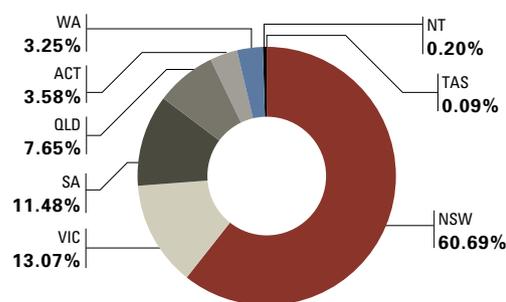
## ASSET SPECIFICS (RMBS)

WEIGHTED AVERAGE LVR	WST: 55.54% CRUSADE: 56.08%
ARREARS PERFORMANCE VS SPIN	WST has historically tracked below SPIN, which is currently 1.80%. WST arrears 30+ days are 1.01% Crusade arrears 30+ days are 2.03%
LMI PROVIDERS	Genworth, Commonwealth of Australia, WLMi, PMI

## ASSET SPECIFICS (OTHER ABS)

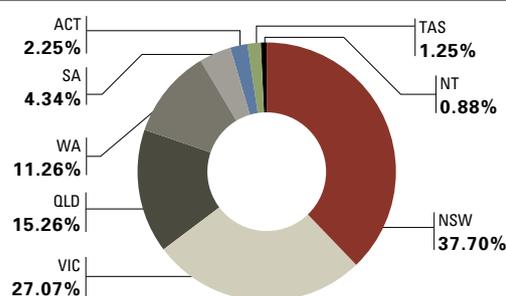
CONTRACTS BY FINANCE TYPE (%)	
CHATEL MORTGAGE	31.72
CONSUMER HIRE PURCHASE	24.19
CONSUMER FINANCE	36.97
FINANCE LEASE	7.12
TYPE OF COLLATERAL (MOTOR VEHICLES)	New 72%, Used 28%
DELINQUENCY/LOSS EXPERIENCE	Arrears 60+ days are 1.57%

## GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK (CRUSADE)



SOURCE: WESTPAC BANKING CORPORATION SEPTEMBER 2011

## GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK (WST)



SOURCE: WESTPAC BANKING CORPORATION SEPTEMBER 2011

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# WIDE BAY AUSTRALIA



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	WB TRUSTS

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	95%
NUMBER OF SECURITISATIONS ISSUED	10
TOTAL VOLUME ISSUED	>A\$3BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE LEVELS	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$1.1BN (AS AT JUNE 30 2011)

## About Wide Bay Australia

**W**ide Bay Australia (Wide Bay) is the largest financial institution in Australia based north of Brisbane, with assets in excess of A\$2.7 billion. With its head office in Bundaberg, Wide Bay has a retail branch network consisting of 42 branches in Queensland – extending from Robina on the Gold Coast to Cairns. It also has a branch in both Sydney and Melbourne and a lending agency in Adelaide. Approximately 80% of loans originate through retail branches using Wide Bay’s own lending consultants.

Wide Bay helps Australians achieve home ownership and to continue building their wealth. For investors, the firm provides financial opportunities that offer attractive and secure returns. It offers an extensive range of loans, savings and investments, insurance, foreign exchange and banking services.

Wide Bay’s innovative business is based on a foundation of strength, consistent growth and profitability. The years ahead will herald an exciting new era for the group with further national growth and expansion planned.

## Securitisation and funding strategy

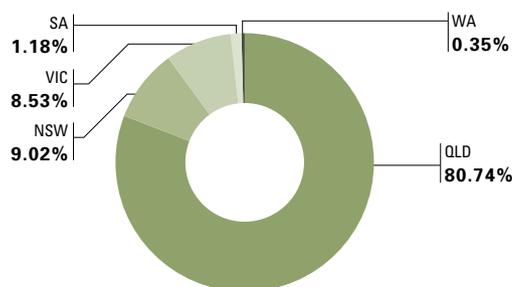
In 1997 Wide Bay was one of the first financial institutions in Australia to use securitisation as a liquidity management tool. Wide Bay launched the largest triple-A rated, high loan-to-value ratio mortgage loan securitisation in the Australian market in August 2000.

Wide Bay has continued to use RMBS securitisation as a funding tool, with approximately 35% of its funding derived from RMBS securitisation programmes. ■

## ASSET SPECIFICS (RMBS) – WB TRUST 2010-1

WEIGHTED AVERAGE LVR	62.88%
LMI CLAIMS INFORMATION	NIL
LMI PROVIDER	GENWORTH

## GEOGRAPHIC BREAKDOWN OF MORTGAGE BOOK



SOURCE: WIDE BAY AUSTRALIA SEPTEMBER 2011

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**www.widebayaust.com.au**

# Do you know what the butterfly effect is in your business?



**It's often the seemingly small things that have the greatest impact, just like the butterfly effect. The same is true for business. That's why we work together with our clients to analyse the road ahead and identify challenges and opportunities before they arise.**

We align our thinking with your business objectives to ensure a consultative approach that's as much about collaboration as innovation. Our specialist industry teams are well-versed in emerging trends and developments in their areas of focus. In turn they are supported by product expertise in transactional banking, debt markets, foreign exchange and commodities, carbon & energy. Together they provide a depth of understanding that ensures we work more responsively with our clients. Find out more, email [deeperinsights@westpac.com.au](mailto:deeperinsights@westpac.com.au)

2011: No. 1 Lead Domestic Transactional Bank, Australia and New Zealand<sup>1,2</sup>

2011: No. 1 Australian bank for overall customer satisfaction<sup>3</sup>

2011: No. 1 Australian bank for FX Globally<sup>4</sup>

2011: Best Debt House in Australia<sup>5</sup>

1. Peter Lee Associates Large Corporate & Institutional Transactional Banking Survey – Australia and New Zealand 2011. 2. Ranked Equal No. 1 in New Zealand. 3. Peter Lee Associates Large Corporate & Institutional Relationship Banking Survey – Australia 2011. 4. Euromoney FX Poll 2011. 5. Asiamoney Awards 2010.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ("Westpac").

**Deeper Insight.**



**Westpac**  
**Institutional Bank**

# Our ideas help businesses take off

## Passion to Perform



**Bendigo and Adelaide Bank**  
Bendigo and Adelaide Bank  
JPY 20 billion  
Sole Lead Manager,  
Sole Bookrunner  
AUD 770 million  
Joint Lead Manager,  
Joint Bookrunner  
Prime RMBS  
TORRENS Series 2011-1(E) Trust  
Joint Arranger  
July 2011



**AMP Bank**  
AMP Bank  
AUD 940 million  
Prime RMBS  
Progress 2011-1 Trust  
Joint Arranger, Joint Lead  
Manager, Joint Bookrunner  
May 2011



**Resimac**  
Resimac  
AUD 400 million  
Prime RMBS  
RESIMAC Premier Series 2011-1  
Joint Arranger, Joint Lead  
Manager, Joint Bookrunner  
May 2011



**Macquarie Securitisation**  
Macquarie Securitisation  
AUD 750 million  
Prime RMBS  
PUMA Masterfund P-17  
Joint Arranger, Joint Lead  
Manager, Joint Bookrunner  
April 2011



**Liberty Financial**  
Liberty Financial  
AUD 250 million  
Prime RMBS  
LIBERTY PRIME SERIES 2011-1  
Joint Arranger, Joint Lead  
Manager, Joint Bookrunner  
April 2011



**Bendigo and Adelaide Bank**  
Bendigo and Adelaide Bank  
AUD 1 billion  
Prime RMBS  
TORRENS Series 2010-3 Trust  
Joint Lead Manager, Joint  
Bookrunner  
December 2010



**Resimac**  
Resimac  
AUD 400 million  
Prime RMBS  
RESIMAC Premier Series 2010-2  
Joint Lead Manager, Joint  
Bookrunner  
November 2010



**ME Bank**  
ME Bank  
AUD 1 billion  
Prime RMBS  
SMHL Series Securitisation  
Fund 2010-3  
Joint Lead Manager, Joint  
Bookrunner  
September 2010



**Macquarie Securitisation**  
Macquarie Securitisation  
AUD 750 million  
Prime RMBS  
PUMA Masterfund P-16  
Joint Lead Manager,  
Joint Bookrunner  
September 2010

