

# ASJ

## AUSTRALIAN SECURITISATION JOURNAL

Incorporating Australian  
Securitisation & Covered Bonds

>> Issue 04 • 2013

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Incorporating Australian  
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>> Issue 04 • 2013

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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 ASF NEWS

*The ASF feels some sense of pride that Australia's high-quality product, active engagement and input to regulatory initiatives have begun to pay dividends.*

## 10 RMBS UPDATE

*Standard & Poor's highlights the factors that will affect the performance of Australian residential mortgages.*

## 12 HIGH STANDARDS

*Chris Aylmer at the Reserve Bank of Australia outlines the central bank's new information requirements for repo eligibility.*

## 14 NEW COMPLEXION

*The Australian RMBS market is heading for a bumper year – even without government support.*

## 22 ACCOUNTING

*Deloitte Australia examines the new consolidation accounting standard, AASB 10, which aims to harmonise US and international reporting requirements.*

## 24 CLOSING CREDITS

*Michael Bath at the AOFM reviews the successes and challenges of the government's RMBS investment programme, which ended in April.*

## 28 OFFSHORE VIEW

*A roundtable discussion sponsored by National Australia Bank highlights the strong offshore investor demand for Australian product.*

## 48 DATA

*Data from KangaNews showing all Australian issuer securitisation deals issued in the year to May 20 2013.*

## 38 COVERED BOND ISSUER PROFILES\*

38 ANZ Banking Group

40 Commonwealth Bank  
of Australia

42 National Australia Bank

44 Suncorp-Metway

46 Westpac Banking  
Corporation

\* ASJ is published twice a year – in June and November. The June issue features covered bond issuer profiles, while the November issue features RMBS issuer profiles.

# JUNE 2013

The Australian Securitisation Forum (ASF) continues to make a critical contribution to the securitisation industry by connecting issuers, investors and other key stakeholders. It is a pleasure to introduce its flagship publication again.

When I last wrote for this journal, I noted a number of encouraging signs for the Australian securitisation markets, and I'm pleased to see these have continued apace. Demand for high-quality Australian residential mortgage-backed securities (RMBS) has remained strong, with a great start to 2013 – having recorded the best first quarter for issuance since 2007.

I was also encouraged by recent comments from Standard & Poor's that the Australian RMBS market is on track to have its highest level of issuance since 2008 and underlying mortgage pools have performed well in recent years.

This year, we have seen both new and familiar faces in this market. In March, mortgage aggregator AFG successfully completed its first deal, and more recently IMB launched its first transaction since 2010.

As treasurer, of course I am very pleased to see such market developments. Since the deregulation of our financial system in the 1980s and 1990s, securitisation has been one of the key drivers of competition in the mortgage market.

Global financial market conditions have improved markedly, but it is largely a testament to our own economic performance that investors – in particular, overseas investors – have renewed confidence in Australian RMBS products.

I've always been of the view that our RMBS market was a victim of "brand damage" inflicted by the dislocation of the US subprime market. Regardless of the cause, Australia's RMBS market was under enormous pressure, which is why I announced, following the collapse of Lehman Brothers, the initial A\$4 billion investment in triple-A rated RMBS market by the Australian Office of Financial Management (AOFM) to assist smaller players keep competitive pressure on the major banks.

The success of the programme has been clear. All up, the AOFM has invested A\$15.5 billion in prime Australian RMBS since 2008. We have supported 67 securitisation deals, helping 20 smaller lenders raise a total of A\$45 billion. But more than that, the programme has allowed smaller lenders time to adjust their funding models to a post-global financial crisis world, and has kept Australian securitisation market infrastructure in place which may have otherwise been lost.

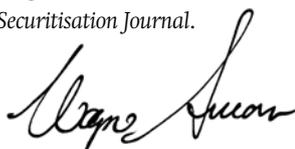
However, as I stated from my first announcement back in 2008, the AOFM programme was always designed as a temporary measure. You only have to look overseas to see that permanent government involvement in these markets, no matter how well intentioned, can result in adverse outcomes over the longer term.

Given the continued improvement in the market, it is the government's view that now is the time to wind down our support for this market. Strong demand has meant that the AOFM has scaled back and out of many transactions, and hasn't directly invested in a deal since August last year.

The government of course remains the holder of a significant portfolio of prime RMBS, and will do so for some time. While the AOFM has some discretion to sell securities, it will generally only consider a sale where it is at an acceptable price and would continue to support a market recovery.

I am confident that the industry is well placed to continue to move forward on a solid and sustainable footing, in large part because of the steps this government took during the financial crisis and due to the economic outperformance that we continue to deliver.

Thanks again to Chris Dalton and his colleagues at the ASF, and I hope you enjoy this edition of the *Australian Securitisation Journal*.



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





# Thank you

Pepper Australia Group would like to thank our investors and key advisors on the successful completion of Pepper Residential Securities Trust No.10 (“PRS10”).

## ▶ Pepper Residential Securities Trust No.10 (“PRS10”)

S&P / Fitch Rating	Tranche	Note Balances
AAA(sf)/AAA sf	A-1	245,000,000
AAA(sf)/AAA sf	A-2	38,850,000
AA(sf)/NR	B	18,200,000
A(sf)/NR	C	17,150,000
BBB(sf)/NR	D	12,250,000
BB(sf)/NR	E	8,050,000
B(sf)/NR	F	5,600,000
NR/NR	G	4,900,000
		<b>350,000,000</b>

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### ▶ Joint Lead Manager



### ▶ Legal Advisor to Pepper



### ▶ Trustee



# WELCOME

**J**he recovery of the Australian securitisation market reached a new milestone in the first few months of 2013, with the issuance of residential mortgage-backed securities (RMBS) recording its strongest start since the financial crisis of 2008. In the first part of the year a wide range of issuers successfully issued prime and nonconforming RMBS.

The emergence of two new issuers – Columbus Capital and AFG – is also a positive sign for the ongoing evolution of the breadth and depth of the Australian securitisation market. Issuance in the year to May 10 has also been notable for the presence of international investors in buying both Australian dollar and US dollar tranches of 2013 RMBS transactions. The settling of international credit markets has helped margins on Australian RMBS to rally as investors have exhibited increased appetite for Australia's high credit quality and high-yielding RMBS.

This recovery has led to the decision by the Australian government to terminate the Australian Office of Financial Management (AOFM)'s RMBS investment programme (see p24). The programme was established in 2008 at the onset of the financial crisis to co-invest in new primary market RMBS transactions.

Of the A\$20 billion (US\$20.6 billion) committed to the programme A\$15.5 billion was invested between 2008 and 2012. This timely intervention by the government to assist the functioning of the primary RMBS market was highly effective in allowing securitisation to continue its important role in providing term funding to smaller financial institutions and in particular the non-bank sector. The strength of the market in 2013 has allowed traditional buyers to purchase new RMBS without the need for any co-investment by the AOFM. The Australian Securitisation Forum (ASF) acknowledges the success of the timely and temporary nature of the government's involvement in the Australian securitisation market.

Another of the key development in 2013 has been the release by the Reserve Bank of Australia (RBA) of its data reporting standards for the eligibility of RMBS as repo assets under the RBA's open market operations. The RBA will also require issuers to make available an electronic version of the transaction's cash flow waterfall as documented in the information memorandum. The data template and cash flow waterfall will be required to be made available after December 31 2014.

The data templates, which were based on the ASF standards released in 2011, will introduce a greater degree of standardisation and availability of loan-level data for Australian RMBS. The industry will use the next 18 months to adapt systems and processes to meet the new requirements. The wider accessibility of transaction, security and loan-level data and a cash flow waterfall template for RMBS transactions will benefit investors in Australian RMBS and see the Australian securitisation market satisfy a recommendation to improve disclosure and transparency contained in the 2009 International Organization of Securities Commission's report on securitisation.

Another major development for the market in 2013 will be the anticipated release of a new prudential standard (APS120) setting out the updated approach to the prudential regulation and supervision of securitisation by Australian regulated financial institutions. The ASF would like to see a new standard put in place that appropriately recognises the roles of issuer, investor and counterparty that a financial institution can play in a securitisation transaction. The ASF has been public in its stance that the new standard should also clarify how a financial institution could use a master trust structure to facilitate the issue of bullet and scheduled amortisation RMBS and ABS.

Finally, our annual Australian Securitisation Conference is scheduled for November 11-12 at the Sydney Hilton. I encourage you to plan to attend to discuss the ongoing recovery of the Australian securitisation market and its outlook in 2014.



A handwritten signature in black ink that reads "Chris Dalton". The signature is written in a cursive, flowing style.

**CHRIS DALTON**  
CEO, AUSTRALIAN SECURITISATION FORUM

# SAVE THE DATE



## AUSTRALIAN SECURITISATION FORUM'S ANNUAL CONFERENCE

11 & 12 November 2013, HILTON SYDNEY

For more information and registration details please go to  
[www.securitisation.com.au/asf2013](http://www.securitisation.com.au/asf2013)



# ASF NEWS

*Following several years of difficulty re-establishing the Australian securitisation market in the wake of the global financial crisis, the **Australian Securitisation Forum** (ASF) is pleased to feel some sense of pride. A flurry of deal activity is testament to Australia's high-quality product, active engagement with regulatory initiatives, and general persistence. The ASF maintains vibrant sub-committees in order to marshal industry input on major regulatory and public policy matters as well as investor outreach on- and offshore.*

**BY ALEX SELL**, chief operating officer, ASF

## ABS RESURGENT

**D**uring the past year we held an ASF Evening Series on the topic of asset-backed securities (ABS), which for many of those fixated on residential mortgage-backed securities (RMBS) proved to be a fascinating insight. Titled, *ABS – A Quiet Achiever*, it revealed that ABS represents about a third of all securitised issuance from Australia, returning to almost pre-financial crisis levels. We look forward to further issuance from quarters not typically seen in the Australian market such as trade receivables. What many are waiting to see, however, is Australian ABS trade inside Australian RMBS. The fact that it currently does not is an aberration in clear contrast with the situation in US and European markets.

## SKIN IN THE GAME TO BE FINALISED

Last year, we explained the Australian industry's position that it would be prudent to await the Dodd-Frank rules on credit risk retention before committing our industry to something that might conflict. Unfortunately, the US has still not finalised its position and it looks like it will be debated for the foreseeable future.

Accordingly, the ASF Market Standards & Practices sub-committee will maintain a watching brief on US developments and discuss proposals that may make sense for the Australian

market. Many issuers have already met the requirements of CRD 122a in order to place their notes to EU investors.

Australian securitisation transactions continue to exhibit a high degree of alignment of interests between issuers and investors through sponsors retaining servicing obligations in the transactions. Our position on this issue remains for an Australian skin-in-the-game requirement to be risk sensitive.

## SIGNIFICANTLY IMPROVED MARKET BACKDROP

Australian RMBS product has suffered from turbulence emanating in offshore markets but by sticking to a couple of core principles our industry has weathered the storm well. First, by keeping the product high-quality and straightforward while catering to investor preferences such as bullet tranches. Secondly, by maintaining a regular programme of investor outreach, designed to ensure the product was not forgotten and that its stand-out qualities were consistently highlighted and explained through a series of ASF investor seminars, which complement the issuer roadshows throughout the year.

## NEW DISCLOSURE REQUIREMENTS FOR CENTRAL BANK REPO

The biggest development in our market over the past six months has been the introduction by the Reserve Bank of Australia (RBA), Australia's central bank, of RMBS data transparency requirements. This includes transaction, security and loan-level data, as well as requirements in relation to cash flow waterfall models.

Issuers of RMBS – or their information providers – will need to complete this data and make it publicly available in order for their securities to be eligible for repurchase agreement (repo) with the RBA. This includes existing open market operations as well as the RBA's committed liquidity facility (CLF). The CLF is Australia's solution to enable its banks to meet the Basel liquidity coverage ratio, remembering that something was needed given the paucity of Australian government debt on issue.

Through its Markets Standards & Practices sub-committee, the ASF has coordinated with the RBA and its industry members to ensure practical solutions could be found to deliver to the central bank what it needs while not causing undue cost or difficulty for issuers. Given that the information provided to the RBA will be publically available, we believe this measure also delivers benefits to investors worldwide. It also meets the International Organization of Securities Commission's expectations with respect to transparency.

## GOVERNMENT ENDS ITS EMERGENCY ASSISTANCE TO RMBS MARKET

The support of the Australian government during its five-year RMBS investment programme meant that during those times of market dislocation our issuers and the attendant infrastructure did not fall by the wayside. As the story on page

24 explains, the government has judged that we have seen the worst of this dislocation and has stopped its primary market activity.

## OFFSHORE DYNAMICS FAVOURABLE FOR AUSTRALIAN ISSUERS

Despite turbulence in global markets, Australian issuers have been beneficiaries of the supply drought affecting investors in UK product. Thanks to the Bank of England's Funding for Lending Scheme (FLS), which supplies British banks with very cheap funds, RMBS and other debt issuance has proven unattractive and hence issuance from the UK has halted (see charts on p8). Starved of product, many investors have turned to the Australian market for high-quality, well-priced product.

Much of this money has been from AUD accounts held outside Australia, particularly in the UK, US and Japan. This has helped Australia avoid the still elevated cross-currency basis swap costs that have plagued domestic issuers trading with willing offshore investors.

Meanwhile, the ASF's Government & Industry Liaison sub-committee has been turning its mind to identifying measures the next federal government might introduce to protect and promote our product. As we know, policymakers are keen to ensure healthy securitisation and covered bond

markets, recognising their ability to meet Australia's structural current account deficit and provide funding for our economy's credit needs. The ASF remains in regular dialogue with the main political parties in a bid to identify measures that are consistent with their philosophies as well as helpful.

## BASEL RWA

Despite some of the tailwinds, we were all shuddered just before Christmas by the Basel Committee on Banking Supervision's proposals from risk weights for various securitised exposures held by banks.

The global securitisation community has unified in its opposition to most of the proposals on the grounds that they are excessive and disproportionate, they are not calibrated to take account of significant changes since the financial crisis – such as increased subordination levels and tightened underwriting – and they are overly US-centric in terms of archetypical pools analysed.

In April 2013, the ASF participated in a meeting with other securitisation industry associations and industry leaders with the Basel working group responsible for the proposals. One of the key themes presented to the working group – in addition to the technical flaws identified – was the conflict between the importance G20 leaders are placing on reviving securitisation



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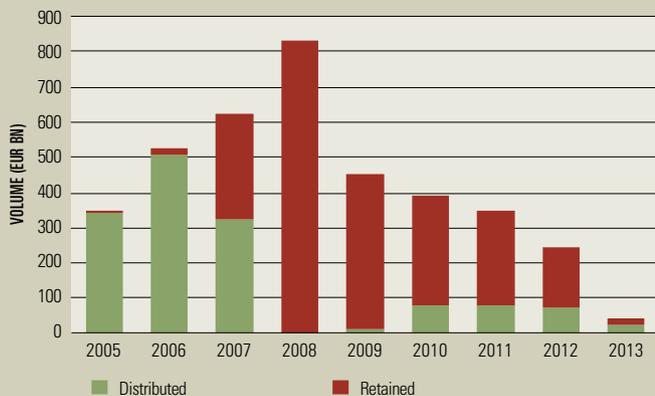
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For more information please contact Glenn White on +61 2 9028 5922 or visit [www.aetlimited.com.au](http://www.aetlimited.com.au)

## EUROPEAN STRUCTURED FINANCE ISSUANCE: DISTRIBUTED VERSUS RETAINED



SOURCE: J.P.MORGAN APRIL 30 2013

## UK RMBS ISSUANCE FALLS IN THE FACE OF MACROECONOMIC DETERIORATION AND FLS



SOURCE: BARCLAYS APRIL 30 2013

in order to free stagnant credit markets and the trajectory of the prudential regulatory proposals.

Without a hint of melodrama, the majority of the global industry believes that, if adopted, the proposals would spell the near end of the securitisation market globally. For instance, increasing to 58 per cent RWA from 7 per cent RWA for a super-senior triple-A rated prime RMBS of five-year tenor would clearly be unsustainable economically. The additional cost of funding a residential mortgage would be in excess of 100 basis points in Australia. We would like to thank Sarah Hofman at RBS Australia for chairing this working group and David Addis at Cygnus Advisory, who 'held the pen' during tortuous and time-pressured drafting.

### YEAR OF THE MASTER TRUST

The year ahead will hopefully see clarity around whether the master trust structure will be adopted in Australia, and if so what form it will take. The Australian product will likely differ from UK master trusts, learning lessons from what did and did not work for both issuers and investors in that product.

With greater scope for programmatic issuance and bullet repayments to deliver lower swap costs, we expect this to be another new product to take to global fixed income and credit investors, just as in 2012 we took Australian covered bonds to market. We thank the ASF Master Trust Working Group, chaired by J.P.Morgan's Sofie Sullivan, for the hard work it has put in to produce a prototype of the Australian master trust. It differs in key ways from offshore varieties, both in terms of investor and sponsor protections.

### DEALING WITH THE DEVIL IN THE DETAIL

To many a thankless task, the Accounting & Tax sub-committee, and discrete working groups flowing from it, have

dealt with a number of initiatives and knotty issues. These include assessing the draft impairment and consolidation international accounting standards as well as line-by-line engagement with the Commonwealth Treasury on thin capitalisation and the intergovernmental agreement (IGA) to implement the Foreign Account Tax Compliance Act (FATCA) in relation to securitisation special-purpose vehicles (SPVs).

In the case of thin capitalisation, as a result of industry representations, securitisation SPVs will remain unaffected. In the case of a FATCA IGA with the US Inland Revenue Service, work continues to ensure we have a workable outcome for securitisation SPVs, given note holders are not known to trustees, only custodians.

### PRUDENTIAL POLICY REFORM CREATING HEIGHTENED CONCERN

In the wake of the Australian Prudential Regulation Authority (APRA)'s speech at the ASF conference in Sydney in November 2012, the industry has been working hard to make its case for not having just two classes of notes in transactions. Issuers and investors have pleaded with APRA to acknowledge the critical role of multi-class tranches, particularly in the case of ABS.

With investors thin on the ground and able to shop around globally, the ASF believes it is crucial that issuers can tailor their structures to meet different investors' needs. This includes varying tenors, pass-through or bullet, and credit risk-reward. We believe we can accommodate APRA's desire for simplicity in transactions without prohibiting such structures.

On brighter notes, we anticipate that the removal of prohibitions on date-based calls and clarification of the treatment of funding versus regulatory capital trades will be forthcoming in the new APS120 to be released by APRA later this year.

## INTERNATIONAL ENGAGEMENT

June 2013 saw Australian issuers participate in the Global ABS conference in Brussels. This was preceded on the Monday of the conference week with an ASF-arranged investor seminar in London for UK-based investors interested in receiving an update on the Australian economy, property market, RMBS, ABS and covered bond performance from analysts, as well as panels comprising issuers, rating agencies and other market participants.

This will be repeated in September 2013 for Taiwanese, Japanese, Hong Kong, and Singaporean investors.

## RESTORING INVESTOR CONFIDENCE

Initiatives related to the 2009 Project ReSTART continue, and in some ways have spawned discrete domestic initiatives not necessarily contemplated by the original global agenda. For example, listing RMBS on the Australian Securities Exchange is seen by some as helpfully commoditising the product so that it has more rather than less in common with other products. This in turn could lead to a streamlining of investor reporting and investor communications, which were found wanting in the wake of the financial crisis.

Later this year, the Market Standards & Practices sub-committee will look closely at the global legal entity identifier

(LEI) requirements stemming from G20/FSB recommendations. These recommendations are intended to provide regulators and other stakeholders with much greater visibility of where risk concentrations are building – on a gross and net basis.

A unique ID associated with a single legal entity – including securitisation SPVs – LEIs allow for “consistent identification of parties to financial transactions, facilitating a consistent and integrated view of exposures. The establishment of an LEI system is a foundational and critically important element towards the improved measurement and monitoring of systemic risk”.

## SECURITISATION AND COVERED BONDS TRAINING MISSION EVOLVING

Education, meanwhile, is going online, with the ASF proudly launching its online Australian securitisation fundamentals course. Please see the inside back cover of this issue for details on this and our conventional classroom courses. All these are authored and delivered by industry practitioners, meaning the ASF courses really are ‘for the industry, by the industry’.

We encourage our members to provide feedback on what requirements they have for their staff. This can be provided directly to the ASF or through the ASF Education Faculty, chaired by Realm Investment House’s Robert Camilleri. ■

# SMART SOLUTIONS, ENDLESS OPPORTUNITIES.

RESIMAC is a non-bank lender with a 28 year history as an Originator, Servicer and Securitiser of residential loans. RESIMAC is a pioneer of residential mortgage backed securities (RMBS) in Australia and a leading non-bank issuer in both domestic and international markets.

RESIMAC’s prime and non-conforming portfolios continue to outperform its industry peers. The strength of its prime and non-conforming servicing capabilities is highlighted by a ‘STRONG’ ranking assigned by Standard and Poor’s.

RESIMAC’s investor relations are core to its business model. RESIMAC provides a complete array of collateral and transaction reporting and prides itself in exercising the first-occurring call options on all its transactions with no defaults on any issuance.

RESIMAC has been one of the most prolific issuers of RMBS in Australia with 10 public trades completed since 2008.

PREMIER 2008 - 1 \$609m	PREMIER 2009 - 1 \$550m	PREMIER 2009 - 2 \$290m	PREMIER 2010 - 1 \$250m <small>(LOW DOC)</small>	PREMIER 2010 - 2 \$400m	PREMIER 2011 - 1 \$400m	BASTILLE 2011 - 1NC \$250m <small>(NON CONFORMING)</small>	PREMIER 2012 - 1 \$500m <small>(144a)</small>	BASTILLE 2012 - 1NC \$300m <small>(NON CONFORMING)</small>	PREMIER 2013 - 1 \$750m <small>(144a)</small>
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# WHAT WILL AFFECT THE PERFORMANCE OF AUSTRALIAN RESIDENTIAL MORTGAGES?

*Australian residential mortgages on average have performed well, and this extends to loan portfolios underlying Australian residential mortgage-backed securities (RMBS). While the outlook for the global economy continues to improve, the performance of the Australian economy and residential-mortgage market remain at risk.*

**BY VERA CHAPLIN**, managing director, structured finance ratings Asia Pacific, Standard & Poor's Ratings Services

## OUTLOOK STABLE, BUT RISKS REMAIN

Mining-led economic growth, led by strong demand for commodities from China and other Asian trading partners, has underpinned good performance in Australia since the onset of the global financial crisis. However, Australia faces similar problems to those confronting other developed Western economies: how to deal with elevated household indebtedness and a significant reliance on funding from offshore investors.

We expect economic growth to remain close to trend in the coming years, supporting the good performance of and our stable outlook for residential mortgages in Australia. This is our base-case scenario. Although economic growth in

Australia is likely to dip to 2.9 per cent in 2013 after mining investment peaks, we believe the economy will improve in 2014 to 3.0 per cent growth.

Key downside scenarios that may threaten our stable outlook include any deepening of the economic – or political – crisis in the Eurozone, a slowdown in US growth and ongoing fiscal management, any slowdown in China's economy, and a sudden withdrawal of foreign capital to Australia due to increasing external vulnerabilities. Coupled with a highly indebted household sector, such scenarios could cause a more severe economic slowdown in Australia, a spike in unemployment and a sharper decline in house prices than the moderate adjustments currently taking place.

Even so, the Australian government and central bank still have scope to provide countercyclical fiscal and monetary policy stimulus to shore up growth prospects in the near term, if required. The Reserve Bank of Australia (RBA) has cut the cash rate by 150 basis points since early 2012 to a record low 2.75 per cent in May, largely to support growth in the nonmining economy as the mining investment peak approaches and to offset the impact of unusual strength in Australian dollar. The RBA still has significant scope to ease further compared with many of its peers.

Asia's robust demand for commodities has delivered gains for the mining sector in Australia. However, the gulf between activities in the mining and nonmining sectors in Australia has widened due to the nation's stronger currency and households' more cautious behaviour. Concern over the multispeed economy, combined with uncertainty over the global economy and in financial markets, has encouraged households to take a more prudent approach to finances amid greater strictness in lending standards.

## A RAPID INCREASE IN HOUSE PRICES WENT HAND IN HAND WITH CREDIT GROWTH

The performance of Australian mortgages has not been tested during a severe downturn since a recession in the early 1990s, after which financial deregulation led to a low interest rate environment and household income grew strongly due to economic growth. Housing affordability then improved significantly, as evidenced by the low ratio of Australian household debt to disposable income in the 1990s. Demand for housing increased due to population growth, changes in household demographics that favoured smaller units, and housing-supply shortages. As a consequence house prices and debt rose significantly, resulting in the ratio of household debt to income peaking at 153 per cent in 2006.

Australian households have in recent years become more risk averse, preferring building savings and accelerating debt repayments as interest rates have fallen. Amid the overall deleveraging, the continuing growth in house prices has only been interrupted by a temporary correction. Economic policies such as a grant for first home owners and demand by foreign investors have helped to stimulate growth.

## HIGHER HOUSEHOLD DEBT AND HOUSE PRICES EXPOSE AUSTRALIAN MORTGAGE MARKET TO HIGHER LOSSES

The elevated levels of household debt and house prices have prompted talk of a bubble in housing prices. While we do not anticipate a sharp correction in house prices in the near term, we believe the recurrence of an economic downturn similar to that of the early 1990s would likely place households under more severe financial stress. The degree of severity would likely depend on the speed and depth of any such downturn.

In our view, households' more prudent financing approach and lenders' strengthening lending standards in recent years, as well as softening house prices, will enhance the resilience of the performance of Australian mortgages in a more severe downturn.

## DIFFERING PERFORMANCES PROVIDE INVALUABLE INSIGHTS

Housing loan portfolios perform differently in different sectors and in different countries. These differences provide us with invaluable insights into market dynamics as well as the sometimes complex interplay among the various factors that drive defaults and losses. Prevailing macroeconomic conditions and property market dynamics are key to the differences in performance, though legal and regulatory frameworks and environments, credit culture, and the adjustment period available to respond to changes in economic conditions also play important roles.

Stable economic and property market trends in Australia have largely masked differences in the serviceability of borrowers. However, slower economic activity in nonmining sectors has led to some differentiation in borrower performance, and the subprime and nonconforming sectors were the first to be affected.

The losses experienced by lenders have remained low because the housing market has remained strong overall. Self-employed borrowers were the next to feel the pinch – the multispeed economy affected their business conditions and cash flow at a time when lenders were tightening lending standards against nonconforming and low-documentation lending, which is typically extended to self-employed borrowers.

Low-documentation arrears have increased during the past five years and the financial pressure has not yet subsided. Nonconforming, subprime, and low-documentation lending represents less than 1 per cent of overall Australian mortgages. As a result, they do not have enough substance to create systemic problems such as a housing market-led recession.

## TOWARD A MORE RESILIENT MORTGAGE MARKET

Borrower behaviour and the decision to default can be influenced by affordability – the capacity to service debt – and the equity position in the security property. We believe borrowers in Australia are predominantly motivated by

affordability, as a result of the nation's credit culture and the full-recourse nature of housing loans. Over the longer term, defaults in Australia tend to be largely influenced by triggers such as unemployment, divorce, and health-related issues. It is uncommon in Australia for a borrower to default because outstanding mortgage debt is greater than the market value of the property.

Having said this, with elevated household debt and house prices, we believe if economic conditions similar to the early 1990s were to occur again, the Australian mortgage market is likely to see higher losses. In particular, highly-g geared borrowers with few other assets are more likely to experience financial stress when they lose employment, especially during an economic downturn when house prices are decreasing. It is important that borrowers continue to exercise prudence with their finances, and that lenders maintain rigorous lending practices in assessing serviceability with provisioning for downside scenarios such as rising interest rates for variable-rate loans.

## WE BELIEVE THE MORTGAGE MARKET IN AUSTRALIA BENEFITS FROM:

- A creditor-friendly enforcement regime.
- Taxation law that promotes faster equity gains by borrowers in owner-occupied houses.
- A regulatory environment that promotes responsible lending.
- The widespread role of regulated lenders' mortgage insurance providers, which add an additional layer of underwriting risk assessment and results in more consistent credit quality and less variation in performance among smaller lenders and new non-bank entrants.
- The absence of an originate-to-distribute model.
- Subprime and nonconforming lending being less than 1 per cent of the market and thereby unable to create systemic risk.
- Ongoing efforts by industry associations and regulators to monitor and strengthen industry practices, such as promoting transparency and lending practices.

Defaults and losses cannot be prevented when an economy goes through a downturn. However, a prudent approach to borrowing and lending, with a supportive legal and regulatory environment, has historically reduced the magnitude of potential losses. Losses should be contained by a resilient mortgage market during an acute economic downturn because borrowers and lenders can manage their way out of financial difficulties, with smaller losses. At the same time, we believe a resilient mortgage market should not create systemic issues and lead to economic downturns. ■

◆ FOR FURTHER INFORMATION PLEASE CONTACT:

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# HIGHER STANDARDS

Residential mortgage-backed securities (RMBS) issuers are staring down the barrel of large-scale system and database change with the **Reserve Bank of Australia** (RBA)'s new information requirements for repo eligibility. **Chris Aylmer**, head of domestic markets at the central bank, talks about why it makes sense for the Australian market.

**W**hat was the genesis of the new information requirements for eligibility of RMBS in the

## RBA's repo operations?

◆ The key driver behind the information requirements was a need to manage the risks around upcoming regulatory changes. In particular, banks may deliver RMBS to the RBA as part of the committed liquidity facility – which will be offered from January 1 2015.

These securities are underpinned by loans, whose risks we need to know and understand.

Another driver was an interest in seeing the industry develop. There is increased demand for transparency from both investors and regulators. They want access to relevant and reliable information to manage risk, and they are also asking for more document standardisation – which may well

improve liquidity. As a result, we felt we were not out of step with the rest of the industry when we were considering rolling out new information criteria.

The new requirements will also reduce the RBA's reliance on credit rating agencies in assessing these securities.

## Will the same requirements be applied to internally-securitised assets held in bank liquidity books?

◆ Yes.

## How will your information requirements benefit the market broadly?

◆ The new criteria could lead to more standardisation as issuers that want repo eligibility will all have to meet the same requirements.

More importantly, it means that the haircuts we apply in our operations can be better tailored to underlying risks. The alternative is a large haircut

because we don't have all the details. We will be able to look at various aspects of the assets and apply more appropriate haircuts. That is potentially a major benefit for issuers.

## Are other markets already using this kind of approach?

◆ Yes. We have seen this approach emerge in the UK, the euro area and the US, all of which have initiatives underway.

We have been able to base the templates on what we have seen in these markets and tailor them to our specific requirements. This is consistent with the International Organization of Securities Commission's recommendation that members should encourage their industries to adopt best-practice reporting around RMBS.

## What is the reserve bank's timeline for implementation?

◆ A reasonable period of time is required to collect the relevant data and build, establish and test reporting systems. Reflecting this, an implementation date of December 31 2014 will apply. By this time, reporting templates must be lodged with the RBA, validated and made publicly available.

The data will be quality tested by the RBA and reporting templates that do not meet the validation standards will be returned to information providers to be corrected. Information providers may test their reporting templates for lodgement with the RBA from June 30 2014. Participation in the six-month testing phase is not compulsory but it is strongly recommended.

The RBA will publish detailed guidance on its validation standards, and how the reporting templates must be lodged, in the period up to June 30 next year.

## Some RMBS borrowers have expressed concern about the privacy of the data they supply. How is

### the central bank addressing these concerns?

◆ Issuers were worried that without the appropriate level of anonymity and/or access restrictions, the requirement to make loan-level data publicly available risked breaching privacy laws. While loan-level data would not include names and addresses, there was a risk that matching the data with other publicly available data in the market could allow

purposes. In addition, we recommend that issuers require parties with access to the data to enter into binding agreements that limit how the data may be used.

### What feedback have you received from issuers about their readiness for implementation?

◆ It will be a challenge. During our consultation period issuers made it

borrower income data for loans originated after January 1 2010.

### Is repo eligibility completely off the table for borrowers that don't comply with the RBA's information requirements?

◆ No. What is important is that we will be in a position to make a more accurate assessment of the underlying risk on securities. This raises the possibility of

*“The new criteria could lead to more standardisation as issuers that want repo eligibility will have to meet the same requirements. More importantly, it means that the haircuts we apply in our operations can be better tailored to underlying risks. That is potentially a major benefit for issuers.”*

CHRIS AYLMER RESERVE BANK OF AUSTRALIA



a property or borrower to be identified. Unfettered access to these data may also increase the risk of fraud.

To address these concerns information providers will need to replace actual loan and borrower identification numbers with dummy identifiers. They will also have to restrict access to the loan-level data to those users who need it to evaluate the RMBS for current or potential investment, for ongoing evaluation of the performance of the security, or professional or academic research

clear that they will need to make system changes. They will have information about borrower income, for example, in a different system from their current loan database and they will need to match it up.

With this in mind when we released our final consultation we gave issuers more time than was originally envisaged. There will also be an element of grandfathering for some very small issues. In addition, given the costs associated with collecting historical income data, we are only requiring

making better use of haircuts to manage credit risk, rather than just deeming something as ineligible.

### What about reporting standards for asset-backed securities, asset-backed commercial paper and commercial mortgage-backed securities?

◆ We are focusing on RMBS at this point as this is by far and away the largest segment of the market. However, we will be reviewing requirements for other asset-backed securities once this has been completed. ■

# ASJ

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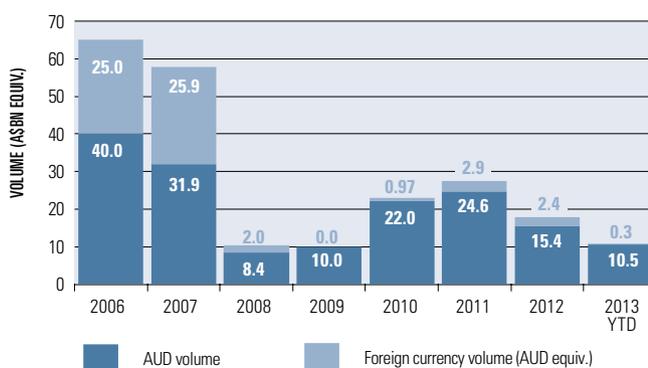


# A NEW COMPLEXION

*On the back of significant price contraction, the Australian market is heading for a bumper year of residential mortgage-backed securities (RMBS) issues – even without government support. Market participants discuss their buying and selling plans as the Australian securitisation sector presents a new face to the world.*

BY KIMBERLEY GASKIN

ANNUAL ABS VOLUMES FROM AUSTRALIAN ISSUERS



SOURCE: KANGANEWS MAY 13 2013

Between mid-2012 and the end of the first quarter in 2013, the face of the Australian securitisation market appears to have changed complexion. Over a disappointing 2012 just A\$15.4 billion (US\$15.7 billion) priced, well below the A\$27.5 billion and A\$23 billion that came to market in 2011 and 2010, respectively (see chart on this page). The slump was at least in part a consequence of the launch of domestic covered bond programmes by Australian banks. However, issuance equilibrium has clearly reset the market in 2013.

The first quarter of the new year was the busiest since the onset of the financial crisis. Some A\$8.2 billion priced over the first three months of the year, more than half the full-year volume from 2012 according to *KangaNews* data. This was the biggest first-quarter volume in Australia’s securitisation market since 2007. Four more deals in April and May brought the total in the year to May 23 to A\$10.5 billion. “The market opened very strongly – deals were upsized and priced at the tight end of or inside guidance,” comments Kevin Lee, Sydney-based division director, debt origination and structuring at Macquarie Bank (Macquarie).

While execution risk has by no means been completely eliminated, Robert Verlander, head of corporate finance securitisation at Commonwealth Bank (CommBank) in Sydney, confirms that it is a very different market compared with six months ago. “In August 2012 there were challenges in getting deals done at prices and volumes that made sense. But this year issuers have been able to do deals at increasingly tight prices at numbers that work,” he says. “As a consequence, securitisation is again playing a more central role in how issuers fund themselves.”

The market confidence has had a positive effect on the banks, notes Mary Ploughman, executive director of securitisation at Resimac in Sydney. “We are no longer having any issues with warehouse providers, which was very difficult for a while,” she comments. “Bank confidence is critical for our business model.”

## SUPPLY SURGE

The range of borrowers coming to market reflects the window of opportunity and the broad spectrum of appetite from investors for different names.

After two of the first three RMBS deals of the year came to market from major bank issuers, the next three all provided funding for non-bank names. Two nonconforming deals, totalling A\$727 million, from Liberty Financial (Liberty) and Pepper Group (Pepper) also priced.

Two new issuers, Columbus Capital and AFG, also came to market. The appearance of two debutants heralded a sense of confidence in the newly strong market. John Barry, general manager and head of securitisation at National Australia Bank (NAB) in Melbourne, is confident the activity is indicative of reaching total annual issuance close to 2011

## Going it alone

THE AUSTRALIAN MARKET HAS SURVIVED THE WITHDRAWAL OF THE GOVERNMENT'S INTERVENTION TO SUPPORT THE MARKET – THE AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT (AOFM)'S RESIDENTIAL MORTGAGE-BACKED SECURITY (RMBS) INVESTMENT PROGRAMME.

Even more encouraging than the volume and the variety of issuers that have accessed the Australian securitisation market this year is the fact that the resurgence in issuance has been achieved without the support of the AOFM, which finished its buying programme on April 10 (see feature on p24).

Overall, the government debt management agency invested A\$15.5 billion (US\$15.9 billion) of its A\$20 billion RMBS mandate, although it has not been required to support a transaction since August 2012. Market participants are extremely encouraged by how the process has been managed, noting



*“There was no spread movement when the AOFM announced the end of the buying programme, which demonstrates that the market was well prepared.”*

**JOHN SORRELL** TYNDALL INVESTMENT MANAGEMENT.

that the strong volumes of 2013 indicate non-bank issuers are certain enough to transact, even without the safety net of the AOFM. Four non-bank issuers have come to market in 2013 – from Liberty Financial, Resimac, ARG and Pepper Group.

John Sorrell, head of credit at Tyndall Investment Management, says the AOFM stood aside just at the right time. “There was no spread movement when the AOFM announced the end of the buying programme, which demonstrates that the market was well prepared,” he comments.

The AOFM made it clear in the immediate wake of the announcement of the end of its programme that it has no plans to divest its outstanding holdings. However, more recently the federal opposition's finance spokesman, Joe Hockey, has suggested that if there is a change of government at Australia's September 2013 general election the incoming government plans to sell down the portfolio.

levels. “Economics are now working for issuers given the significant contraction in spreads over the last six months,” he confirms.

Two of the big four banks – Westpac Banking Corporation (Westpac) and ANZ Banking Group (ANZ) – have yet to issue. And although ANZ is a distant prospect, having not issued in the securitisation market since 2006, Westpac is a contender. Commonwealth Bank of Australia (CBA) and NAB may well return to the market this year.

“For the next financial year we have A\$26 billion in maturities, and at this stage we'd expect to see issuance around that amount,” comments Simon Maidment, head of group funding and liquidity at CBA in Sydney. “Senior spreads are relatively attractive in the Aussie and US markets right now, but the AUD securitisation market is also still pricing well.” Relative to senior spreads, covered bonds are less attractive than a year ago, he adds. And given the limit on covered bond issuance, this opens the door to more securitisation from the big banks.

Sarah Hofman, head of securitisation at RBS Australia in Sydney, believes there is scope for

even greater volume of issuance once the Australian Prudential Regulation Authority (APRA) finalises its revisions to APS120 and resolves some issues around warehousing. “APRA is undergoing a review of warehousing structures. Authorised deposit-taking institutions [ADIs] face a tier one capital deduction if they hold subordinated tranches, which is now defined as any tranche with exposure to the first 10 per cent of credit losses of a securitisation and is not the most senior tranche,” she explains. “But there needs to be more clarity about what this means for warehouses and the ability of ADIs to provide warehousing facilities.”

In its response to consultation submissions in July 2012 APRA pointed out that warehouse facilities have only one tranche and therefore by definition all holdings will avoid capital deduction requirements by virtue of being the most senior tranche.

*“This year issuers have been able to do deals at increasingly tight prices at numbers that work. As a consequence, securitisation is again playing a more central role in how issuers are funding themselves.”*

**ROBERT VERLANDER** COMMONWEALTH BANK





*“We are no longer having any issues with warehouse providers, which was very difficult for a while. Bank confidence is critical for our business model.”*

**MARY PLOUGHMAN** RESIMAC

But the regulator also added: “Once a warehouse is tranching, it becomes a securitisation even if there is a delay in selling the tranching notes into the market. To allow for possible administrative or other delays, APRA proposes that a warehouse funder that holds subordinated tranches with the intention that they be sold into the market at the earliest practical opportunity will not need to deduct its exposures to relevant tranches for the first six months after the tranching occurs.”

## SPREAD DIRECTION

The level of supply and changing market dynamics have had a dramatic effect on spreads, which have tightened to levels that are more economic for issuers. Twelve months ago CBA’s A\$920 million Medallion Trust Series 2012-1 class A notes priced at 140 basis points over one-month bank bill swap rate (BBSW). In March 2013 the bank’s A\$1.013 billion of class A1 notes in the Medallion Trust Series 2013-1 priced at 80 basis points over BBSW.

The change brings RMBS back into better alignment with covered and senior unsecured bonds. But the key question market participants are grappling with is whether there will be more compression to come.

Issuers, investors and intermediaries believe there is still potential for further spread compression, albeit likely at a slower rate. Craig Parker, head of structured and asset finance at Westpac Institutional Bank (Westpac) in Sydney, suggests: “Spreads could come in but the move is likely to be far more modest. There’s still enough liquidity in the market to create some price tension.”

With the potential for reasonable supply throughout 2013, future price performance comes down to investor demand. So far this year, offshore appetite for Australian product has been very strong right across products and

capital structures (see roundtable discussion on p28).

Australian bank and real-money investors are still coming to the party – for now. Most investors continue to buy at current levels and see decent value in prime RMBS. “We’ve been quite happy to be overweight RMBS,” confirms Jeff Brunton, head of credit

markets at AMP Capital in Sydney. “Even though the market has tightened so significantly it still offers a reasonable premium to three-year senior bank paper.”

Brunton also remains a strong supporter of the non-bank RMBS market. “We like a number of issuers in this space that have strong business and servicing models, and which are more proactive than the major banks in meeting our needs on price and transparency,” he comments.

John Sorrell, Sydney-based head of credit at Tyndall Investment Management (Tyndall), has been a recent buyer of prime RMBS. However, he is beginning to feel cautious on price given the contraction in margins. “We are well aware of the illiquidity factor,” he says. “I don’t see spreads returning to those terrifyingly tight pre-2007 levels, but we would reassess our buying if spreads come in another 10 basis points – we won’t buy at any price.”

Despite continuing demand, issuers are not taking execution for granted either. Ploughman at Resimac, which priced a A\$750 million RMBS deal in March, admits that at the time of the deal there was not complete confidence that such a big transaction would be priced. “The market was skittish so there was some degree of execution risk associated with the broader economic picture around Europe. Even now, the market is still a little fragile and may be prone to quick changes in sentiment,” she reveals.

In the end there was sufficient market confidence for Resimac to price its biggest deal since 2006, but Ploughman cautions that success is still dependent on the nature of the issuer. “The fact that we have met all our calls and that our deals have performed better than expected made a big difference,” she says.

For Patrick Tuttle, Sydney-based managing director and chief executive officer at Pepper – which priced a A\$350 million nonconforming deal in April – confidence in the market is solid, which is helping to facilitate a

significant level of credit growth in the nonconforming mortgage space. “While annual credit growth in the prime market is stuck at around 4-5 per cent, in the nonconforming market it is well north of that,” he notes. Pepper is currently originating A\$50 million in new loans per month – still significantly lower than the A\$110



*“The economics are now working for issuers given the significant contraction in spreads over the last six months.”*

**JOHN BARRY** NATIONAL AUSTRALIA BANK

million per month pre-crisis, but climbing back up. “The nonconforming market is growing more rapidly than the prime market due to the tightening of credit criteria from the majors, which has created a disenfranchised set of customers who can be better serviced by the specialist mortgage space,” explains Tuttle.

To fund its assets, so far this year Pepper has already issued slightly more than in full-year 2012, and Tuttle anticipates another deal in the second half. International demand for nonconforming RMBS has been particularly strong in 2013, he adds. There was some buying from the US in Pepper’s deals this year. Investment from Europe was harder to achieve given Pepper issuance is not structured to meet the European Commission’s CRD2 rules, thus taking it off the radar or bank liquids book buyers. “We had enough demand both on- and offshore on the last deal, so we didn’t have to go down that route,” says Tuttle.

At the same time, deposit volume into the non-major banks is pulling frequent RMBS issuer ME Bank in another direction entirely. “We may only do one transaction this year,” notes Nick Vamvakas, the bank’s Melbourne-based chief risk officer. “We are getting very strong inflows from retail and middle-market depositors. We are bringing on liabilities more quickly than we can write assets, so while we want to do a securitisation deal, there’s no real rush.”

## FOREIGN CURRENCY DIFFICULTIES

The issuance pattern in 2013 so far lacks non-AUD issuance. In 2012 14 non-AUD tranches were brought to market, but in 2013 only one has been priced – a US\$300 million tranche of the Resimac Premier Series 2013-1 transaction. US investors, starved of UK RMBS thanks to the UK’s funding-for-lending scheme, embraced the tranche – in fact, Resimac grew its number of US investors to six from two since its previous US issue in June 2012. “We could have got more but it was a small tranche,” adds Ploughman.

But overall, the reality of the basis swap and the difficulties in finding cost-effective swaps is likely to hinder non-AUD issuance over the next few months. Vamvakas says ME Bank refinanced the A\$307 million equivalent USD tranche from last year’s SMHL Series Securitisation Fund 2012-1 in AUD in March. “We really agonised over that decision,” he comments. “But it would have been prohibitively expensive do to the cross-currency swap. For what it cost to refinance offshore for one year we could refinance domestically for the life of the transaction.”

Maidment also says CBA will not be doing a non-AUD RMBS any time soon, even though demand is strong. “The only deals that would work are those that are very short dated and with someone providing backstop risk to the

prepayment optionality,” he notes. “You would only do that for volume rather than price.”

Putting aside the cost of a liquidity or refinance facility, the cost of non-AUD tranches is just too high. “Only a master trust structure, which takes away the balance-guaranteed swap component of the foreign currency hedging, will really resolve the issue,” adds Maidment. “You would still have the basis swap to pay for, but it would be much cheaper than in the current pass-through RMBS structure.”

While non-AUD deals are problematic in mid-2013, the good news is that issuers and intermediaries are seeing more willingness from offshore investors to establish AUD portfolios. “It hasn’t worked for us to do foreign currency tranches, but what has really changed over the last few years is the willingness of offshore investors to buy AUD directly,” says Maidment. “We are seeing more investors who have taken the time to learn how to manage a foreign-currency RMBS book opening AUD portfolios.”

## SURFING THE CAPITAL STRUCTURE

While some investors are still seeing value in RMBS, spread contraction has undoubtedly encouraged yield-seeking investors to seek higher returns in two distinct places. Demand for the nonconforming deals brought by Liberty and Pepper – both on- and offshore – reflects this trend. Pepper’s Residential Securities Trust No.10 was sold to 14 different accounts, both domestic and offshore, while Liberty’s first nonconforming transaction this year developed from reverse enquiry.

Verlander at CommBank – joint lead on the Pepper deal – told *KangaNews* supply prospects for the nonconforming RMBS

*“Spreads could come in but the move is likely to be far more modest. There’s still enough liquidity in the market to create some price tension.”*

**CRAIG PARKER** WESTPAC INSTITUTIONAL BANK



market are strong even following two transactions in quick succession in April. “Nonconforming RMBS is a much smaller market than prime but in proportionate terms I would expect to see growth in nonconforming over the course of this year. Two significant nonconforming deals pricing so close together has not happened since the onset of the financial crisis – that is a lot of supply and an indication of how far the market has come. The market is demonstrating a capacity to absorb more product than any time since the crisis.”

Apart from price, the asset mix is also proving appealing to investors. Sorrell at Tyndall has bought both non-mortgage asset-backed securities and nonconforming deals. He says he

## Certainly uncertain

ALTHOUGH BASEL III, THE APS120 REDRAFT AND NEW REPORTING REQUIREMENTS ARE LOOMING, INVESTORS ARE UNDAUNTED BY POTENTIAL REGULATORY UNCERTAINTY AND REPORT THAT THEY REMAIN ACTIVE.

Like all global securitisation markets the Australian one is no stranger to regulatory uncertainty. What is different this time around is the extent to which the uncertainty is not affecting investors.

With the new Basel III securitisation framework, the Australian Prudential Regulation Authority (APRA)'s interpretation of that framework as part of the rewrite of APS120, and the Reserve Bank of Australia (RBA)'s new reporting requirements for repo eligibility (see Q&A on p12), one may well have expected investors to sit on their hands. But that is clearly not the case.

"While Basel III and APS120 are very important, the uncertainty isn't

really shaping our buying behaviour," confirms David Hanna, senior portfolio manager at Macquarie Investment Management. "They are, however shaping the supply side because a lot of demand comes from bank balance sheets, which may be affected by the uncertainty. So issuers want to make sure potential investments are likely to qualify under new rules."

APRA's proposed revisions to APS120 include simplifying securitisation rules, and the facilitation of funding-only transactions. In late 2012 APRA suggested its expectation on funding-only securitisations is that they will generally be restricted to two tranches, and there is also likely to be

a cap on the volume of securitisation – excluding internal securitisation – that authorised deposit-taking institutions (ADIs) will be allowed to issue.

APRA is not seeking to rule out the issuance of securitisation as a means to achieving capital relief, but the regulator is only likely to grant capital relief in future if one specific task is achieved by the originator: "find a third-party investor for the B note".

The market is in the process of responding to the regulator on these proposals, but the key focus on regulation-related angst appears to be the limitation to two-tranche structures. The objections to a dictat on this issue are multiple. ME Bank's chief risk officer, Nick Vamvakas, suggests: "A simplified structure may appeal to investors. However, the larger proportion of B notes may make it more difficult to achieve capital relief," he says.

Patrick Tuttle, managing director and chief executive officer at Pepper



*"While Basel III and APS120 are very important, the uncertainty isn't really shaping our buying behaviour. They are, however shaping the supply side because a lot of demand comes from bank balance sheets, which may be affected by the uncertainty."*

DAVID HANNA MACQUARIE INVESTMENT MANAGEMENT

is still seeing value in these types of transactions. "But what we are also seeing is a broader base of assets being available. The securities are more interesting, but – allowing for levels of subordination – the issues are not necessarily deteriorating in terms of quality and risk," he comments.

Beyond the nonconforming space, the demand for yield is driving renewed interest in subordinated and mezzanine tranches of RMBS deals. "In a global environment in which investors are finding it hard to meet their return hurdles, the pricing on B notes is certainly very tempting," comments Graham Metcalf, global head of structured capital markets at ANZ in Sydney.

"In some cases the bid for the subordinated and mezzanine pieces is actually stronger than for senior given the smaller sizes of those pieces," adds Macquarie's Lee. "This opens up more structuring possibilities for issuers." Verlander believes there is enough demand in junior

tranches to support deal structure, "but there is not always enough interest in senior pieces to get the funding to work", he adds.

Issuers also report ongoing strong demand for their B notes. Tuttle says it is actually easier to place B notes because of the yield on offer. "We are also seeing strong interest from offshore buyers in these lower-rated notes, which is creating genuine price tension right down the capital structure," he notes. "US investors in particular are starved of yield because their interest rates are so low and we are seeing a lot of interest from them."

Vamvakas also reports interest for B notes during 2013. "Another key development has been interest from both institutional and professional retail investors, which we began to see in the deal we issued last year," he adds.

Bruce Potts, IFM's Melbourne-based investment director, debt investments, has been a prolific buyer of class B notes.

Group, thinks the move is a spurious oversimplification. "Who is APRA trying to protect in this process?" he asks. "If our deals were dumbed down to two tranches you would be cutting out a big range of sophisticated investors who have supported the market over the last decade. They well and truly understand the risk between single-B and double-A rated securities and shouldn't have their choices limited."

APRA's suggestion that capital relief will only be granted if up to 80 per cent of a B note is sold to a third party outside the ADI sphere could be difficult to achieve if tranching falls away.

Bruce Potts, IFM investment director, debt investments, is certainly not a fan. He says: "I see zero logic in simplifying structures in this way." For Potts the very *raison d'être* of the market is the opportunity to be rewarded for understanding, pricing and then taking the right kind of

risk. "The value we provide is in understanding the structures we are buying and knowing how to allocate credit risk across different portfolios. A completely de-risked market is no market at all."

The ability to match the risk profile of assets with appropriate clients is the critical issue here. "One B tranche that spans triple-A down to double-B makes it impossible to please anyone," Potts points out. "A client that wants triple-A risk can't take the double-B piece and the client that is after double-B doesn't want the lower return on triple-A paper."

Some market participants fear Australia will end up regulating in response to problems offshore. "A key issue to consider is just how much regulatory protection is required," says Graham Metcalf, global head of structured capital markets at ANZ. "The regulation that is coming out of the Bank of International Settlements in Europe

is designed for structures that are significantly more complicated than the structures we see in Australia. In Australia we see a small number of multi-tranche deals but they aren't complicated and probably aren't especially risky. Fitch Ratings, for example, recently publicised that in terms of actual loss to investors there has been only one failed deal in its rated securitisation universe in Australia."

John Sorrell, head of credit at Tyndall Asset Management, is more sanguine about the potential change. "I like simple structures – I don't like heavy tranching with bits shorn off here and there and going to different places," he says. It is the increased counterparty risk on more complex structures that irks Sorrell most and the increased potential for lower returns. "More complexity generally means lower returns because the management of risk will be overcharged," he argues.

*"I see zero logic in simplifying structures. The value we provide is in understanding the structures we are buying and knowing how to allocate credit risk across different portfolios. A completely de-risked market is no market at all."*

**BRUCE POTTS** IFM



But price contraction has stayed his hand more recently. "We have seen a big rally over the last three months and the value of lower-rated tranches has been eroded," he explains. "Six months ago regional banks were pricing at 375-425 basis points over BBSW. Recently, we saw Suncorp Metway price at around 300 basis points over." Potts says he is not a buyer at the 300 basis point level. "We were very active buyers of stock before the contraction so I am still long RMBS at significantly better rates," he comments.'

AMP Capital's Brunton has also been buying further down the capital structure. But he cautions that current levels of return are no longer attractive. "Our view on credit quality is very different from the rating agency view," he reveals. "We put limited value on lenders' mortgage insurance for B notes. Even

those with established pools and assets should attract triple-B risk, but we think most of the B note market is rated at the double-B or single-B level. We expect some losses from B notes in a recession and we think current levels of return are short of where they need to be."

Even so, intermediaries uniformly note increased appetite from traditional buyers of lower-rated product. And they are also seeing new buyers emerge – most notably in the

*"We have been quite happy to be overweight RMBS. Even though the market has tightened so significantly it still offers a reasonable premium to three-year senior bank paper."*

**JEFF BRUNTON** AMP CAPITAL INVESTORS





*“The nonconforming market is growing more rapidly than the prime market due to the tightening of credit criteria from the majors, which has created a disenfranchised set of customers who can be better serviced by the specialist mortgage space.”*

**PATRICK TUTTLE** PEPPER GROUP

so there are more opportunities to offer subordinated and mezzanine notes, which is where there is strong appetite right now,” comments Lee at Macquarie.

sub-institutional space. “We are seeing greater demand from boutique credit funds, but also high net worth individuals and family offices through private banks,” comments NAB’s Barry. “While B note spreads have tightened – by 10 per cent or so compared with six months ago – some retail investors are looking at B notes relative to term deposits and finding them an attractive option.”

Investors say they are noticing more buyers for subordinated and mezzanine tranches. David Hanna, senior portfolio manager at Macquarie Investment Management (MIM) in Sydney – who says he is still seeing value in both senior and junior RMBS – comments: “We have been reasonably selective on mezzanine notes but we have certainly noticed more competition for these tranches. The exit of the Australian Office of Financial Management from investing in RMBS also highlights that there is demand for the entire capital structure.”

Potts is somewhat concerned about the emergence of high net worth buyers in this space. “I’m not convinced that all of these buyers really understand the risks,” he comments. “I can’t help but feel we will see some erosion of the gains made in structuring by new entrants who look at ratings and can’t be bothered doing the real work.”

## ABS: DEARTH OF SUPPLY

With nonconforming and subordinated paper high on the wish list for yield-seeking investors, it is no surprise that investors also have appetite for non-mortgage assets. “Pricing has generally been very good in the ABS market,” notes Hanna.

There was reasonable supply in 2012, when A\$4.75 billion of deals came to market. But 2013 to date has been disappointing, with no non-mortgage deals pricing by May 10 in the AUD domestic market. “It’s a shame because the timing is perfect – ABS structures tend to be highly tranced,

Westpac’s Parker is seeing fund managers keen to be involved in some of the consumer loan portfolios his bank finances. “We also have at least one credit tenant lease transaction on the go and we are fielding a lot of interest in non-residential private deals as well,” he adds.

At this stage deals are still pricing well outside prime RMBS – somewhat different from the pattern in the US and Europe. But no-one is anticipating a major shift in this dynamic any time soon.

A major reason that ABS prices tighter than RMBS in offshore markets is the relative lack of volatility of the assets behind ABS – such as autos and equipment. “There is relative price stability in autos and other assets unlike the housing market, where there have been considerable price falls,” says Verlander. “In Australia, of course, the experience has been very different in terms of pricing stability and growth. Consequently, a premium is placed on the security mortgages afford.”

Despite wishes to the contrary, market participants do not anticipate an extension of the ABS asset class at this stage. This is partly because funding opportunities elsewhere are beckoning. “Loan market funding has been very competitive,” acknowledges Verlander.

The other key issue is that Australia lacks the regulatory framework that could facilitate revolving pools more easily. Once again, some market participants say master trust structures are necessary to move the market forward. “Master trusts could provide the impetus to generate greater ABS supply from the major banks,” says Barry. “For example, they are particularly well suited to revolving assets such as credit cards.”

Unfortunately, there is no silver bullet that will result in a rush of supply to the ABS market. Says ANZ’s Metcalf: “A master trust structure may help, but for most issuers the underlying level of credit growth just isn’t supportive

of regular local issuance.

The Australian market has only seven ABS programmes outside the major banks and it is hard to see sudden growth in the volume of car or equipment loans sufficient to support the emergence of many more.” ■



*“We are getting very strong inflows from retail and middle-market depositors. We are bringing on liabilities more quickly than we can write assets, so while we want to do a securitisation deal, there’s no real rush.”*

**NICK VAMVAKAS** ME BANK

# Strong ABS demand sees return of AUD and USD auto deals

*Solid investor appetite for Australian-origin asset backed securities (ABS) has seen two new auto-backed deals from Bank of Queensland (BoQ) and Macquarie Leasing (Macquarie) come to the market in May. However, market participants admit the pipeline for further supply remains thin.*

**O**n May 16, BoQ priced Series 2013-1 Reds Trust – a six-tranche, auto-backed deal with total volume of A\$900 million (US\$921.1 million). The triple-A rated A\$721.8 million A tranche, which has a 1.4-year weighted average life (WAL), priced at 100 basis points over bank bill swap rate (BBSW).

Macquarie issued its second predominantly US dollar asset-backed issue of 2013, also on May 16. The transaction has a total equivalent volume of A\$853 million spread across 12 tranches. The F1+/P-1 rated US\$142.5 million A-1 tranche, which has a 0.37-year WAL, priced at 26 basis points over international Libor. The triple-A rated A\$187.5 million fixed and floating A-2 tranche has a 1.14-year WAL and pricing of 25 basis points over Libor.

Sofie Sullivan, Sydney-based head of structured product group at J.P.Morgan – joint lead manager on both transactions – says demand for auto ABS is strong in domestic and offshore markets with new investors also looking at the asset class. “We saw strong demand in Macquarie’s US dollar deal, which was upsized to US\$750 million from US\$500 million. BoQ’s Reds auto ABS deal was also upsized to A\$900 million from A\$500 million, and benefited from a strong domestic and offshore bid with

new investors participating in the transaction,” she comments.

James Shaw, head of funding at BoQ in Brisbane, reveals the book for the bank’s recent deal was oversubscribed from 22 accounts including demand from offshore investors. In total, 42 per cent of the deal was placed with European investors, 2 per cent went to Asian accounts and the remaining 56 per cent to investors in Australia and New Zealand.

**“THERE IS A SCARCITY FACTOR – THERE ARE NOT A LOT OF OTHER ISSUERS WHICH ARE LIKELY TO COME TO MARKET IN ANY SIZE. OUR TRANSACTION WAS REASONABLY SOUGHT AFTER.”**

**JAMES SHAW** BANK OF QUEENSLAND

Although the issuer explored the possibility of doing a foreign currency tranche, on this occasion Shaw says BoQ decided demand was sufficient to issue solely in Australian dollars. This marks a shift in strategy from BoQ: both the securitisation deals it priced in 2012 – an ABS and a residential mortgage-backed securities (RMBS) issue – contained sterling tranches.

Shaw says demand was particularly good for the triple- and double-A notes in BoQ’s latest deal. “One year ago the double-As were sold at a much wider

spread of 250 basis points over BBSW – the market has moved in a fair way. The same with the triple-A notes: we sold them at 100 basis points over BBSW but this time last year we sold a similar tranche at 170 basis points over BBSW.”

## Tight supply

Despite strong demand, ABS supply remains tight with few issuers willing and able to do transactions. Issuers that can bring non-mortgage assets to market are feeling the benefits, and Shaw points out this was behind BoQ’s decision to issue ABS rather than RMBS on this occasion. “There is a scarcity factor – there are not a lot of other issuers which are likely to come to market in any size. Our transaction was reasonably sought after,” Shaw points out.

Kevin Lee, Sydney-based division director of debt origination and structuring at Macquarie Bank – also a joint lead manager on both the BoQ and Macquarie transactions – says traffic in the ABS market is slower with deals tending to emerge less often than mortgage-backed issuance. “There are a lot more securitisers of mortgages in Australia than there are for ABS and autos. There could potentially be some issues but they wouldn’t flood the market, although that is not to say other ABS issuers won’t come later this year,” he says.

Sullivan agrees. “There are a lot of auto receivables in Australia to be securitised, but auto and equipment pricing needs to be attractive relative to other sources of funds for originators to tap into this market. In terms of public deals, I’m not expecting there to be a flurry on the back of these transactions.”

She adds that, for the major banks, raising 1.5-year auto ABS funding is not cost efficient on pricing. “Auto ABS pricing makes sense for BoQ relative to other sources of funds, such as unsecured debt,” she says. ■

# CHANGING ACCOUNTING STANDARDS

*2013 sees the introduction of a new consolidation standard and the release of an exposure draft proposing a new impairment regime. The new consolidation accounting standard, AASB 10, is part of an ongoing process to harmonise US and international reporting requirements following criticism over lack of consistency during the financial crisis.*

## CONTROL: THE OLD REGIME & THE NEW RULES

Prior to January 2013, analysis of control of a special purpose entity (SPE) mainly involved assessing who held the majority of the risks and rewards of the SPE. Under AASB 10, the risks-and-rewards approach to control is abandoned, and a new definition introduced. This defines control with reference to three required attributes: power over an investee, exposure or rights to variable returns of the investee, and the ability to use its power over the investee to affect the investor's returns.

Power exists when an investor has rights giving it the ability to direct activities that significantly affect the SPE's returns. In a securitisation deal, this is generally linked to the performance of the underlying assets and therefore the party that most influences the performance of these assets is likely to have power over the SPE.

Many SPEs are designed largely to operate on autopilot under predetermined rules in transaction documents. However, decisions outside the predetermined parameters may be required when return fails to materialise – for example, if defaults occur on receivables or arrears are outside certain parameters. Such decisions significantly affect the returns of the SPE and therefore are the relevant activities. Consequently, analysis of power over an SPE should focus on

decision-making ability. In such circumstances more weight would be given to specialist servicing rights – rights over assets in arrears or default – rather than general servicing rights, and the ability for other parties to replace the specialist servicer.

In the rare circumstances where no decisions are required post SPE formation, power would be assessed based on the significance of an investor's interest and involvement in the design of the SPE structure.

In addition to power, the controlling party must also have exposure to variable returns affected by the exercise of power. The standard is clear: rights must be substantive, and can be overruled if a single participant in a transaction has the right to unilaterally remove the party that directs the most significant activities – a 'kick-out right'. That kick-out right in itself indicates power over the SPE, but typically only if it can be exercised at any point in time.

Other subtleties which could affect the question of control include whether the entity with power is truly acting on its own behalf, or as an agent on behalf of other parties. This is a transaction-specific, judgemental area, particularly where an agent also holds a variable interest as there are no clear lines as to the level of investment required for a party to be acting on their own behalf. It is also proving a challenge for servicers who hold a small interest in structured transactions.

Assessments of substantive rights, relevant activities, and variable returns are judgemental, particularly in relation to complicated securitisation structures. A challenge for both issuers and audit firms will be ensuring that judgements are consistent across industry and jurisdiction – and even across an institution. Data availability could also pose a challenge for entities required to consolidate SPEs for the first time.

## AASB 9: IMPAIRMENT EXPOSURE DRAFT

On March 7 2013 the International Accounting Standards Board issued *Exposure Draft ED/2013/3 Financial Instruments: Expected Credit Losses*. This is intended to replace existing guidance on impairment of financial assets. It creates an impairment model that uses forward-looking information to achieve earlier recognition of credit losses – compared with the existing "incurred loss model" that delays recognition of losses until a loss event.

### THE PROPOSED RULES

The new model will see financial asset impairment based on three stages. The first is no significant credit deterioration since initial recognition. The second is significant credit deterioration since initial recognition. Last is objective evidence of impairment at the reporting date. Expected credit losses are required to be measured through a loss allowance in accordance with one of two approaches:

**Stage 1** The 12-month expected credit losses amount, being the expected shortfalls in contractual cash flows over the life of the asset resulting if a default occurs in the 12 months after the reporting date.

## SUMMARY OF AASB 10 ACTIONS

Indicative control examples	Activity most affecting returns	Exposure to variable returns
<b>RMBS transaction: issuer</b> The issuer retains the servicing, and also holds the residual income units (RIU) in the SPE.	Managing of assets in default.	Variable excess spread distributions to RIU holder represents variable exposure.  If servicing fee is market rate for the services provided, and is the only variable exposure held by an issuer (ie no RIU), this may indicate the servicer acting as an agent.
<b>ABCP conduit: sponsoring bank</b> The sponsoring bank chooses the assets held in the structure and the level of funding issued to investors. The sponsoring bank extends credit and liquidity facilities to the SPE.	Choice of assets and control over level of outstanding funding.	Credit exposure and liquidity facilities.
<b>CMBS transaction: special servicer</b> Servicing of an asset is transferred to a secondary servicer on default. The secondary servicer fee is linked to the performance of the loans.	If likely that the special servicer will be required to perform services during the life of the transaction the special servicer would be considered to have the power to direct the most significant activity, even at the start of a transaction and even if no loans are subject to special servicing.	The variable specialist servicer fee presents exposure to variable returns from the SPE even though it may have no investment in any tranches of notes. As the fee earned by the special servicer varies on how successfully they complete their role, they have a variable return affected by the exercise of power.

SOURCE: DELOITTE MAY 2013

**Stages 2 and 3** The full life time expected credit losses amount, being the present value of expected credit shortfalls over the remaining life.

### DEFINING A “SIGNIFICANT” DETERIORATION

The assessment of a significant deterioration in credit is based on an increase in the probability of a default since initial recognition. The proposals contain a rebuttable presumption that the credit risk has increased significantly when contractual payments are more than 30 days past due.

### REVENUE RECOGNITION ON THE DIFFERENT STAGES

For stage 1 and 2 classified assets, interest revenue is calculated on the gross carrying amount. For stage 3, interest will be calculated on the net value – after deducting expected credit losses.

### CREDIT-IMPAIRED FINANCIAL ASSETS

These are assets which are credit-impaired at initial recognition. For these assets an entity will recognise changes in lifetime expected losses since initial recognition as a loss allowance, with any changes recognised in profit or loss. This means that day one expected losses are built into the effective interest rate on these assets from initial recognition, as they are always in effect in stage 3.

## INDUSTRY IMPACT?

While many industry participants believe this approach to impairment will more accurately reflect business performance, and potentially result in a more favourable regulatory outcome, there is still concern among financial institutions that the rules are too unclear, too complicated or not aligned closely enough with regulatory reporting. One of the biggest challenges will be the setting of boundaries and

triggers for the transfer of a financial asset between stages. The gathering of sufficient data to forecast both future expected losses and valuations driving credit losses will also be a challenge.

Finally, for some institutions – particularly those struggling to harness the power of their historic data – the tracking of credit quality required for a model based on credit deterioration could be challenging. The significant disclosure requirements will also test parts of industry as disclosures on both the financial instruments and any underlying collateral will be required. Generally, most industry participants are expecting a higher impairment provision will be required under the new guidance, which will require explanation to boards, analysts and shareholders.

For SPEs the requirement to book a day one loss as a result of the expected loss model can be problematic for trusts, depending on the definition of taxable income. It could result in taxable profits and accounting losses whereby the trustee may become liable for tax.

In summary, the criticisms of accounting standards arising from the global financial crisis are now clearly making their effect felt in new and proposed standards. Consistency of application and judgements will be a constant challenge, particularly with non-vanilla structures. One consistent theme is enhanced disclosures and the need for reliable data on which to base models and conclusions. The availability of such data – and the early tackling of some of the difficult analysis required by these standards – will be a differentiator between financial institutions. ■

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# AOFM PROGRAMME GETS CLOSING CREDITS

*In a further sign of the improvement in securitisation market conditions, the Australian Office of Financial Management (AOFM) confirmed on April 10 that it will not make any further investments in residential mortgage-backed securities (RMBS). The government debt agency invested A\$15.5 billion (US\$15.9 billion) of its A\$20 billion RMBS mandate, although it has not been required to support a transaction since August 2012.*

**T**he AOFM’s announcement followed a speech by Australia’s federal treasurer, Wayne Swan, revealing the decision to end the programme. Swan said: “Given the big improvement we’ve seen in the RMBS market, and the ongoing lack of demand for AOFM support, the Treasury has advised me that it’s now time to stop making new investments.”

By the time of the announcement the AOFM had not participated in an RMBS transaction for more than six months and its overall participation had steadily dwindled since its peak in Q2 2009, when it purchased nearly A\$3 billion (see chart on this page).

More recently – and increasingly in 2013 – securitisation market participants have commented on growing confidence in the RMBS market. By May 23 a total of 13 RMBS deals had priced in 2013, for total domestic currency volume of A\$10.5 billion. Many if not most of these transactions attracted significant support from both Australian real money and international investors – two sectors which have been virtually absent from the Australian dollar market for extended periods during the post-crisis era.

However, market participants pay credit to the AOFM programme for supporting the funding of smaller and regional authorised deposit-taking institutions (ADIs) and non-banks, helping to ensure that breadth remained in the Australian mortgage market during its most stressed period (see box on facing page).

The end of the AOFM’s buying programme places some doubt on the future of its existing holdings – especially if there is a change of government following Australia’s federal election in September 2013. In a statement following Swan’s announcement, the AOFM confirmed the initial expectation was that it would be allowed to hold existing RMBS notes until maturity. It added: “The AOFM will not entertain sales that undermine the improvements seen in the market to date but may sell to assist the price discovery process or to adjust the portfolio in line with the Treasurer’s latest directions.”

Swan himself said in his speech that the end of the investment programme “doesn’t mean we’ll be selling down our existing stock of RMBS any time soon”.

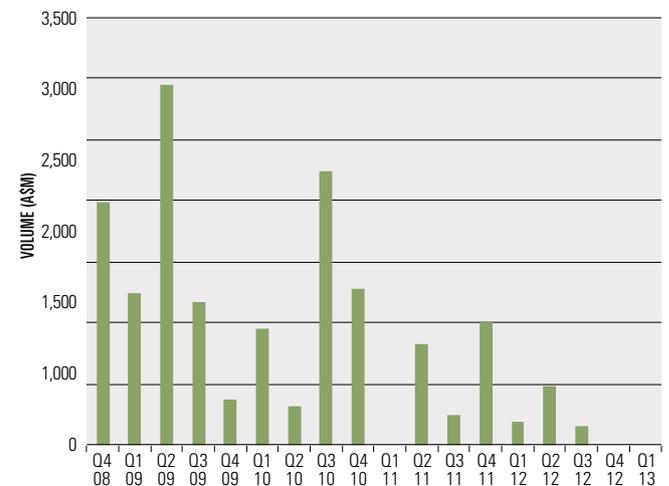
However, in a May 7 speech the shadow treasurer, Joe Hockey, offered a contrary view. If the federal opposition takes power Hockey says it will “sell down the A\$10 billion of [RMBS] on the balance sheet of AOFM as market conditions permit, and reduce the associated borrowings”.

Following the end of the programme, the AOFM’s Canberra-based director, financial risk, Michael Bath, talked to *KangaNews* – the publisher of the Australian Securitisation Journal – about how it was managed and what he believes it achieved.

◆ **When the programme commenced how did the AOFM prioritise which deals to support? Was there any specific direction or goal in terms of allocations – such as to put a proportion of the portfolio into the regional bank sector?**

Applying the minimum eligibility criteria, which had been worked out in consultation with Treasury and embedded into our investment guidelines, was a good first-stage filter. We also set up some selection criteria, against each of which we ascribed a score for each eligible application. We then weighted these scores according to how important we perceived each criterion to be.

**AOFM RMBS PURCHASES (ORIGINAL FACE VALUE)**



SOURCE: AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT MAY 10 2013

This process was tweaked slightly over the period since late 2008. However, in the first round because we were in a position to assess multiple eligible proposals contemporaneously we were also able to use the scores to rank the proposals. The proposals that scored highest were the first cabs off the rank, and we managed to invest nearly A\$2 billion across four transactions by the end of 2008.

In terms of specific goals, it was made clear to us that the government expected investment to get under way both quickly and cautiously. There was also a signal that the non-banks were to get around half of the initial A\$8 billion

investment. While the proscription on investing in paper sponsored by the big four banks and their subsidiaries did not come into being until early 2011, we clearly understood the government's programme objectives.

◆ **How quickly did the securitisation industry respond to the requirements of the AOFM's programme in terms of structuring deals and providing appropriate disclosure?**

We had several discussions with multiple players to try to work out how best to run the initial investment phase. I think it's fair to say that it took the industry some time to speak

## The market pays tribute

OTHER COUNTRIES – WITH WORSE FINANCIAL SYSTEM PROBLEMS – WERE FORCED INTO GREATER DIRECT CASH INJECTIONS TO PROP UP AILING LENDERS. BUT, MARKET PARTICIPANTS SAY, THE SECURITISATION INVESTMENT PROGRAMME OF THE AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT (AOFM) WAS EXACTLY WHAT THE AUSTRALIAN MARKET NEEDED.

David Hanna, division director, fixed income and currency at Macquarie Investment Management in Sydney, credits the AOFM's programme with achieving its main goal of supporting the mortgage lenders that were put under most pressure during the financial crisis. "The AOFM kept the market as it is alive," he says. "The major banks would still have returned to the market without it, but there would not be the level of competition from the non-bank issuers."

John Barry, Melbourne-based head of securitisation, Australasia, at National Australia Bank, says the programme successfully targeted allocations to smaller lenders. "The provisos of the investment scheme included the fact that it would not be available to the major banks and that loans coming out of warehouses in term deals supported by the AOFM would free up capacity for additional lending. In this context the programme achieved what it set out to in terms of supporting competition in the mortgage market."

Mary Ploughman, executive director, securitisation at Resimac in Sydney, explains just how the investment programme helped her company. "When the treasurer announced the RMBS purchase

programme in 2008 there was little prospect of issuing an RMBS into the domestic market at reasonable levels," she says. "Resimac's ability to maintain its core prime business, renew and establish warehouse lines and issue RMBS twice a year throughout the global markets' dislocation was helped by the AOFM programme."

Credit is also paid to the way the AOFM managed its task, especially the way it walked the line between providing funding at rates so low they excluded third-party investors for an extended period but not too high to make it valuable to borrowers.

John Sorrell, head of credit at Tyndall Investment Management in Sydney, explains: "The AOFM contributed a great deal to the Australian securitisation market. The RMBS market was held together through its actions – which led to healthy issuance volumes throughout the financial crisis. The programme was well-managed – the AOFM didn't actually fight market direction despite people sometimes thinking it was."

The view from offshore also appears to be largely positive. Henry Cooke, European head of ABS at Threadneedle Asset Management in London, says: "I think the Australian

government adopted a very level-headed and sensible approach – and at the same time it gave great comfort to the market."

Cooke is not concerned about the end of the programme given the health of the Australian market. "It's not a problem at all that the AOFM no longer needs to support the market. In fact, the paper it purchased is now highly sought after by investors. I think it's really positive that the government has had the courage to say it is not needed anymore."

Ploughman adds a note of caution for the future, however. "While we have seen strong momentum in sentiment and activity since late 2012, there remain real and present risks to the operation of the capital markets," she warns. "Two challenges we still see are global event risk and, increasingly, regulatory uncertainty. Like most financial institutions, there remains a need for us to raise capital offshore and, in the instance of another global shock, we will again be exposed to warehouse lines and the domestic market. It is also worth noting that Australia will be the only active RMBS jurisdiction without an active form of government or direct central bank support for its mortgage market."

with one voice. The prospect of possible cheap funding saw a lot of people trying to get a seat at the table to influence the implementation of the programme. At one stage people were just turning up at the café on the ground floor of the Treasury building here in Canberra and phoning us asking for a meeting as they “just happened to be in the neighbourhood”.

If there is a lesson to be learned for the industry here it is to recognise that, in times of crisis, officials need ways of sorting through the noise. Maintaining relationships in the good times is a way of ensuring that someone who is known to be able to rise above their own self-interest is treated as a voice of reason when a crisis hits.

In terms of intermediaries, I think initial performance varied quite dramatically. While some were extremely professional and really able to bring us up a steep learning curve – for which I am genuinely grateful – others made me wonder how familiar they really were with securitisation.



*“There was a very real risk that the real money would simply wait the programme out and push spreads wider when the programme was exhausted. So we were mindful that we needed an innovative solution.”*

**MICHAEL BATH** AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

The level of disclosure also created a few initial headaches. In particular, some borrowers struggled with the extra dimensions we sought to add to the audit process we insisted each transaction be put through. But they got there in the end. It’s also important to put this into perspective: a lot was required of us and the industry in a very short period.

◆ **In general terms, how important was it to the AOFM’s programme that third-party investors return to the RMBS market over time?**

Very. It was pretty clear from the size of the programme – initially A\$8 billion, rising to A\$16 billion and ultimately A\$20 billion was made available – relative to the share of housing finance that had traditionally come from securitisation that we needed to ultimately sponsor a re-engagement with longer-term, real-money investors in particular, given that the structured investment vehicles were unlikely to come back.

This was made particularly difficult by the size of the secondary market overhang. There was a very real risk that real money would simply wait the programme out and push spreads wider when the programme was exhausted. So we were mindful that we needed an innovative solution.

◆ **Many market participants believe a key step forward in the programme was the strategy of supporting**

**longer-tenor RMBS tranches in order to encourage third-party investors back into the market by facilitating the inclusion of short-tenor notes in deals. How was that strategy formulated – where did the idea come from and how was it researched and planned before being implemented?**

I see this as the game changer we needed to deal with the secondary market overhang. We anticipated that there would be bank balance sheet demand for paper that would have been repaid by January 2015, when the Basel III liquidity rules were scheduled to come into effect. My then colleague, David Ziegler, worked back from this to determine the mechanics of the structure, although we also tested the model externally.

Another benefit of the strategy was that we were only going to need to contribute around a third of each transaction, so it also ticked the co-investment box. Pricing the long tranche aggressively ensured issuers would be keen to replicate the

model, pushing investors seeking longer-term RMBS towards the secondary market overhang. However, it also risked welding the market onto us. So we needed to be mindful of doing it beyond the depletion of secondary market overhang.

◆ **Were there any surprises in terms of how the non-AOFM investor base progressed during the life of the investment programme?**

We took a risk that the long-tenor tranche strategy might disenfranchise some real-money investors from RMBS altogether. But the next six to 12 months saw them chip away at the secondary market.

In early 2011 my colleague, Hulya Yilmaz, rightly suggested to an issuer that the market might be ready to try a more traditional structure with a single three-year super-senior tranche. When this structure was tested, we were scaled out completely for the first time in the programme.

Given reduced prepayment rates and the hard line some investors then faced at weighted-average lives (WALs) beyond three years, we were subsequently called upon to buy even smaller, longer tranches to facilitate the creation of three-year tranches from time to time. However, investment mandates were gradually changed to reduce this need.

The impact of Europe’s problems in 2011 risked stranding us in the longer tranches and mezzanine – class AB – notes. But

we responded by attempting to push pricing wider where we were the sole investor. This in turn contributed to the return of real money in 2012, although clearly the improvement in sentiment towards credit has been the key driver of improvements in the RMBS market since then.

◆ **The AOFM has periodically sold parcels of RMBS in the secondary market. Can you explain the rationale behind the sales to date?**

Every sale we have undertaken has supported price discovery. While each direction issued by the Treasurer has given us a capacity to rebalance our holdings for portfolio management reasons – and this is still the case – his speech in April made it clear that he sees the primary role for any future sales as aiding price discovery.

The lack of secondary market transparency in RMBS works against bringing issuers and investors together when other credit spreads are tightening, particularly in senior unsecured bank paper or covered bonds. This is something the industry might like to work on.

◆ **There has been a lot of speculation and some claims made about the performance of the AOFM's RMBS portfolio, and obviously spreads have gone in RMBS holders' favour in general over recent years. What can you disclose about performance, and what will any gains from the investment programme be used for?**

We report on the performance of the RMBS portfolio in our annual report, both in terms of accrual returns and any revaluation effects. As at the end of April, the total accrual earnings over the life of the programme stood at just over A\$2.1 billion and the mark to market was around square. Note that we revalue the portfolio at bid rates – were we to use mid rates this would improve by perhaps A\$50 million.

In terms of net returns after funding costs, this is not something we estimate – we don't 'match fund' our assets. That said, we have been cognisant of the impact that the mismatch between floating rate assets and fixed rate debt has had on the overall portfolio. However, this was consistent with our overall objective in recent years of lengthening the duration of our net liabilities.

We can conclude though, in light of the downward trend in interest rates since 2008, that the net interest margin we have received is less than that implied by the margin over bank bills that our RMBS portfolio earns and the typical margin under swap at which the AOFM issues Commonwealth government securities.

As for some of the mark-to-market profit claims made in the press, they simply don't hold up to scrutiny.

◆ **Looking back over the whole period of the AOFM's investment programme, how confident are you that it achieved its goals?**

The programme helped to keep securitisation infrastructure alive during a very difficult period and, as has been recently demonstrated, it was a temporary intervention in keeping with the government's "Three Ts" mantra throughout the financial crisis: 'timely, targeted and temporary'. It is reasonable to compare this with the more permanent exposures US and Canadian taxpayers continue to face via their respective governments' interventions, as at one stage these were held up as models to be emulated in Australia.

Has it supported competition? Well, I would say yes, on balance. Competition is about more than simply market share and there remain a multitude of product offerings in the mortgage space from which the Australian consumer can choose. If consumers don't want to use a bank, there are many non-banks, credit unions or building societies with which they can deal. Has the AOFM programme driven this? No, the prudent management and oversight of these entities through the crisis have been the key drivers. But the government's intervention has certainly supported it by providing confidence that they can fund mortgage origination competitively.

◆ **What do you consider to be the indicators of success for the programme, and what else would you highlight as key drivers of that success?**

Unambiguous performance indicators for the programme are difficult to derive, as not only is competition a difficult concept to measure but it is also by no means clear what the counterfactual should be. Any comparison with conditions prevailing before the financial crisis is not terribly useful. Conversely, it is impossible to make comparisons with an alternative world where the programme was either botched or not implemented at all. That said, we see the number of people claiming responsibility for the government's decision to invest in RMBS as one indicator of success.

In terms of the drivers of success, I think there are many. Bipartisan support for the programme meant that we were able to focus on the task at hand. I want to single out Jim Murphy and his team in the markets group within the Treasury, and Guy Debelle at the Reserve Bank of Australia, for their advice and guidance, particularly in the initial phase.

Within the AOFM, Neil Hyden, Gerald Dodgson and Pat Raccosta put in a great deal of work in late 2008 and early 2009 when we were setting up the programme. Sage advice from Tim Hughes, chairman of the Australian Securitisation Forum, has also been particularly useful throughout the programme. There are also several other bankers who have managed to rise above narrow self interest to provide really helpful guidance.

But particular credit needs to go to David Ziegler and Hulya Yilmaz, who successfully managed the programme and formulated numerous strategies for staying ahead of market developments, gained support for them and then implemented them. On behalf of the taxpayers of Australia, I salute them. Please join me. ■

# UK demand for Australian securitisation: a drop in the ocean

*In May 2013 National Australia Bank hosted a multi-city video link, bringing together Australian securitisation issuers in Sydney, Melbourne and Adelaide with UK bank investors in London. The discussion focused on international demand for Australian residential mortgage-backed securities (RMBS) – and hinged on the investors’ view that virtually the only people yet to be convinced by the Australian securitisation story are Australians themselves.*

## PARTICIPANTS

- ◆ **Peter Atkinson** Vice President & Senior Portfolio Manager, Global Treasury STATE STREET
- ◆ **John Barry** Head of Securitisation, Australasia NATIONAL AUSTRALIA BANK
- ◆ **Peter Casey** Deputy Treasurer, Asset & Liability Management ING BANK AUSTRALIA
- ◆ **Jacqueline Fox** Head of Securitisation Origination NATIONAL AUSTRALIA BANK
- ◆ **Max Pedler** Head of Treasury Funding BENDIGO AND ADELAIDE BANK
- ◆ **Peter Riedel** Chief Financial Officer LIBERTY FINANCIAL
- ◆ **Michael Rose** Director, ABS Portfolio Management STANDARD CHARTERED BANK

## MODERATOR

- ◆ **Laurence Davison** Editor KANGANEWS

## OFFSHORE BID SCALE

**Davison** *How important has international demand from various jurisdictions been in supporting recent RMBS transactions for Australian issuers? How has that demand picture evolved since the start of last year?*

◆ **PEDLER** We have seen more significant international demand in the past six months than in the preceding year. But a key part of the story started late in 2012, when investors from the UK made public comments around the lack of supply domestically as a consequence of the Bank of England’s funding-for-lending scheme (FLS) and some investors had increased their familiarity with Australian collateral and their capacity to buy in Australian dollars. We had not engaged directly with UK-based investors since 2007 but included the UK on the roadshow schedule for our Torrens transaction completed earlier this year.

Prior to the interest in Australian dollar RMBS developing in the UK our most recent experience with offshore investors was with Japanese-based investors. We completed a transaction in 2011 that included a yen tranche on the back of reverse enquiry from a small number of Japanese-based investors. We have hosted Japanese investors in Adelaide over the past couple of years as they complete due diligence work on our underwriting and credit standards, but we haven’t seen any further demand in yen. However, some of those Japanese investors have participated in our Australian dollar transactions.

We haven’t seen a lot of interest in Australian dollars from Asian investors outside of Japan, and that is something we would like to see increase. We met with investors in Singapore on our way to the UK in January – the majority of demand from those investors was for US dollars.

We haven’t issued into the US market, although I know other Australian issuers have done so successfully.

◆ **CASEY** We have been issuing RMBS since 2010 and have made one trip a year to the UK in that period. Until our first deal last year we typically saw 5-10 per cent of notes sold to offshore investors, primarily in the UK. For our deals in Q3 last year and Q1 this year, we saw that figure rise to more than 30 per cent – again mostly in the UK, though with some demand from Japan as well.

What we are also seeing is some investors doing credit work in one centre but booking investments in another – effectively joint ventures between offices in London and Sydney or, in some cases, New York and Sydney. We issued a note in US dollars last year, as well, although it is still simpler to issue in Australian dollars.

◆ **BARRY** The offshore bid has certainly stepped up, especially in the past 6-12 months. We see that in several forms: the biggest source of demand is from the UK for Reg S Australian dollars, but we have also seen successes in the US – especially

for money-market tranches from 2a7 buyers – and also demand from Japan. UK investors have in some deals accounted for more than 50 per cent of books.

If we cast our minds back to 2008 and 2009 there were some Australian dollar buyers in the UK and Europe, but really only one or two. We are now talking about five to 10 names. Although they have capacity limits, which means deal timing remains very important, overall we believe demand has really stepped up.

**Davison** *How useful is additional granularity of demand? For instance, if there is a total bid of A\$100 million (US\$102.3 million) from offshore does it matter whether it comes from one investor or six?*

♦ **FOX** I'm sure most issuers would agree that breadth of demand is the most encouraging sign – they always like to see investor diversification both domestically and across other jurisdictions. Last year we saw a small handful of offshore investors participating in Australian dollar deals, and what has stepped up this year is not just the size of international allocations but also the number of participants. That is not just happening in class A notes but also down the capital structure – it is very encouraging.

♦ **PEDLER** We like to see a broad number of investors in any transaction. Deal success is about price and volume, but also breadth of investors. While buyers have different-sized bids in general we would prefer to get a similar volume from 10 accounts than two. But if the interest is there at the right price from a smaller number of investors, that too can work.

## ISSUANCE CURRENCY

**Davison** *There certainly appears to be a good opportunity right now for Australian issuers to attract new investors. How much capacity is there for AUD issuance under current demand conditions?*

♦ **FOX** Early in the year we saw large deals from two of Australia's big four banks, and those caused a degree of concern about the level to which major offshore account capacity was filled. What we have learned is that some of those accounts have had uplifts to their investment

allocations, including increased limits to the RMBS product. Coupled with the extension of FLS to 2015, the significant build up of cash and the quantity of UK master trust redemptions due this year, there are reasons for continued support and an increasing quantity of investors is getting positioned to buy Australian RMBS.

Investor interest is also far higher than it might appear at face value. There are a lot of buyers ready to invest in sterling and euro deals from Australian issuers. At present the swap doesn't quite work for those deals on a landed cost of funds basis. But we continue to monitor this closely, looking for opportunities to include sterling- and euro-denominated tranches so as to harness some of that demand.

**Davison** *Presumably the process of allocating bank balance sheet investments to a new asset class is not taken lightly. What was the process involved in UK investors coming round to buying AUD-denominated issuance?*

♦ **ROSE** Purchasing Australian securitised product is a new addition to our mandate – in fact new purchases of asset-backed securities (ABS) is a recent addition to our mandate in general. Regarding Australian dollars in particular, as a bank we have a reasonably large amount of natural Australian dollar liquidity in Asia – especially Singapore and Hong Kong – and also in some parts of Europe. There is a lack of supply elsewhere, so we are able to look at AUD ABS opportunities.

We consider Australia to be a sensible market for us to go into. There is a strong banking system, good regulation and simple, clean-structured deals with good performance history.

♦ **ATKINSON** We have been an investor in Australian RMBS for many years, but our story is similar. We are a global bank and we manage our liquidity on a global basis, but increasingly of late we have moved towards investing local-currency liquidity in local-currency assets. Foreign exchange markets are no longer always conducive to moving liquidity around, especially into US dollars, so increasingly it makes sense to invest liquidity locally – it's simply more efficient.

Australian products are good asset classes, without a doubt – it's been a positive story, and continues to be. It also makes sense to invest in Australian dollars even by swapping into the currency: it's a positive story, a positive return and investors are able to get great assets.

**“GETTING INVESTOR RELATIONSHIPS WORKING WILL OPEN DOORS IN FUTURE, I THINK – IF AND WHEN STERLING, EUROS OR US DOLLARS START TO WORK THOSE INVESTORS WILL ALREADY BE FAMILIAR WITH OUR STORIES AND WE WILL BE ABLE TO UPDATE RATHER THAN STARTING FROM SCRATCH.”**

**PETER CASEY** ING BANK AUSTRALIA



## Offshore bid gees up higher-yielding market

FOR A LONG TIME SECURITISERS FOUND LOWER-RATED NOTES THE HARDEST PART OF TRANSACTIONS TO SELL, WHILE ACROSS THE CAPITAL STRUCTURE OF DEALS THE MARKET FOR NONCONFORMING ISSUANCE WAS PATCHY AT BEST. AUSTRALIAN ISSUERS ARE NOW FINDING DEMAND FROM OFFSHORE IN ALL FORMS OF HIGHER-YIELDING ASSET-BACKED PAPER.

**Davison** *On the subject of offshore demand for lower-rated notes, how strong is that demand – and does it come from different buyers from those of class A notes?*

**BARRY** In prime residential mortgage-backed securities (RMBS), when an issuer is looking to place mezzanine and subordinated tranches we are definitely seeing offshore support for those tranches in Australian dollars.

That is coming in particular from UK fund managers, rather than regulated buyers. If funds can get comfortable with the credit and the fact that non-senior tranches have varying degrees of reliance on lenders' mortgage insurance (LMI) performance, then they have been supportive of both AB and B notes. In fact we have seen offshore investors bidding for the entire mezzanine tranche of deals.

Having said that, the mezzanine and subordinated investor base is still

primarily a domestic one. It has been very concentrated but it is expanding locally, as well – we see interest from boutique credit funds and also some sales down through private banks into the high net worth and family office sectors.

I'm sure Peter Riedel has some comments regarding the situation in the nonconforming sector, but from my perspective the advantage those transactions have is that specialised lenders want to place the entire rated capital structure of deals. That allows them to offer a lot of alternatives and some very attractive yields. They also don't rely on LMI, which removes some issues around LMI provider downgrade risk. Again, it is funds that tend to be the buyers.

**RIEDEL** As an issuer of nonconforming RMBS we are not seeing sufficient demand from offshore to single-handedly carry a large transaction, but certainly the international influence has

been significant. Interest in our most recent transaction spanned Europe and Asia – the track record of our programme undoubtedly played a key part in their interest.

We also had interest all the way through to the single-B ratings level and beyond, and it was very positive to see demand across the capital structure from European and Asian investors. The nonconforming bid is strong – in fact we have seen multiple-times oversubscription for some of our junior notes – and it is coming from both domestic and offshore investors.

As John Barry suggested, at Liberty Financial we don't typically see demand from balance sheet investors in our deals – it is all funds. Our most recent transaction was not CRD2 compliant, which meant there was a group of investors that actually could not participate. But we were well supported by funds, and in fact we saw some investors bidding in multiple parts of the capital structure.

**Davison** *How helpful is it to borrowers that significant offshore demand is now available in Australian dollars?*

◆ **CASEY** It's incredibly helpful. For foreign-currency issuance there is a cost to hedge and a cost of documentation, and a substantial commitment of time to deal with additional stakeholders – the swap provider, note trustee and settlement agent. Offshore-currency notes also open up new discussions with rating agencies.

In the midst of trying to get a deal together, adding the extra requirements involved with satisfying stakeholders in a hedged issue adds time and cost. We also believe there are advantages for investors in AUD deals: they are likely to be participating in bigger tranches so there should be extra liquidity, and there are also the benefits of repo eligibility with the Reserve Bank of Australia (RBA).

◆ **PEDLER** I think Peter Casey sums it up very well: it is enormously beneficial to issue to offshore investors in our

local currency, for all the reasons mentioned. The process is a lot simpler and, given the additional swap cost at this point in time, we will continue to issue in Australian dollars rather than other currencies.

◆ **BARRY** Ultimately, issuers will weigh up issuance in foreign currencies and naturally they will look at it in economic terms with ease of execution also a consideration. I also think issuers will apply an assessment against some of their other objectives, such as building an investor franchise in another market.

We have seen this happen to some extent in the way some Australian issuers of US dollar money-market tranches have reissued into that market. Economics are important but there are other factors, too.

◆ **FOX** Volume can come into that, especially for non-bank issuers that may be able to benefit by taking a larger transaction to market if they include a non-AUD tranche. A good recent example of this was Resimac's March RMBS issue, which included a US dollar tranche.

**Davison** *The main demand drivers for bank investors in the UK – lack of domestic supply coupled with good fundamentals in Australia – are well known. But do the same factors apply to UK funds?*

**FOX** Definitely. And the demand continues to be strong even as spreads down the capital structure have contracted quite strongly. Mezzanine tranche spreads are now at around 170 basis points over bank bills, from over 200 earlier in the year. This is testament, I think, to the level of interest in that space.

**Davison** *Our market intelligence is that some offshore investors come in with strong bids down the capital structure which are conditional on securing full allocations – which could mean for entire note classes. Is that approach common, and how does it affect the execution process?*

**CASEY** We have historically only placed senior notes in our RMBS deals because we are only looking for funding, not capital relief. We have always left open the option to sell

the other notes but before this year it had never worked on a cost basis relative to senior unsecured. On our 2013 transaction we were bid very aggressively from an offshore name, which took the entire AB tranche. There was other interest and we believe we could have sold those notes locally, but we are talking about 2 per cent of total deal size – being able to place the whole tranche with a single call allowed us to concentrate on selling the class A notes which represent the bulk of volume.

**RIEDEL** Over-demand is a nice problem to have. It is tricky for lead managers to deal with – if a deal is four or five times oversubscribed few if any investors will obtain their full allocation. But I think junior note investors recognise there is a lot of demand and that it is unusual

to receive 100 per cent allocations. It's a matter of trying to allocate securities in a way that makes investors feel, as much as possible, they are being appropriately recognised for the work they have done and their support for the issuer's programme.

**PEDLER** This is a good conversation to be having given it wasn't that long ago that we only had a couple of investors we could go to with lower-rated notes. Issuers seem to be having similar experiences now, where the mezzanine and subordinated notes are the first to be oversubscribed in a transaction.

In our transaction at the start of this year all three of the tranches at the bottom of the structure were significantly oversubscribed, which allowed early allocation and public release of final pricing.

*“Demand continues to be strong even as spreads down the capital structure have contracted quite strongly. That is testament, I think, to the level of interest in that space.”*

**JACQUELINE FOX** NATIONAL AUSTRALIA BANK



♦ **RIEDEL** When we met investors in Europe we were prepared to take a flexible approach. We took investor feedback, and it turned out there was sufficient AUD demand to have certainty of execution. That was positive for us, for all the reasons outlined, but we were certainly prepared to consider other currencies as necessary. And going forward we are happy to continue to engage in discussions on local-currency issuance.

**Davison** *Is there a sense of how much additional demand might be out there for Australian-origin product if it was offered in currencies like sterling or euros?*

♦ **FOX** There would be a lot – I can think of at least another 6-8 accounts that would buy in their preferred currency.

♦ **RIEDEL** That is the approximate number of additional investors who were prepared to meet us and listen to our story, in particular the performance of our nonconforming collateral in general as well as relative to the European equivalent.

Conceptually, demand might have been double for a sterling deal when we completed our most recent issue.

**Davison** *Is there an opportunity for issuers to leverage demand from investors who have come to know them as Australian dollar issuers into other currencies?*

♦ **CASEY** I think so. We have been working with investors for some years and at the moment Australian dollars works for both us and them. Getting investor relationships working will open doors in the future, I think. If and when sterling, euros or US dollars start to work those investors will already be familiar with our stories and we will be able to update rather than starting from scratch.

♦ **PEDLER** We have an existing investor base in euros as a result of transactions completed in that currency in 2006 and 2007. We re-engaged with the UK-based investors earlier this year and updated them about the status of Bendigo and Adelaide



**“WHAT WE HAVE SEEN IN EUROPE IS THAT THERE IS NOT A STANDARD RESPONSE TO THE REGULATORY FRAMEWORK FROM FUND MANAGERS – THEY ALL SEEM TO HAVE THEIR OWN APPROACH. WE HAVE BEEN ABLE TO ENGAGE EUROPEAN INVESTORS AND CAPTURE DEMAND WITHOUT HAVING TO BRING A CRD2-COMPLIANT TRANSACTION.”**

**PETER RIEDEL** LIBERTY FINANCIAL

Bank group following the merger in late 2007. As long as we are able to keep them updated – and given their understanding of and the performance of Australian collateral – I’m sure they would invest in other currencies as those currencies become economic for us to use as an issuer.

**Davison** *From an investor’s perspective is it fair to think that, having had positive experiences with Australian securitisation product in Australian dollars, you would be more likely to engage with the same issuers’ deals in sterling, euros or other currencies?*

♦ **ROSE** I think that is absolutely the case. One of the first parts of our credit process is looking at originators and the quality of their funding books, including unsecured debt. We have to be comfortable with the credit first, and everything else comes after that.

**Davison** *To what extent are the unappealing economics of foreign-currency issuance a product of swap levels, and to what extent a function of swap execution costs?*

♦ **CASEY** It’s difficult to break it down precisely and it varies between currencies. The basis is volatile and the lack of daily issuance makes it hard to get real-time updates on what the swap level is. On the other hand, the additional cost of transacting will always be there.

There is a third component, too, in the form of the additional counterparties that have to be included when dealing offshore, for instance on the documentation side.

♦ **PEDLER** There has been a lot of focus of late on trying to reduce the cost of RMBS issuance, and from our perspective it will always be an economic decision. Consideration may be given to giving up some economic benefits for a diversity gain, but at this point in time – given overall costs – it remains an economic decision.

♦ **RIEDEL** We maintain a consistent dialogue with domestic and international investors in our programme so, to the extent that it made sense for both us and our investors, we would consider executing a transaction with a cross-currency swap.

♦ **BARRY** Continuous engagement with investors is certainly very important. In many cases it may be the same investors looking at opportunities in different currencies. For instance,

in the final months of last year we brought two sterling deals to market for Australian issuers, which were largely products of an issuer arbitrage opportunity relative to straight Australian dollar issuance. That was mainly driven by the spread component. Many of the issuers we work with have taken the time to regularly update investors in the UK, Europe, US and Asia. The product of that work is starting to manifest itself in reverse enquiry opportunities – including from the UK.

♦ **FOX** Across a client franchise we try to ensure there is line of sight to cost of issuance across markets on an ongoing basis. This year we introduced a regular RMBS commentary to further improve that line of sight for issuers.

## AUSTRALIAN FUNDAMENTALS

**Davison** *Australian banks always say they are questioned a lot by offshore investors about the state of the local housing market, specifically the fact that it has not had a major correction in recent years. What do international investors think about the fundamentals of Australian housing?*

♦ **ATKINSON** We are actually very positive on it and we definitely do not think there is a significant bubble. If you look at the features of some European markets – where clearly there were bubbles – they do not, in the main, appear in Australia so far as we can see. The market in Australia is fundamentally one of high-quality underwriting, and historical data shows that Australians pay their mortgages. Negative equity doesn’t necessarily lead to default even if there is a house price correction in this type of environment.

Clearly there will be pockets of large variation – there is no such thing as an ‘average house price’ or indeed an ‘average house’. In the UK and Europe there are certainly example of these hotspots, and no doubt Australia will also have postcode hotspots where there are problems. But by and large it is a very positive story for us.

♦ **ROSE** I agree. We are buying triple-A rated RMBS tranches with good credit support and underwriting standards, and very low loan-to-value ratios. In this context the performance of house prices is a second- or third-level derivative to the performance of our bonds. Even so, we are relatively comfortable with house prices.

If a drop does occur our interest would be in how that correction influences conditional prepayment rates: clearly there is a correlation, which could see some lengthening of bonds in a worst-case scenario. But if lengthening of bonds is your worst case it is not too bad – we are happy taking that prepayment risk.

**Davison** *On the subjects of underwriting standards and regional variation of loan books, how do investors go about the process of developing a sufficient level of comfort with individual Australian deal sponsors?*

♦ **ATKINSON** In some ways, regional variation is a positive thing. In the UK the major issuers all have very similar national footprints and collateral pools, and their performance doesn't diverge that much in absolute terms. If we want to get a little bit of diversification within Australia some regional concentration – at times – can be a positive.

The key is the sponsor, its commitment to the business and underwriting standards. We spend a lot of time in due diligence getting a handle on how sponsors feel about the mortgage business, because ultimately the securitised mortgages are a small part of their book. People talk about 'skin in the game', and for most Australian borrowers mortgage origination is at the heart of what they do. They do not and have never operated under an originate-to-distribute model.

There is no substitute for having a robust process in place. And the good news is that for whatever reason – good management, good regulation or good luck, or a combination of factors – the Australian model works very well. Due diligence only confirms what we suspect about the solidity of those processes, and of the legal framework that can be followed if there are problems.

♦ **ROSE** We are newer to the market than State Street is and our credit analysts are somewhat less familiar with the asset class. Therefore, when we are looking to get a new line signed off the analysts will be looking for sponsors they know. Our strategy has been to stick to the bigger players to start with – even though we can see some of the smaller names have performed very well. As our credit analysts get more familiar with the product I am sure we will start to invest more with small- and mid-tier names.

**Davison** *How important is skin in the game – especially in the context of CRD2 and the still-developing Dodd-Frank picture?*

♦ **ATKINSON** It's a regulatory rule in terms of capital treatment, so clearly it is an important feature for us as a regulated bank. But the reality for many issuers coming out of Australia is that mortgages are their business – they aren't running the originate-to-sell model. Those originators have much more skin in the game than simply CRD2 requirements: they are issuing deals from parts of what is usually a much larger pool of mortgages.

Even the non-bank originators which lean more heavily on securitisation are usually servicers of their mortgages and often provide other services to their deals. They are, consequently, economically embedded in the deal to such an extent that this additional construct of skin in the game does not change the outcome of the decision to invest for us. It is much more about due diligence and credit fundamentals.

♦ **ROSE** We are looking for originators that are completely committed to their business and have a strong track record. This generally coincides with having skin in the game. We are bound by European rules, too, but the bottom line is we are looking to invest with firms that are committed to the mortgage business.

**Davison** *Liberty Financial issues non-CRD2 compliant deals. How does that affect the demand picture?*

♦ **RIEDEL** Real-money investors have been the predominant investor base supporting our programme – those buyers are in theory not required to meet the demands of the CRD2 framework. What we have seen in Europe is that there is not a standard response to the regulatory framework from fund managers – they all seem to have their own approach. We have been able to engage European investors and capture demand without having to bring a CRD2-compliant transaction. But equally if we did issue under that structure I'm confident demand would increase.

**Davison** *Australian dollar RMBS margins have tightened quite substantially in recent months, to the extent that some market participants are no longer completely convinced the product will*

**“AN ASSET CLASS WE WOULD LIKE TO SEE MORE OF IS AUTO-BACKED ABS. WITH AUSTRALIAN PRODUCT YOU ACTUALLY SEE SHORTER-DURATION ABS BONDS COMING TO MARKET WITH WIDER SPREADS THAN RMBS. WE ARE VERY COMFORTABLE WITH THAT PRODUCT: WHEN THE UNDERWRITING IS GOOD WE CAN END UP WITH A SHORTER BOND WITH LESS PREPAYMENT RISK.”**

**MICHAEL ROSE** STANDARD CHARTERED BANK

## A global perspective on master trusts

UK INVESTORS SAY THEY ARE PERFECTLY HAPPY WITH AUSTRALIAN RESIDENTIAL MORTGAGE-BACKED SECURITIES (RMBS) IN THE TRADITIONAL PASS-THROUGH FORMAT. BUT THE ABILITY TO ISSUE OUT OF MASTER TRUSTS COULD OPEN THE DOOR TO A VAST ADDITIONAL GROUP OF POTENTIAL INTERNATIONAL BUYERS.

**Davison** *There is a perception in Australia that master trusts would help attract further international demand. How helpful would investors find it to have access to Australian master trust product?*

**ATKINSON** The bullet nature of securities master trusts can create would facilitate issuance in currencies where swap costs on a pass-through basis currently make doing deals uneconomic – specifically euros.

There is huge pent-up demand for Australian assets denominated in euros but for the past several years the cross-currency swap has been prohibitively expensive. Master trust technology could help significantly by reducing the cost of that issuance. Covered bonds are issued in euros with bullet maturities by Australian names and they have been incredibly well supported. Being able to tap that huge unsatisfied demand would be of great benefit to other Australian borrowers. Investors in the US 144A market also tend to prefer bullet securities.

So bullet maturities would be tremendously helpful for Australians in offshore markets, where additional flexibility should help facilitate issuance that is being prevented for purely technical reasons. I'm not sure how

much they would help domestic product, where there is already healthy demand.

**ROSE** I think the master trust structure would almost be more beneficial to issuers than it would be to us – it would open up new areas of demand that aren't accessible at present. We look at prepayment risk but it is a secondary issue, and I also quite like the simplicity of the pass-through structures offered by Australian issuers. Master trusts can issue all sorts of bullets and tenors in different markets, but they are pretty complicated vehicles – and we like to keep things simple.

**FOX** These comments hold true with what we hear in the market, and it is also worth noting that traditional RMBS structures can accommodate soft bullets. Certainly issuing in bullet format in any market has to make sense to borrowers in economic terms, but master trusts bring an element of scalability to that equation which is potentially helpful. And of course master trusts still have to go through the process of getting regulatory approval in Australia.

**BARRY** I think it is fair to say that existing buyers of Australian RMBS won't see significant incremental benefit from the

emergence of master trust issuance, given that they are happy to invest in pass-through structures.

I see the real advantage of master trusts to be their ability to unlock additional segments of offshore demand that can't be tapped with traditional RMBS structures. There's no doubt that the technology can materially reduce the price of the swap on a landed cost of funds basis, which has the potential to make master trusts a game-changer in terms of accessing the untapped offshore bid in Europe and the US, especially for the Australian major banks.

Master trusts also offer obvious advantages to issuers in terms of scalability, efficiency and speed to market. However, we would need to see some movement on the regulatory side in order for Australian issuers to get the same advantages as the UK issuers do, where dated-based calls are permitted by the local regulator and there is no 20 per cent rule.

**Davison** *The Australian Prudential Regulation Authority (APRA) might prohibit the deferral of seller shares in master trusts. Is that a concern to investors – and how important is it that Australian master trusts resemble international norms?*

*offer such good relative value to offshore buyers. How compelling is the relative value equation at present – especially relative to other asset classes?*

◆ **ROSE** The first point that needs to be made here is that there isn't much else to buy at the moment, which is one of the reasons we may have been investing more than we would otherwise have done into Australian securitisation product. But I think relative value is still there – certainly it is between Australia and other jurisdictions we look at.

One thing I would note is that the tiering of pricing which was present six or nine months ago – between the top names and the mid-tier ones – is disappearing. I'm not sure what the driver of that is. From where we sit it appears that a lot more of the smaller issuers' bonds stay onshore and get bid up there. But it certainly seems to be the case that the relative value between issuer tiers is disappearing – which makes us even happier to stick with the top-tier names for the time being.

An asset class we would like to see more of is auto-backed ABS. With Australian product you actually see shorter-duration

**ATKINSON** It is always helpful to markets when regulators are flexible and APRA is no exception. But, having said that, the regulator has already changed its stance quite considerably in recent times – if you had asked me two or three years ago I would have said the chances of Australian master trusts were close to zero. The hard work done by all involved and the progress made is definitely positive for the market and for international investors, so credit where it is due. APRA has clear responsibilities and I don't think it has been unduly tough given the history of the world over recent years.

On the question of the master trust structure itself, it is interesting that people look at the UK master trust model as the reference point. It is certainly the biggest and best known in the mortgage space, but that doesn't automatically make it the only model to follow. An Australian structure will be able to assess all factors on their merits on a standalone basis, and reflect the nature of Australian assets and markets.

Clearly if there can't be deferral of seller share there will have to be some other feature which mitigates the lack of it – but Australia has the opportunity to come up with an appropriate local solution and I am confident it will do so. 'Master trusts 2.0' might end up becoming a better product, and have features which we might see in other markets in future.

There are a lot of moving parts in a master trust which

need to be assessed carefully and objectively. But as long as the structure makes sense and the right mitigants are present I don't think investors globally will care too much if it isn't exactly the same as they have seen before in other markets.

**Davison** *How do market participants go about taking the master trust preferences of international investors to the local regulator in Australia?*

**BARRY** One of the keys is the type of engagement with investors we are doing now. Understanding what product will sell is vital, and a very nuanced picture of the current UK master trust structure is a logical starting point to that kind of understanding.

But based on what we hear in the market – which is consistent with the point Peter Atkinson makes – investors aren't necessarily so concerned with the precise structure provided it delivers them the right product. As a comparison, it is worth noting that covered bond structures are also not globally identical.

We know and understand the regulator's sensitivities, and at the same time there is a design issue which has to be driven by investor views. Nevertheless, we are confident that those two can meet, and ultimately that APRA will get comfortable. I think it's inevitable that the master trust structure that is adopted in this market will vary from the UK model. Part of the reason for this is that there are legacy features of the UK model that are now unnecessary. The Australian model is likely to be simpler.

Another driver will be the regulator's requirements. APRA has already indicated that the 20 per cent rule will be removed. We appreciate that the deferral of seller share on a non-asset trigger – as in UK structures – may be a sensitive point for APRA. However, that feature is about mitigating extension risk and, from a structural perspective, we believe there are other means of providing equivalent comfort.

Further discussion is also needed around database calls. However, on all these issues we believe an acceptable result is achievable.

*“There's no doubt that the technology can materially reduce the price of the swap on a landed cost of funds basis, which has the potential to make master trusts a game-changer in terms of accessing the untapped offshore bid in Europe and the US.”*

**JOHN BARRY** NATIONAL AUSTRALIA BANK



ABS bonds coming to market with wider spreads than RMBS. We are very comfortable with that product: when the underwriting is good we can end up with a shorter bond with less prepayment risk.

♦ **ATKINSON** We think Australian product offers good relative value, and in fact Australian issuance has always had a premium in international markets over where its value probably should be based on credit fundamentals. It's hard to pin down exactly why that should be – whether it's a liquidity premium, simply a function of the fact

that Australia is a long way away for many investors, or something else.

That premium moves over time and there have been periods during which it has been much greater historically than it is now. But there is still a great relative value story when you compare with spreads on other asset classes like US credit card and auto-backed deals – which have returned almost to pre-crisis levels. There is also good value relative to UK issuance. I don't think Australia always gets the credit it should for the high quality of the collateral underpinning its deals.

## AUD PRODUCT LIQUIDITY

**Davison** *On the subject of liquidity, how tradable have investors found the notes they have acquired in recent times?*

◆ **ATKINSON** As a bank treasury we are a classic buy-and-hold investor, so sales are a very rare event for us and we have never had to test the market in any significant way. Looking at the other side of the coin, though, there was a portfolio of Australian RMBS available for sale in the secondary market in early May and that was very well supported by investors looking to buy. To the extent that Australian assets appear for sale in the market there is always demand for them unless there is something going on at a wider macro level which makes everything more difficult.

I believe liquidity is a lot deeper than is often suggested. Just because securities aren't traded doesn't mean they aren't liquid bonds – it just means people buy them and hang on to them. So it's a lack of supply which makes liquidity difficult to observe in traded volume terms.

◆ **ROSE** We tend to see more flows in pre-crisis deals, with legacy holders selling – often via BWICs [bids wanted in competition]. Some of the newer deals, by contrast, appear not to trade at all: there is one issue we have held for nine months in which we've seen one offer. Therefore, it's clear that the Australian product is not as liquid as say, UK or Dutch prime.

From our perspective we are also a buy-and-hold investor and it is unlikely that we would have to sell. But it is important to have Reserve Bank of Australia repo eligibility there as a backstop in a worst-case scenario.

◆ **BARRY** I think there has definitely been a pickup in liquidity over the past 12 months. Until around the middle of last year liquidity wasn't so much of an issue, with the most significant buyers being domestic banks and the Australian Office of Financial Management – both of which are largely buy-and-hold investors. Now we are seeing more offshore accounts who genuinely value liquidity – not just regulated buyers but also real money – there has been more secondary trading.

In some cases we have seen investors selling RMBS in order to make room for new issues, and there is a market there if a holder wants to sell. But at the end of the day investors accept this isn't the most liquid product they can buy.

## DEMAND SUSTAINABILITY

**Davison** *Pulling together all the factors we have discussed, how long-term and sustainable do international investors expect their allocations to Australian securitisation will be?*

◆ **ATKINSON** I am always slightly surprised by the Australian view of the world in the sense of this fear that demand is going to vanish. The UK's FLS of itself is largely irrelevant to the ultimate demand for Australia assets and so is demand for alternative asset classes: the Australian story is such a positive one that I don't see anything that could change demand for Australian RMBS for the next five or 10 years. We have been an investor for many years but there are also new buyers coming into the market now who plan to be involved for the long term.

If the UK started issuing heavily again tomorrow it might satisfy the demand for sterling assets and some others, but it would not replace the Australian part of portfolios or the credit story and track record of success of those Australian issuers.

If anything I would say the only constraint is issuers' level of comfort with offshore funding. There is certainly strong demand and it is not likely to be the case that that will be scaled back when dynamics change in Europe. Investors will buy everything Australian issuers choose to print provided the Australian relative value proposition remains.

◆ **ROSE** I agree with all those points. We are certainly in for the long term, and we like the asset class and the Australian market. From our specific standpoint, because the ABS mandate within our bank is relatively small our bid for Australian paper has probably been slightly higher than it would have been if there was more alternative supply from the UK and Europe. But we are certainly buyers for the long term.

**Davison** *Peter Atkinson, you clearly believe constrained alternative supply is not a significant factor even in terms of longer-term demand for Australian RMBS from international investors. But some buyers have only entered the market since that supply dearth started – so why should we not assume those accounts will also exit as and when supply of alternative assets picks up elsewhere?*

**“I AM ALWAYS SLIGHTLY BEMUSED BY THE AUSTRALIAN VIEW OF THE WORLD IN THE SENSE OF THIS FEAR THAT DEMAND IS GOING TO VANISH. THE AUSTRALIAN STORY IS SUCH A POSITIVE ONE THAT I DON'T SEE ANYTHING THAT COULD CHANGE DEMAND FOR AUSTRALIAN RMBS FOR THE NEXT FIVE OR 10 YEARS.”**

**PETER ATKINSON** STATE STREET

**“IT IS ENORMOUSLY BENEFICIAL TO ISSUE TO OFFSHORE INVESTORS IN OUR LOCAL CURRENCY. THE PROCESS IS A LOT SIMPLER AND, GIVEN THE ADDITIONAL SWAP COST AT THIS POINT IN TIME, WE WILL CONTINUE TO ISSUE IN AUSTRALIAN DOLLARS RATHER THAN OTHER CURRENCIES.”**

**MAX PEDLER** BENDIGO AND ADELAIDE BANK



♦ **ATKINSON** If you look at the US market, for example, you can see that investors who had never bought a covered bond until the last year or so are now long-term investors in that asset class. Markets tend to have very short memories, which is why I think it's important for issuers to get on the road and meet investors – there is no substitute for that. Investors also have finite resources to devote to monitoring credits, but as long as the groundwork is done demand will be there. And there are plenty of potential investors out there to fill the shoes of anyone who decides not to be active in future.

**Davison** *To what extent does the ongoing participation of offshore investors play a part in issuers' longer-term strategies around the use of securitisation?*

♦ **CASEY** We are looking for diversification across the whole funding spectrum – including both retail and wholesale. Securitisation is part of the wholesale segment, and within that we are definitely looking to diversify the investor base. I wouldn't say we are building the whole business around ongoing support from offshore investors. However, it is important at the moment and some of those investors are natural holders of Australian dollars. We are definitely aiming to have long-term relationships with offshore investors, while not pinning our hopes on having a large number of them in every deal.

♦ **PEDLER** Securitisation is an important part of our funding, currently around 10 per cent. We are in the unique position

of having been almost exclusively retail funded and will now look to expand our wholesale funding activity. We have recently issued a new four-year senior unsecured deal, following on from a three-year senior unsecured issue in October last year, which underlines that commitment.

There were a few years during which issuing RMBS was extremely difficult to do, and in which the market relied on government participation for a lifeline. So I am encouraged by what I have heard from the UK investors about their long-term commitment to our market, their understanding of Australian collateral and their views on our position with regard to skin in the game.

♦ **RIEDEL** Securitisation is important to us but at the same time issuing to the term market represents just one of our sources of funding. Our philosophy has always been to bring transactions to the market to match investor demand. As demand has been quite strong for several months we have issued a number of deals.

We do not operate an originate-to-securitise business model; rather we originate receivables which meet our risk-return targets, providing our own capital to support our customers, business partners and investors. That is how we established our business and we have operated this way throughout our history.

To the extent there is demand for the assets we originate, we will bring transactions to the term markets. Investor demand doesn't dominate the receivables we originate, though we are mindful of investor preferences. ■



Australian Securitisation  
House of the Year  
KangaNews  
Awards 2012

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# ANZ BANKING GROUP



ISSUER	AUSTRALIA AND NEW ZEALAND BANKING GROUP
ISSUER RATING (S&P/MOODY'S/FITCH)	AA-/Aa2/AA-
REPORTING PERIOD	OCT – SEP
AUSTRALIAN RESIDENT ASSETS (A\$BN)	422.1 (TOTAL RESIDENT ASSETS PER APRA'S MONTHLY BANKING STATISTICS MARCH 2013, ISSUED APR 30 2013)

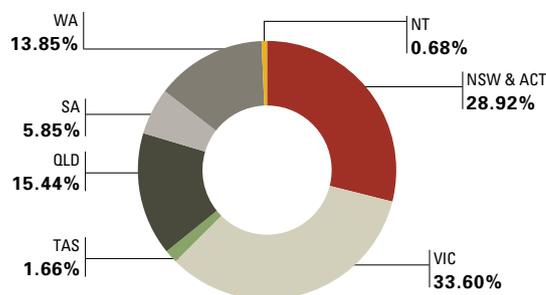
## COVERED BOND PROGRAMME

ISSUING ENTITY	ANZ RESIDENTIAL COVERED BOND TRUST
COVERED BOND RATING (MOODY'S/FITCH)	Aaa/AAA
PROGRAMME TYPE	LEGISLATIVE
PROGRAMME SIZE	US\$20BN
COVERED BOND GUARANTOR	PERPETUAL CORPORATE TRUST
SECURITY TRUSTEE	P.T.
BOND TRUSTEE	DB TRUSTEES (HONG KONG)
SERVICER	AUSTRALIA AND NEW ZEALAND BANKING GROUP
TRUST MANAGER	ANZ CAPEL COURT
ASSET MONITOR	KPMG
STATUTORY OVERCOLLATERALISATION MINIMUM (%)	3.00
CONTRACTUAL OVERCOLLATERALISATION MINIMUM (%)	5.26
CONTRACTUAL OVERCOLLATERALISATION AT REPORTING DATE (%)	14.94 (APR 22 2013)
TOTAL OVERCOLLATERALISATION AT REPORTING DATE (%)	40.54 (APR 22 2013)

## POOL DATA

PORTFOLIO CUT-OFF DATE	APRIL 2 2013
CURRENT AGGREGATE PRINCIPAL BALANCE (A\$)	13,437,179,388
NUMBER OF LOANS (UNCONSOLIDATED)	47,965
NUMBER OF LOANS (CONSOLIDATED)	47,965
AVERAGE LOAN SIZE (CONSOLIDATED)	280,146
MAXIMUM LOAN BALANCE (CONSOLIDATED)	1,965,227
WEIGHTED AVERAGE CONSOLIDATED CURRENT LVR (%)	63.82
WEIGHTED AVERAGE CONSOLIDATED CURRENT INDEXED LVR (%)	64.03
WEIGHTED AVERAGE INTEREST RATE (%)	5.62
WEIGHTED AVERAGE SEASONING (MONTHS)	19.90
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	330.89
INVESTMENT LOANS (%)	25.57
30+ DAY ARREARS (%)	0.17
MORTGAGE POOL BY GEOGRAPHIC DISTRIBUTION	SEE PIE CHART ON THIS PAGE

## MORTGAGE POOL BY GEOGRAPHIC DISTRIBUTION

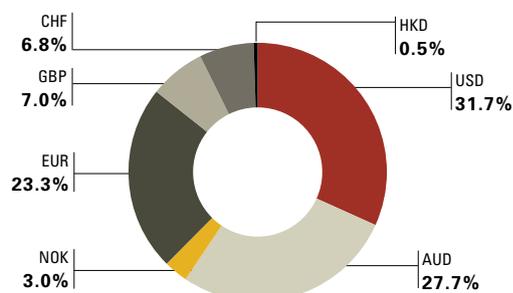


SOURCE: ANZ BANKING GROUP APRIL 2 2013

## ISSUANCE TO DATE MAY 16 2013 (A\$M EQUIV.)

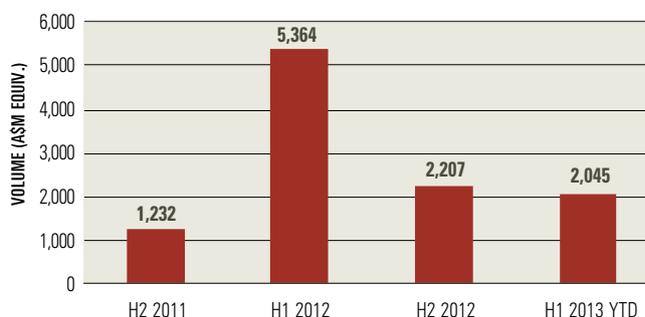
TOTAL OUTSTANDING IN BENCHMARK FORMAT	10,468
TOTAL OUTSTANDING IN PRIVATE PLACEMENT FORMAT	380
TOTAL OUTSTANDING IN FIXED RATE FORMAT	6,892
TOTAL OUTSTANDING IN FRN FORMAT	3,956

## BREAKDOWN OF ISSUANCE BY CURRENCY (A\$M EQUIV.)



SOURCE: ANZ BANKING GROUP, KANGANEWS MAY 16 2013

## ANZ'S COVERED BOND ISSUANCE HISTORY (A\$M EQUIV.)



SOURCE: ANZ BANKING GROUP, KANGANEWS MAY 16 2013

## ANZ BANKING GROUP'S COVERED BONDS ISSUED TO DATE

ISIN CODE	SERIES	SETTLEMENT DATE	MATURITY DATE	CURRENCY	VOLUME (M)	FX RATE	AUD VOLUME (M)	COUPON TYPE	COUPON (%/MARGIN)	LISTING
US05252EAA10 (RULE 144A) US05252FAA84 (REG S)	2011-1	23 Nov 11	23 Nov 16	USD	1,250	1.0150	1,232	Fixed	2.40	Not listed
XS0730566329	2012-1	24 Jan 12	24 Jan 22	NOK	2,000	6.1234	327	Fixed	5.00	London
XS0731129234	2012-2	18 Jan 12	18 Jul 22	EUR	1,000	0.8040	1,244	Fixed	3.63	London
CH0143838032	2012-3	13 Feb 12	13 Feb 19	CHF	325	0.9785	332	Fixed	1.50	SIX Swiss Exchange
CH0142821468	2012-4	13 Feb 12	13 Feb 15	CHF	400	0.9790	409	FRN	65bp/CHF Libor	SIX Swiss Exchange
AU3CB0191872	2012-5	23 Mar 12	23 Mar 16	AUD	1,000	1.0000	1,000	Fixed	5.25	Not listed
AU3FN0015046	2012-6	23 Mar 12	23 Mar 16	AUD	2,000	1.0000	2,000	FRN	95bp/BBSW	Not listed
XS0791150377	2012-7	12 Jun 12	12 Jun 15	HKD	400	7.5301	53	FRN	85bp/Hibor	Not listed
US05252EAC75 (RULE 144A) US05252FAC41 (REG S)	2012-9	11 Sep 12	6 Oct 15	USD	750	1.0195	736	FRN	61bp/USD Libor	ASX
US05252EAB92 (RULE 144A) US05252FAB67 (REG S)	2012-8	11 Sep 12	6 Oct 15	USD	1,500	1.0195	1,471	Fixed	1.00	ASX
XS0882235863	2013-1	4 Feb 13	4 Feb 16	GBP	500	0.6595	758	FRN	27bp/GBP Libor	London
XS092845621	2013-2	13 May 13	13 May 20	EUR	1,000	0.7773	1,287	Fixed	1.125	London
							<b>10,847</b>			

SOURCE: ANZ BANKING GROUP, KANGANEWS MAY 16 2012

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Covered bond investor reports are published monthly on the 22nd of each month.

# COMMONWEALTH BANK OF AUSTRALIA



ISSUER	COMMONWEALTH BANK OF AUSTRALIA
ISSUER RATING (S&P/MOODY'S/FITCH)	AA-/AA2/AA-
REPORTING PERIOD	JUL – JUN
AUSTRALIAN RESIDENT ASSETS (A\$BN)	606.6 (TOTAL RESIDENT ASSETS PER APRA'S MONTHLY BANKING STATISTICS MARCH 2013, ISSUED APR 30 2013)

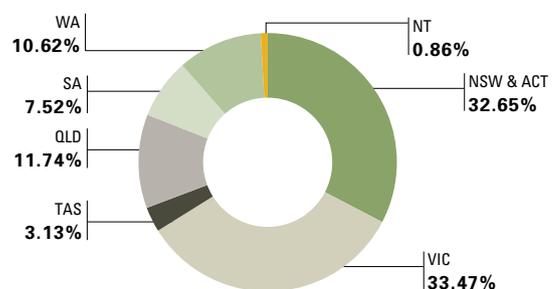
## COVERED BOND PROGRAMME

ISSUING ENTITY	COMMONWEALTH BANK OF AUSTRALIA
COVERED BOND RATING (MOODY'S/FITCH)	Aaa/AAA
PROGRAMME TYPE	LEGISLATIVE
PROGRAMME SIZE	US\$30BN
COVERED BOND GUARANTOR	PERPETUAL CORPORATE TRUST
SECURITY TRUSTEE	P.T.
BOND TRUSTEE	DEUTSCHE TRUSTEE COMPANY
SERVICER	COMMONWEALTH BANK OF AUSTRALIA
TRUST MANAGER	SECURITISATION ADVISORY SERVICES (WHOLLY-OWNED SUBSIDIARY OF COMMONWEALTH BANK OF AUSTRALIA)
COVER POOL MONITOR	PRICEWATERHOUSECOOPERS
STATUTORY OVERCOLLATERALISATION MINIMUM (%)	3.00
CONTRACTUAL OVERCOLLATERALISATION MINIMUM (%)	5.25
CONTRACTUAL OVERCOLLATERALISATION AT REPORTING DATE (%)	17.00 (APR 30 2013)
TOTAL OVERCOLLATERALISATION AT REPORTING DATE (%)	100.07 (APR 30 2013)

## POOL DATA

PORTFOLIO CUT-OFF DATE	MARCH 31 2013
CURRENT AGGREGATE PRINCIPAL BALANCE (A\$)	30,789,657,096
NUMBER OF LOANS (UNCONSOLIDATED)	131,164
NUMBER OF LOANS (CONSOLIDATED)	130,567
AVERAGE LOAN SIZE (A\$)	234,742
MAXIMUM LOAN BALANCE (A\$)	2,858,350
WEIGHTED AVERAGE CONSOLIDATED CURRENT LVR (%)	58.70
WEIGHTED AVERAGE CONSOLIDATED CURRENT INDEXED LVR (%)	54.43
WEIGHTED AVERAGE INTEREST RATE (%)	5.81
WEIGHTED AVERAGE SEASONING (MONTHS)	42.75
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	305.09
INVESTMENT LOANS (% BY LOAN BALANCE)	25.26
30+ DAY ARREARS (%)	0.31
MORTGAGE POOL BY GEOGRAPHIC DISTRIBUTION	SEE PIE CHART ON THIS PAGE

## MORTGAGE POOL BY GEOGRAPHIC DISTRIBUTION

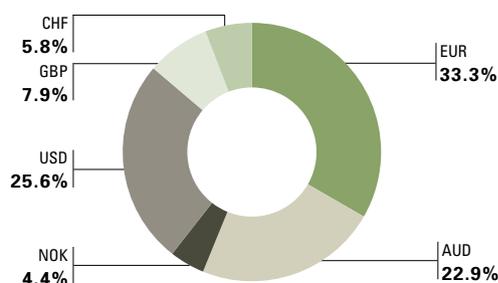


SOURCE: COMMONWEALTH BANK OF AUSTRALIA MARCH 31 2013

## ISSUANCE TO DATE MAY 16 2013 (A\$M EQUIV.)

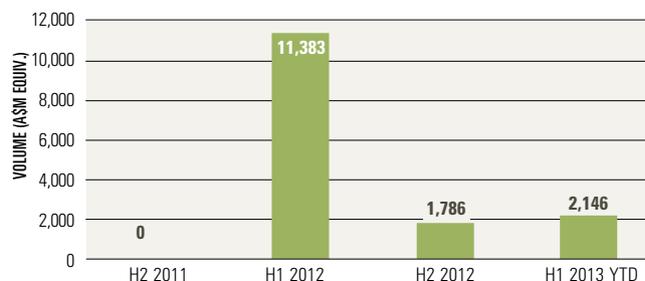
TOTAL OUTSTANDING IN BENCHMARK FORMAT	12,339
TOTAL OUTSTANDING IN PRIVATE PLACEMENT FORMAT	2,976
TOTAL OUTSTANDING IN FIXED RATE FORMAT	13,102
TOTAL OUTSTANDING IN FRN FORMAT	2,213

## BREAKDOWN OF ISSUANCE BY CURRENCY (A\$M EQUIV.)



SOURCE: COMMONWEALTH BANK OF AUSTRALIA, KANGANEWS MAY 16 2013

## CBA'S COVERED BOND ISSUANCE HISTORY (A\$M EQUIV.)



SOURCE: COMMONWEALTH BANK OF AUSTRALIA, KANGANEWS MAY 16 2013

## COMMONWEALTH BANK OF AUSTRALIA'S COVERED BONDS ISSUED TO DATE

ISIN CODE	SERIES	SETTLEMENT DATE	MATURITY DATE	CURRENCY	VOLUME (M)	FX RATE	AUD AMOUNT (M)	COUPON TYPE	COUPON (%/ MARGIN)	LISTING
XS0729014281	1	12 Jan 12	12 Jan 17	EUR	1,500	0.7965	1,883	Fixed	2.625	London
AU3CB0188951	3	25 Jan 12	25 Jan 17	AUD	2,000	1.0000	2,000	Fixed	5.75	Unlisted
AU3FN0014866	4	25 Jan 12	25 Jan 17	AUD	1,500	1.0000	1,500	FRN	175bp/ BBSW	Unlisted
XS0733058969	2	27 Jan 12	27 Jan 22	NOK	1,875	6.1677	304	Fixed	5.00	London
XS0733058969	2	27 Jan 12	27 Jan 22	NOK	500	6.1677	81	Fixed	5.00	London
XS0733058969	2	27 Jan 12	27 Jan 22	NOK	1,000	6.1677	162	Fixed	5.00	London
XS0737866060	5	1 Feb 12	1 Feb 27	EUR	109	0.8146	134	Fixed	3.815	London
XS0739982980	7	2 Feb 12	2 Feb 27	EUR	67	0.8185	81	Fixed	3.925	London
US20271AAA51	6	3 Feb 12	3 Feb 17	USD	50	1.0510	48	FRN	135bp/US Libor	Unlisted
XS0744839415	8	13 Feb 12	13 Feb 17	GBP	50	0.6765	74	FRN	138bp/GBP Libor	London
XS0745915826	9	13 Feb 12	13 Feb 30	EUR	117	0.8245	142	Fixed	3.994	London
CH0180071612	10	13 Mar 12	13 Mar 15	CHF	425	0.9825	433	FRN	60bp/CHF Libor	SIX Swiss Exchange
CH0180071613	11	13 Mar 12	13 Sep 19	CHF	350	0.9821	356	Fixed	1.50	SIX Swiss Exchange
XS0751446872	12	1 Mar 12	1 Mar 27	EUR	50	0.8057	62	Fixed	3.70	Unlisted
US20271AAB35 (RULE 144A)	13	16 Mar 12	16 Mar 17	USD	2,000	1.0658	1,877	Fixed	2.25	ASX
US20271BAB18 (REG S)										
XS0775914277	15	3 May 12	3 May 22	EUR	1,500	0.7906	1,897	Fixed	3.00	London
CH0183597266	14	2 May 12	2 May 22	CHF	100	0.9436	106	Fixed	1.625	SIX Swiss Exchange
XS0778752047	16	9 May 12	9 May 22	NOK	750	5.9332	126	Fixed	4.55	London
XS0782692940	17	21 May 12	21 May 27	EUR	90	0.7728	116	Fixed	3.035	London
XS0810718295	18	7 Aug 12	7 Aug 31	EUR	100	0.8452	118	Fixed	2.63	Unlisted
XS0822509138	19	4 Sep 12	4 Sep 26	GBP	750	0.6562	1,143	Fixed	3.00	London
N/A	20	13 Sep 12	13 Sep 24	EUR	150	0.8192	183	Fixed	2.27	Unlisted
XS0829366532	21	24 Sep 12	24 Sep 27	EUR	111	0.8076	137	Fixed	2.603	London
XS0839422408	22	5 Oct 12	5 Oct 19	EUR	50	0.8016	62	FRN	45/Euribor	London
N/A	23	9 Nov 12	8 Nov 24	EUR	113	0.7950	142	Fixed	2.305	Unlisted
US20271BAC90	24	18 Jan 13	15 Jan 16	USD	2,000	1.0497	1,905	Fixed	0.75	Unlisted
XS0883740887	25	1 Feb 13	1 Feb 29	EUR	112	0.7755	144	Fixed	2.50	Unlisted
XS0885738541	26	8 Feb 13	8 Feb 18	USD	50	1.0390	48	FRN	35bp/USD Libor	London
XS0885739606	27	8 Feb 13	8 Feb 18	USD	50	1.0390	48	FRN	35bp/USD Libor	London
							<b>15,315</b>			

SOURCE: COMMONWEALTH BANK OF AUSTRALIA, KANGANEWS MAY 16 2013

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Covered bond investor reports are published monthly on or before the 22nd of each month.

# NATIONAL AUSTRALIA BANK



ISSUER	NATIONAL AUSTRALIA BANK
ISSUER RATING (S&P/MOODY'S/FITCH)	AA-/Aa2/AA-
REPORTING PERIOD	OCT – SEP
AUSTRALIAN RESIDENT ASSETS (A\$BN)	493.5 (TOTAL RESIDENT ASSETS PER APRA'S MONTHLY BANKING STATISTICS MARCH 2013, ISSUED APR 30 2013)

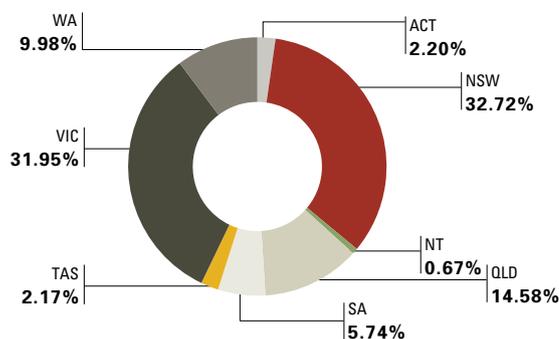
## COVERED BOND PROGRAMME

ISSUING ENTITY	NATIONAL AUSTRALIA BANK
COVERED BOND RATING (MOODY'S/FITCH)	Aaa/AAA
PROGRAMME TYPE	LEGISLATIVE
PROGRAMME SIZE	US\$20BN
COVERED BOND GUARANTOR	PERPETUAL CORPORATE TRUST
SECURITY TRUSTEE	P.T.
BOND TRUSTEE	DEUTSCHE TRUSTEE COMPANY
SERVICER	NATIONAL AUSTRALIA BANK
TRUST MANAGER	NATIONAL AUSTRALIA BANK
COVER POOL MONITOR	ERNST & YOUNG
STATUTORY OVERCOLLATERALISATION MINIMUM (%)	3.00
CONTRACTUAL OVERCOLLATERALISATION MINIMUM (%)	5.25
OVERCOLLATERALISATION AT REPORTING DATE (%)	15.00 (APR 30 2013)
TOTAL OVERCOLLATERALISATION AT REPORTING DATE (%)	28.00 (APR 30 2013)

## POOL DATA

PORTFOLIO CUT-OFF DATE	APR 26 2013
CURRENT AGGREGATE PRINCIPAL BALANCE (A\$)	12,287,332,148
NUMBER OF LOANS (UNCONSOLIDATED)	45,506
NUMBER OF LOANS (CONSOLIDATED)	45,506
AVERAGE LOAN SIZE (CONSOLIDATED)	270,016
MAXIMUM LOAN BALANCE (CONSOLIDATED)	1,500,000
WEIGHTED AVERAGE CONSOLIDATED CURRENT LVR (%)	58.87
WEIGHTED AVERAGE CONSOLIDATED CURRENT INDEXED LVR (%)	63.24
WEIGHTED AVERAGE INTEREST RATE (%)	5.74
WEIGHTED AVERAGE SEASONING (MONTHS)	34.13
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	317
INVESTMENT LOANS (%)	17.94
30+ DAY ARREARS (%)	0.17
MORTGAGE POOL BY GEOGRAPHIC DISTRIBUTION	SEE PIE CHART ON THIS PAGE

## MORTGAGE POOL BY GEOGRAPHIC DISTRIBUTION

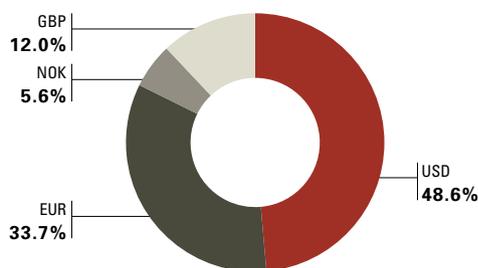


SOURCE: NATIONAL AUSTRALIA BANK APRIL 26 2013

## ISSUANCE TO MAY 16 2013 (A\$M EQUIV.)

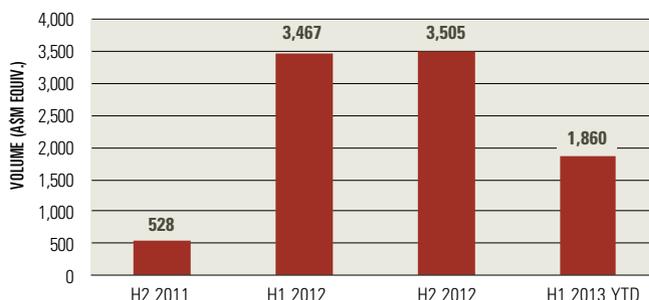
TOTAL OUTSTANDING IN BENCHMARK FORMAT	8,269
TOTAL OUTSTANDING IN PRIVATE PLACEMENT FORMAT	1,091
TOTAL OUTSTANDING IN FIXED RATE FORMAT	8,231
TOTAL OUTSTANDING IN FRN FORMAT	1,129

## BREAKDOWN OF ISSUANCE BY CURRENCY (A\$M EQUIV.)



SOURCE: KANGANEWS, NATIONAL AUSTRALIA BANK MAY 10 2013

## NAB'S COVERED BOND ISSUANCE HISTORY (A\$M EQUIV.)



SOURCE: KANGANEWS, NATIONAL AUSTRALIA BANK MAY 10 2013

## NATIONAL AUSTRALIA BANK'S COVERED BONDS ISSUED TO DATE

ISIN CODE	SERIES	SETTLEMENT DATE	MATURITY DATE	CURRENCY	VOLUME (M)	FX RATE	AUD AMOUNT (M)	COUPON TYPE	COUPON (%/MARGIN)	LISTING
XS0721652252	1	20 Dec 11	20 Dec 21	NOK	2,000	0.1690	338	Fixed	5.00	Luxembourg
XS0721652252	1	23 Dec 11	20 Dec 21	NOK	500	0.1690	85	Fixed	5.00	Luxembourg
XS0721652252	1	30 Dec 11	20 Dec 21	NOK	625	0.1690	106	Fixed	5.00	Luxembourg
XS0730559894	2	13 Jan 12	13 Jan 17	EUR	1,000	1.2504	1,250	Fixed	2.63	Luxembourg
XS0733140460	3	20 Jan 12	20 Jan 27	EUR	200	1.2413	248	Fixed	4.08	Luxembourg
XS0737096874	4	27 Jan 12	27 Jan 15	GBP	500	1.4866	743	FRN	145bp/Libor	Luxembourg
US63253WAA99 (RULE 144A) US63253XAA72 (REG S)	5	20 Jun 12	20 Jun 17	USD	1,250	0.9804	1,225	Fixed	2.00	Luxembourg
XS0825495368	6	10 Sep 12	4 Sep 26	GBP	250	1.5332	383	Fixed	3.00	Luxembourg
XS0829117232	7	21 Sep 12	21 Jan 28	EUR	200	1.2366	247	Fixed	2.65	Luxembourg
US63253WAB72 (RULE 144A) US63253XAC39 (REG S)	9	27 Sep 12	27 Sep 17	USD	250	0.9571	239	FRN	72bp/Libor	Unlisted
US63253WAA99 (RULE 144A) US63253XAA72 (REG S)	5	27 Sep 12	20 Jun 17	USD	1,250	0.9804	1,225	Fixed	2.00	Unlisted
WKNONS2D3	8	28 Sep 12	4 Oct 24	EUR	136	1.2385	168	Fixed	2.35	Unlisted
XS0864360358	10	13 Dec 12	14 Feb 23	EUR	1,000	0.8057	1,241	Fixed	1.875	Luxembourg
XS0896145116	11	1 Mar 13	1 Mar 18	USD	150	1.0238	147	FRN	30bp/USD Libor	Luxembourg
US63253WAE12 (RULE 144A) US63253XAF69 (REG S)	12	8 Mar 13	8 Mar 18	USD	1,750	1.0216	1,713	Fixed	1.25	Unlisted
							<b>9,360</b>			

SOURCE: KANGANEWS, NATIONAL AUSTRALIA BANK MAY 16 2013

◆ FOR FURTHER INFORMATION PLEASE CONTACT: <http://capital.nab.com.au/securitisation-deal-summaries.phps>

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Covered bond investor reports are published monthly on the 15th of each month.

# SUNCORP-METWAY



ISSUER	SUNCORP-METWAY
ISSUER RATING (S&P/MOODY'S/FITCH)	A+/A1/A+
REPORTING PERIOD	JUL – JUN
AUSTRALIAN RESIDENT ASSETS (A\$BN)	57 (TOTAL RESIDENT ASSETS PER APRA'S MONTHLY BANKING STATISTICS MARCH 2013, ISSUED APR 30 2013)

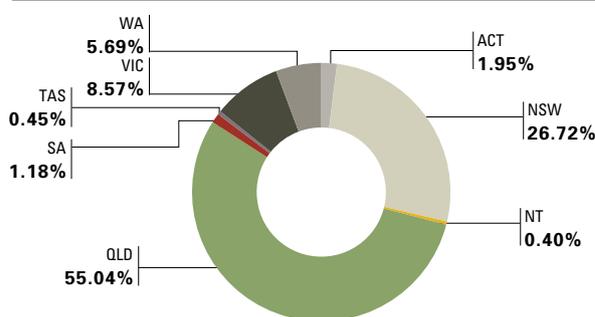
## COVERED BOND PROGRAMME

ISSUING ENTITY	SUNCORP-METWAY
COVERED BOND RATING (MOODY'S/FITCH)	Aaa/AAA
PROGRAMME TYPE	LEGISLATIVE
PROGRAMME SIZE	US\$5BN
COVERED BOND GUARANTOR	PERPETUAL CORPORATE TRUST
SECURITY TRUSTEE	P.T.
BOND TRUSTEE	DB TRUSTEES (HONG KONG)
SERVICER	SUNCORP-METWAY
TRUST MANAGER	SME MANAGEMENT (WHOLLY-OWNED SUBSIDIARY OF SUNCORP-METWAY)
ASSET MONITOR	KPMG
STATUTORY OVERCOLLATERALISATION MINIMUM (%)	3.00
CONTRACTUAL OVERCOLLATERALISATION MINIMUM (%)	23.00
CONTRACTUAL OVERCOLLATERALISATION AT REPORTING DATE (%)	23.00 (APR 30 2013)
TOTAL OVERCOLLATERALISATION AT REPORTING DATE (%)	25.00 (APR 30 2013)

## POOL DATA

PORTFOLIO CUT-OFF DATE	APR 30 2013
CURRENT AGGREGATE PRINCIPAL BALANCE (A\$)	2,686,321,780
NO. OF LOANS	10,772
AVERAGE LOAN SIZE (CONSOLIDATED)	249,380
MAXIMUM LOAN BALANCE (CONSOLIDATED)	1,865,719
WEIGHTED AVERAGE CONSOLIDATED CURRENT LVR (%)	67.11
WEIGHTED AVERAGE CONSOLIDATED CURRENT INDEXED LVR (%)	59.41
WEIGHTED AVERAGE INTEREST RATE (%)	5.79
WEIGHTED AVERAGE SEASONING (MONTHS)	48
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	356
INVESTMENT LOANS (%)	23.05
30+ DAY ARREARS (%)	0.88
MORTGAGE POOL BY GEOGRAPHIC DISTRIBUTION	SEE PIE CHART ON THIS PAGE

## MORTGAGE POOL BY GEOGRAPHIC DISTRIBUTION

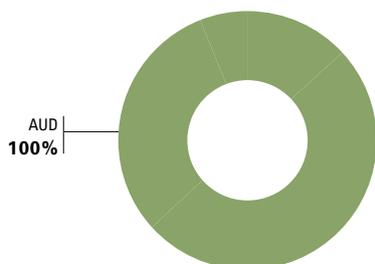


SOURCE: SUNCORP-METWAY APRIL 30 2013

## ISSUANCE TO MAY 16 2013 (A\$M EQUIV.)

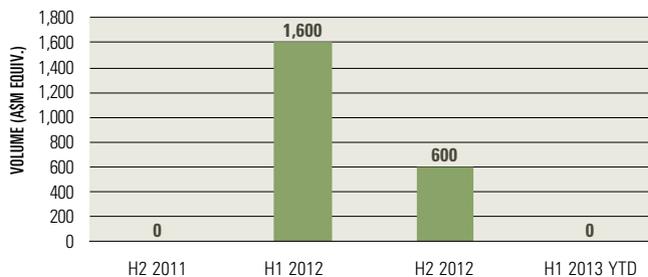
TOTAL OUTSTANDING IN BENCHMARK FORMAT	2,200
TOTAL OUTSTANDING IN PRIVATE PLACEMENT FORMAT	0
TOTAL OUTSTANDING IN FIXED RATE FORMAT	1,700
TOTAL OUTSTANDING IN FRN FORMAT	500

### BREAKDOWN OF ISSUANCE BY CURRENCY (A\$M EQUIV.)



SOURCE: KANGANEWS, SUNCORP-METWAY MAY 16 2013

### SUNCORP'S COVERED BOND ISSUANCE HISTORY (A\$M EQUIV.)



SOURCE: KANGANEWS, SUNCORP-METWAY MAY 16 2013

### SUNCORP-METWAY'S COVERED BONDS ISSUED TO DATE

ISIN CODE	SERIES	SETTLEMENT DATE	MATURITY DATE	CURRENCY	VOLUME (M)	FX RATE	AUD AMOUNT (M)	COUPON TYPE	COUPON (%/MARGIN)	LISTING
AU3CB0194926	2012-1	6 Jun 12	6 Dec 16	AUD	1,100	1.0000	1,100	Fixed	4.75	Unlisted
AU3FN015731	2012-2	6 Jun 12	6 Dec 14	AUD	500	1.0000	500	FRN	105bp/BBSW	Unlisted
AU3CB0201630	2012-3	9 Nov 12	9 Nov 17	AUD	600	1.0000	600	Fixed	4	Unlisted
							<b>2,200</b>			

SOURCE: KANGANEWS, SUNCORP-METWAY MAY 16 2013

◆ FOR FURTHER INFORMATION PLEASE CONTACT: [www.suncorp.com.au/covered-bonds](http://www.suncorp.com.au/covered-bonds)

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Covered bond investor reports are published monthly on the first business day of each month.

# WESTPAC BANKING CORPORATION



ISSUER	WESTPAC BANKING CORPORATION
ISSUER RATING (S&P/MOODY'S/FITCH)	AA-/Aa2/AA-
REPORTING PERIOD	OCT – SEP
AUSTRALIAN RESIDENT ASSETS (A\$BN)	628.5 (TOTAL RESIDENT ASSETS PER APRA'S MONTHLY BANKING STATISTICS MARCH 2013, ISSUED APR 30 2013)

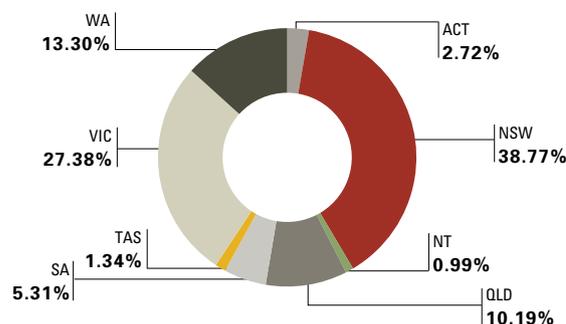
## COVERED BOND PROGRAMME

ISSUING ENTITY	WESTPAC BANKING CORPORATION
COVERED BOND RATING (MOODY'S/FITCH)	Aaa/AAA
PROGRAMME TYPE	LEGISLATIVE
PROGRAMME SIZE	US\$20BN
COVERED BOND GUARANTOR	BNY TRUST COMPANY OF AUSTRALIA
SECURITY TRUSTEE	BTA INSTITUTIONAL SERVICES AUSTRALIA
BOND TRUSTEE	BNY MELLON CORPORATE TRUSTEE SERVICES
SERVICER	WESTPAC BANKING CORPORATION
TRUST MANAGER	WESTPAC SECURITISATION MANAGEMENT
COVER POOL MONITOR	PRICEWATERHOUSECOOPERS
STATUTORY OVERCOLLATERALISATION MINIMUM (%)	3.00
CONTRACTUAL OVERCOLLATERALISATION MINIMUM (%)	5.26
CONTRACTUAL OVERCOLLATERALISATION AT REPORTING DATE (%)	15.90 (MAR 31 2013)
TOTAL OVERCOLLATERALISATION AT REPORTING DATE (%)	40.68 (MAR 31 2013)

## POOL DATA

PORTFOLIO CUT-OFF DATE	MAR 31 2013
CURRENT AGGREGATE PRINCIPAL BALANCE (A\$)	18,620,467,551
NUMBER OF LOANS (UNCONSOLIDATED)	74,154
NUMBER OF LOANS (CONSOLIDATED)	63,187
AVERAGE LOAN SIZE (CONSOLIDATED)	251,105
MAXIMUM LOAN BALANCE (CONSOLIDATED)	2,000,000
WEIGHTED AVERAGE CONSOLIDATED CURRENT LVR (%)	61.65
WEIGHTED AVERAGE CONSOLIDATED CURRENT INDEXED LVR (%)	60.15
WEIGHTED AVERAGE INTEREST RATE (%)	5.89
WEIGHTED AVERAGE SEASONING (MONTHS)	46
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	302
INVESTMENT LOANS (%)	19.77
30+ DAY ARREARS (%)	0.53
MORTGAGE POOL BY GEOGRAPHIC DISTRIBUTION	SEE PIE CHART ON THIS PAGE

## MORTGAGE POOL BY GEOGRAPHIC DISTRIBUTION

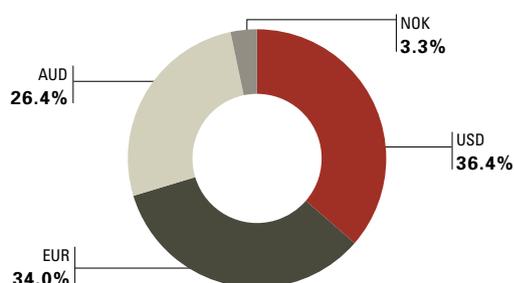


SOURCE: WESTPAC BANKING CORPORATION MARCH 31 2013

## ISSUANCE TO MAY 16 2013 (A\$M EQUIV.)

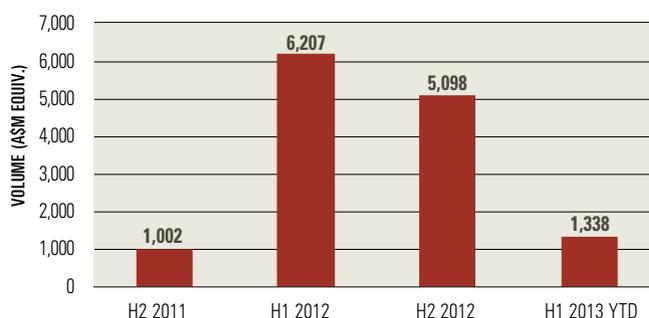
TOTAL OUTSTANDING IN BENCHMARK FORMAT	12,600
TOTAL OUTSTANDING IN PRIVATE PLACEMENT FORMAT	1,045
TOTAL OUTSTANDING IN FIXED RATE FORMAT	11,158
TOTAL OUTSTANDING IN FRN FORMAT	2,487

## BREAKDOWN OF ISSUANCE BY CURRENCY (A\$M EQUIV.)



SOURCE: KANGANEWS, WESTPAC BANKING CORPORATION MAY 16 2013

## WESTPAC'S COVERED BOND ISSUANCE HISTORY (A\$M EQUIV.)



SOURCE: KANGANEWS, WESTPAC BANKING CORPORATION MAY 16 2013

## WESTPAC BANKING CORPORATION'S COVERED BONDS ISSUED TO DATE

ISIN CODE	SERIES	SETTLEMENT DATE	MATURITY DATE	CURRENCY	VOLUME (M)	FX RATE	AUD AMOUNT (M)	COUPON TYPE	COUPON (%/ MARGIN)	LISTING
US96122WAA80 (RULE 144A) US96122XAA63 (REG S)	2011-C1	28 Nov 11	28 Nov 16	USD	1,000	1.001803	1,002	Fixed	2.45	London
XS0735613373	2012-C1	8 Feb 12	8 Feb 22	NOK	1,800	0.1600	288	Fixed	5.00	London
XS0735794819	2012-C2	8 Feb 12	8 Feb 22	NOK	1,000	0.1611	161	Fixed	5.00	London
AU3CB0189322	2012-C3	6 Feb 12	6 Feb 17	AUD	1,700	1.0000	1,700	Fixed	5.75	Unlisted
AU3FN0014874	2012-C4	6 Feb 12	6 Feb 17	AUD	1,400	1.0000	1,400	FRN	1.65bp/BBSW	Unlisted
XS0747205101	2012-C5	15 Feb 12	16 Feb 16	EUR	1,750	1.2330	2,158	Fixed	2.125	London
AU3FN0014874	2012-C4	24 Feb 12	6 Feb 17	AUD	500	1.0000	500	FRN	165bp/BBSW	Unlisted
XS0801654558	2012-C6	9 Jul 12	9 Jul 19	EUR	1,000	1.2324	1,232	Fixed	2.125	London
US96122WAC47 (RULE 144A) US96122XAC20 (REG S)	2012-C8	17 Jul 12	17 Jul 15	USD	500	0.9823	491	FRN	80bp/Libor	London
US96122WAB63 (RULE 144A) US96122XAB47 (REG S)	2012-C7	17 Jul 12	17 Jul 15	USD	1,500	0.9823	1,473	Fixed	1.375	London
US96122WAD20 (RULE 144A) US96122XAD03 (REG S)	2012-C9	17 Dec 12	15 Dec 15	USD	2,000	0.9506	1,901	Fixed	1.25	London
XS0886387868	2013-C1	8 Feb 13	8 Feb 18	USD	100	0.9588	96	FRN	35bp/Libor	London
XS0918557124	2013-C2	17 Apr 13	17 Apr 20	EUR	1,000	1.242559	1,243	Fixed	1.375	London
							<b>13,645</b>			

SOURCE: KANGANEWS, WESTPAC BANKING CORPORATION MAY 16 2013

◆ FOR FURTHER INFORMATION PLEASE CONTACT:

<http://www.westpac.com.au/about-westpac/investor-centre/fixed-income-investors/covered-bonds/>

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Covered bond investor reports are published monthly on the 15th of each month.

## AUSTRALIAN RMBS DEALS PRICED JAN 1 – MAY 20 2013

ISSUE DATE	SPONSOR & POOL NAME	NOTE CLASS	CURRENCY	TRANCHE VOLUME AS EQUIV.	TRANCHE TYPE	BOOKRUNNERS	S&P	MOODY'S	FITCH
14 FEB 13	<b>BENDIGO AND ADELAIDE BANK</b> TORRENS SERIES 2013-1 TRUST	A	AUD	790,000,000	SENIOR	DB, MB	AAA	Aaa	
		AB	AUD	39,150,000	SENIOR	DB, MB	AAA		
		B1	AUD	17,000,000	SENIOR	DB, MB	AA-		
		B2	AUD	4,250,000	SENIOR	DB, MB	AA-		
25 FEB 13	<b>WESTPAC BANKING CORPORATION</b> WST TRUST SERIES 2013-1	A	AUD	1,932,000,000	SENIOR	WIB	AAA	Aaa	
		B	AUD	71,000,000	SUBORDINATE	WIB	AAA	Aa1	
		C	AUD	97,000,000	SUBORDINATE	WIB			
11 MAR 13	<b>COMMONWEALTH BANK OF AUSTRALIA</b> MEDALLION TRUST SERIES 2013-1	A1	AUD	1,013,000,000	SENIOR	Citi, CommBank	AAA		AAA
		A2	AUD	1,068,000,000	SENIOR	Citi, CommBank	AAA		AAA
		A3	AUD	250,000,000	SENIOR	Citi, CommBank	AAA		AAA
		B	AUD	153,000,000	SUBORDINATE	Citi, CommBank	AA-		AA-
12 MAR 13	<b>ORIGIN MORTGAGE MANAGEMENT SERVICES</b> TRITON TRUST NO. 2 BOND SERIES 2013-1	A	AUD	454,000,000	SENIOR	ANZ, CS, RBS, WIB	AAA		AAA
		AB	AUD	32,000,000	SENIOR	ANZ, CS, RBS, WIB	AAA		AAA
		B	AUD	13,250,000	SUBORDINATE	ANZ, CS, RBS, WIB	AA-		
		C	AUD	750,000	SUBORDINATE	ANZ, CS, RBS, WIB			
18 MAR 13	<b>LIBERTY FINANCIAL</b> LIBERTY SERIES 2013-1	A1	AUD	40,000,000	SENIOR	NAB, WIB	AAA		
		A2	AUD	70,000,000	SENIOR	NAB, WIB	AAA		
		A3	AUD	58,400,000	SENIOR	NAB, WIB	AAA		
		B	AUD	12,800,000	SUBORDINATE	NAB, WIB	AA		
		C	AUD	7,600,000	SUBORDINATE	NAB, WIB	A		
		D	AUD	4,600,000	SUBORDINATE	NAB, WIB	BBB		
		E	AUD	2,800,000	SUBORDINATE	NAB, WIB	BB		
		F	AUD	1,800,000	SUBORDINATE	NAB, WIB	B		
19 MAR 13	<b>RESIMAC</b> RESIMAC PREMIER SERIES 2013-1	A1	AUD	75,000,000	SENIOR	JPM, NAB, WIB	AAA		AAA
		A2-A	USD	300,000,000	SENIOR	JPM, NAB	A-1+		F1+
		A3	AUD	309,000,000	SENIOR	JPM, NAB, WIB	AAA		AAA
		AB	AUD	44,625,000	SENIOR	JPM, NAB, WIB	AAA		AAA
		B1	AUD	26,250,000	SENIOR	JPM, NAB, WIB	AA-		
		B2	AUD	4,125,000	SUBORDINATE	JPM, NAB, WIB			
20 MAR 13	<b>ME BANK</b> SMHL SERIES SECURITISATION FUND 2012-1	A1-R	AUD	307,000,000	SENIOR	CS, NAB	AAA	Aaa	
27 MAR 13	<b>AFG</b> AFG 2013-1 TRUST	A	AUD	254,000,000	SENIOR	NAB	AAA		AAA
		AB	AUD	11,000,000	SENIOR	NAB	AAA		AAA
		B	AUD	8,500,000	SENIOR	NAB	AA-		
		C	AUD	1,500,000	SUBORDINATE	NAB			
4 APR 13	<b>ING BANK AUSTRALIA</b> IDOL TRUST SERIES 2013-1	A1	AUD	930,000,000	SENIOR	Citi, ING, MB, WIB	AAA	Aaa	
		AB	AUD	20,000,000	SENIOR	Citi, ING, MB, WIB	AAA		
		AC	AUD	25,000,000	SUBORDINATE	Citi, ING, MB, WIB	AAA		
		B	AUD	25,000,000	SUBORDINATE	Citi, ING, MB, WIB			
15 APR 13	<b>LIBERTY FINANCIAL</b> LIBERTY SERIES 2013-2	A1	AUD	100,000,000	SENIOR	CommBank, DB	AAA		
		A2	AUD	175,000,000	SENIOR	CommBank, DB	AAA		
		A3	AUD	150,000,000	SENIOR	CommBank, DB	AAA		
		B	AUD	34,000,000	SUBORDINATE	CommBank, DB	AA		
		C	AUD	18,000,000	SUBORDINATE	CommBank, DB	A		
		D	AUD	9,500,000	SUBORDINATE	CommBank, DB	BBB		
		E	AUD	6,000,000	SUBORDINATE	CommBank, DB	BB		
		F	AUD	3,000,000	SUBORDINATE	CommBank, DB	B		
18 APR 13	<b>PEPPER AUSTRALIA</b> PEPPER RESIDENTIAL SECURITIES TRUST NO. 10	A1	AUD	245,000,000	SENIOR	CommBank, NAB	AAA		AAA
		A2	AUD	38,850,000	SENIOR	CommBank, NAB	AAA		AAA
		B	AUD	18,200,000	SENIOR	CommBank, NAB	AA		
		C	AUD	17,150,000	SUBORDINATE	CommBank, NAB	A		
		D	AUD	12,250,000	SUBORDINATE	CommBank, NAB	BBB		
		E	AUD	8,050,000	SUBORDINATE	CommBank, NAB	BB		
		F	AUD	5,600,000	SUBORDINATE	CommBank, NAB	B		
		G	AUD	4,900,000	SUBORDINATE	CommBank, NAB			
15 MAY 13	<b>IMB</b> ILLAWARRA SERIES 2013-1 RMBS TRUST	A	AUD	279,000,000	SENIOR	MB, WIB	AAA		AAA
		AB	AUD	15,000,000	SENIOR	MB, WIB	AAA		
		B	AUD	6,000,000	SUBORDINATE	MB, WIB			
23 MAY 13	<b>SUNCORP BANK</b> APOLLO SERIES 2013-1 TRUST	A	AUD	1,069,500,000	SENIOR	ANZ, DB, MB, NAB	AAA		AAA
		AB	AUD	63,250,000	SENIOR	ANZ, DB, MB, NAB	AAA		
		B1	AUD	11,500,000	SENIOR	ANZ, DB, MB, NAB	AA-		
		B2	AUD	5,750,000	SENIOR	ANZ, DB, MB, NAB	AA-		

SOURCE: KANGANEWS MAY 20 2013

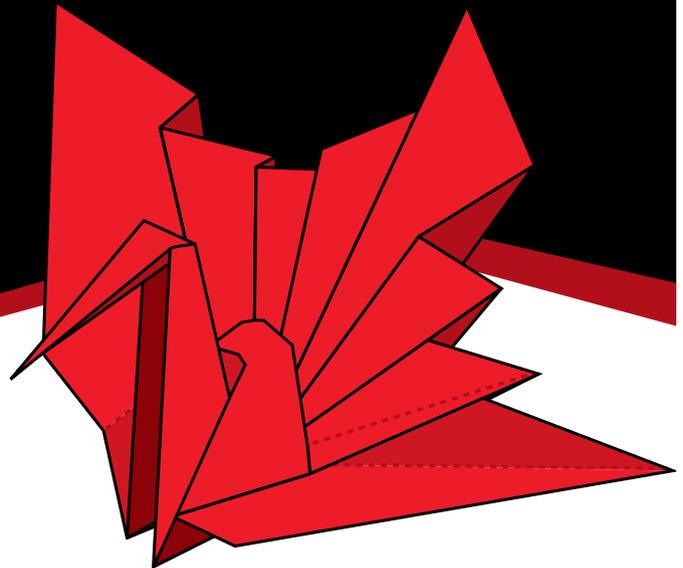
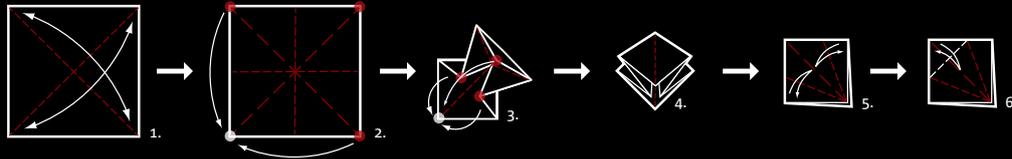
# ASF 2013 EDUCATION DATES

3 July	UNDERSTANDING THE RBA'S NEW ELIGIBILITY CRITERIA FOR RESIDENTIAL MORTGAGE-BACKED SECURITIES	Melbourne
11 July	UNDERSTANDING THE RBA'S NEW ELIGIBILITY CRITERIA FOR RESIDENTIAL MORTGAGE BACKED SECURITIES	Brisbane
15 July	UNDERSTANDING THE RBA'S NEW ELIGIBILITY CRITERIA FOR RESIDENTIAL MORTGAGE-BACKED SECURITIES	Sydney
23 & 24 July	SECURITISATION PROFESSIONALS	Melbourne
25 July	SECURITISATION FUNDAMENTALS	Melbourne
30 July	APPLIED: ACCOUNTING & TAX	Sydney
1 August	COVERED BONDS	Melbourne
13 August	APPLIED: CONTEMPORARY LEGAL & REGULATORY DEVELOPMENTS	Sydney
20 August	SECURITISATION FUNDAMENTALS	Sydney
21 & 22 August	SECURITISATION PROFESSIONALS	Sydney
27 August	APPLIED: TRUSTEE ROLE, RESPONSIBILITIES AND RELATIONSHIPS	Sydney
3 September	APPLIED: STRUCTURING, CASHFLOW AND WATERFALL MODELLING	Sydney
4 September	APPLIED: PRINCIPLES OF CREDIT ANALYSIS	Sydney
4 September	COVERED BONDS	Sydney
16-19 September	ASF ASIAN INVESTOR SEMINARS	Hong Kong, Singapore, Tokyo
19 September	APPLIED: PRINCIPLES OF CREDIT ANALYSIS	Melbourne
14-15 October	SECURITISATION PROFESSIONALS	Brisbane
15 October	SECURITISATION FUNDAMENTALS	Brisbane
15 October	COVERED BONDS	Brisbane
22 October	APPLIED: ACCOUNTING & TAX	Sydney
24 October	COVERED BONDS	Sydney
29 October	APPLIED: CONTEMPORARY LEGAL & REGULATORY DEVELOPMENTS	Sydney
30 October	APPLIED: TRUSTEE ROLE, RESPONSIBILITIES AND RELATIONSHIPS	Sydney



Detailed course information and registration is available on our website: [www.securitisation.com.au](http://www.securitisation.com.au)

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1. Series 2012-1E REDS Trust (GBP), National RMBS Trust 2012-2 (GBP), Pepper PRIME 2012-1 Trust (USD), RESIMAC Premier Series 2013-1 (USD)  
2. KangaNews Securitisation League Table, 31 December 2012 (AUD and foreign currency tranches - excluding self-led deals) and KangaNews Awards 2012  
3. As at 1 April 2013