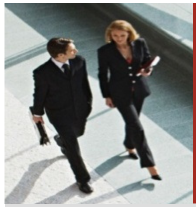
Capital & Funding Strategies
Funding Challenges for Mutuals

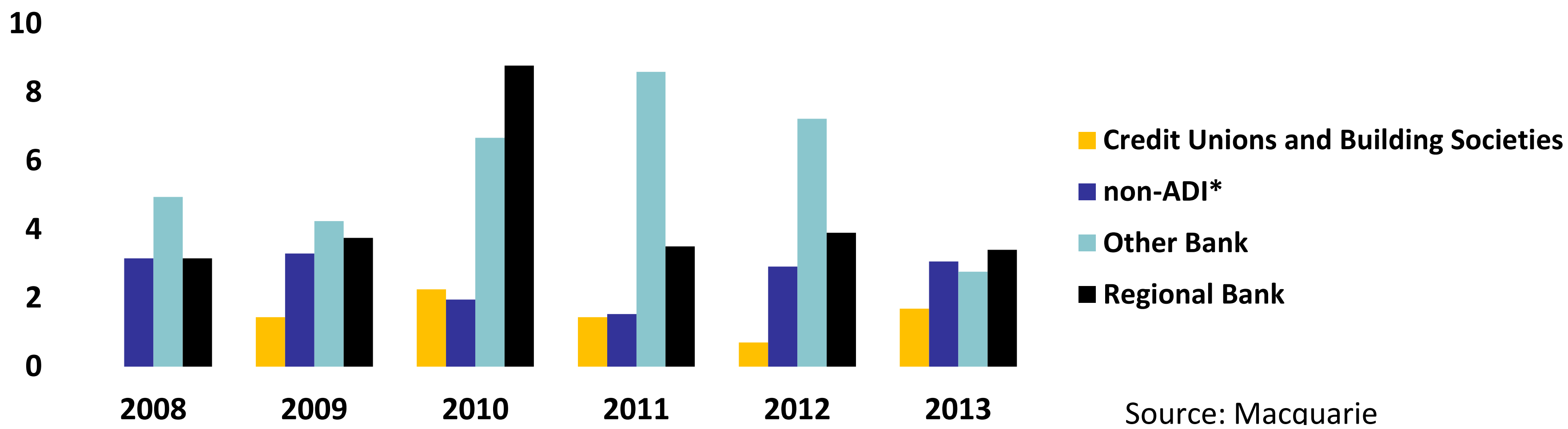
Mutuals 2013 Conference – 28 October 2013



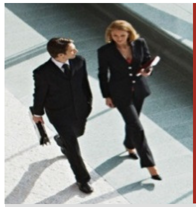
Topics

1. Current state and outlook for securitisation markets
2. Regulatory developments
   - New RBA repo eligibility criteria for RMBS, ABS & CMBS
   - New prudential standard governing securitisation
3. Future funding challenges and options for mutuals

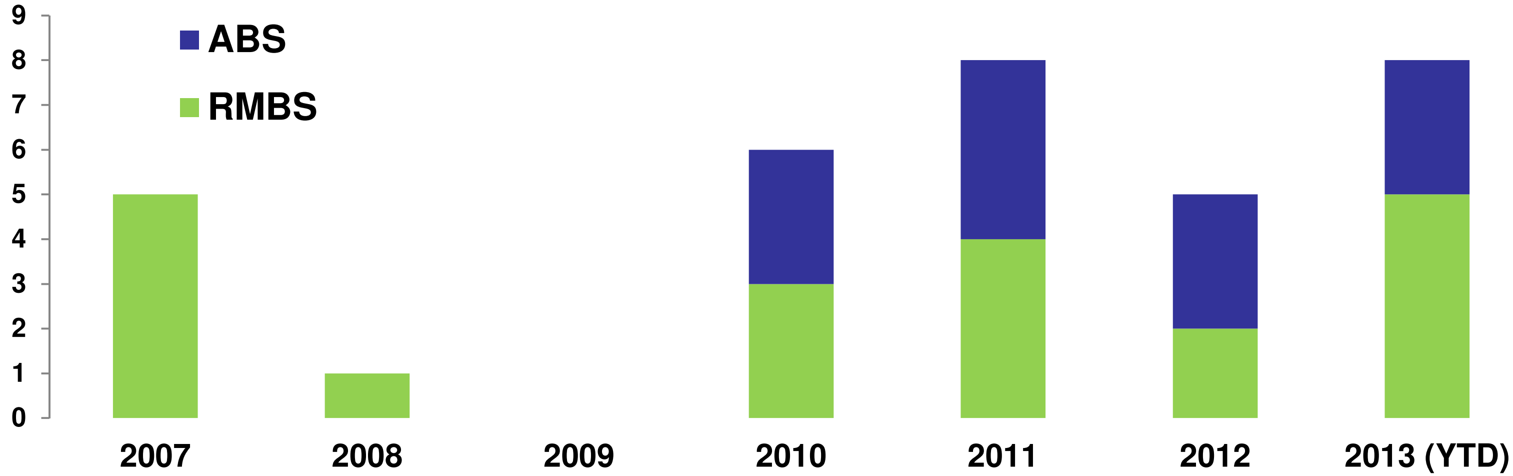
RMBS Issuance: non-major bank (AUDbn)



- Consistent issuing patterns over time from each RMBS issuer type (excluding major banks).
- Larger institutions have progressively more flexibility and greater aggregate demand.
- Smaller institutions have smaller, targeted issues.



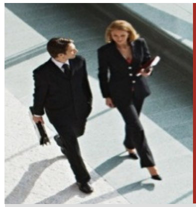
Number of inaugural and return issuers*



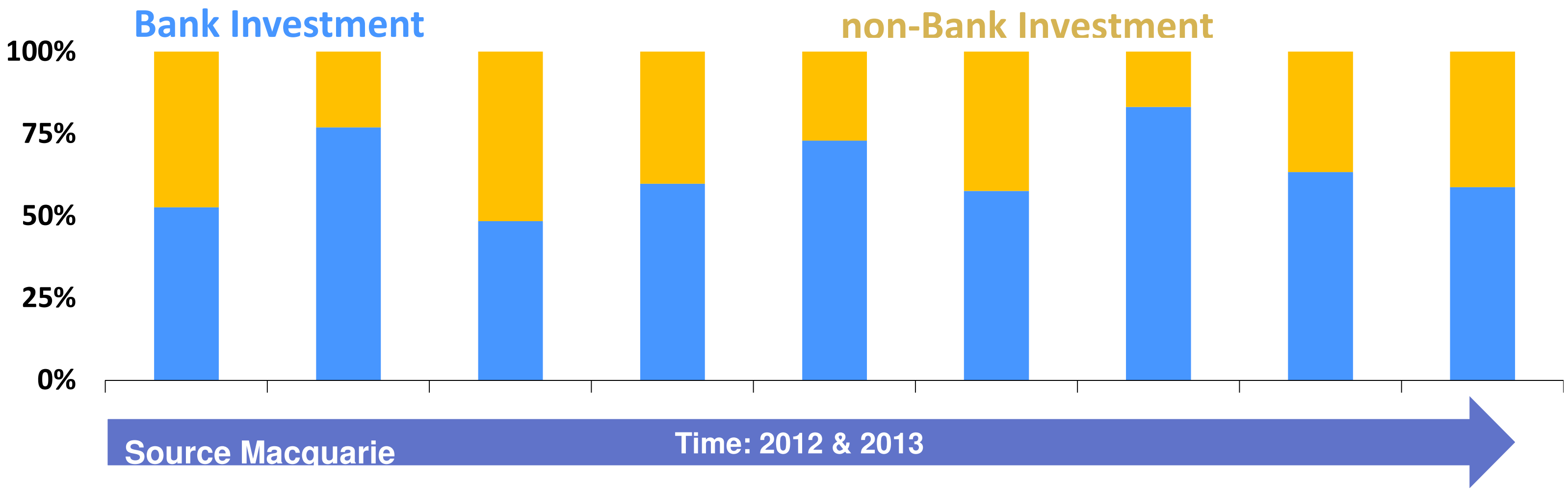
*absent at least one

Source Macquarie

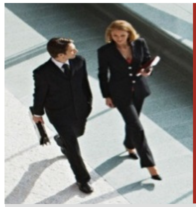
- Ongoing successful issuance from the existing issuer base promotes the market for new entrants.
- Programme sponsors and warehouse funders continuously looking for funding diversity.
- The market has developed the capacity to support liquidity and capital offerings.



Investors: bank and real money



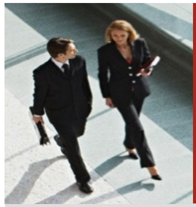
- Bank balance sheet bids have consistently been the primary source of demand for senior Australian RMBS.
- Fund Managers and Insurers have provided much of the balancing senior note demand and all of the junior note demand.
- Key market sensitivity is the ongoing stability of balance sheet demand arising from the regulatory environment and asset supply.



New RBA Eligibility Criteria for RMBS

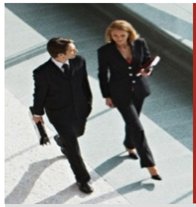
- New RBA reporting requirements for repo eligible RMBS, ABS & CMBS

1. Mirrors similar requirements by Bank of England and ECB
2. RMBS to be effective from 31 December 2014 with transition from 1 July 2014.
3. Required for most public and self securitisations.
4. RMBS transaction, security and loan level data required to be provided.
5. Data is to be provided to RBA and also made available to the public*.
6. Cash flow waterfall must be provided in a VBA model.



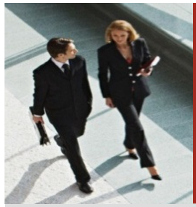
Prudential Reform In Securitisation

1. Consultation on new prudential standard expected to be announced by APRA this year.
2. Standard is expected to address funding only and capital relief securitisations
3. ADIs will be free to trade in their own A notes; the current 20 per cent rule would be abolished. ADIs may also trade in other issuer A notes, using risk weightings that already exist under Basel III.
4. APRA considers investment in subordinated RMBs tranches is best undertaken by specialist credit investors who conduct appropriate due diligence.
5. Key industry focus on the standard's acknowledgment of multiple tranches of subordinated notes, treatment of warehouse facilities, master trust structures and guidance on achieving capital relief.



Funding challenges & opportunities

1. Mutuals likely to continue to have limited funding options
2. Competition for deposits to continue and fee for FCS to be levied by the Government.
3. Financial system inquiry provides opportunity to highlight innovative funding options for mutuals.
4. New Government is supportive of the further development of the corporate bond market.
5. Deloitte Access Economics research in 2012 highlighted case for allowing use of franking credits as part of yield on senior unsecured notes issued by mutuals.
   - Pass through franking credits to members holding the notes
   - Benefits competitive position of mutuals in financial system
   - Diversifies the issuer and investor base of the Australian bond market



Further Information

www.securitisation.com.au