National Australia Bank

Development and Diversity

US$ REG S COMES OF AGE IN ASIA PACIFIC

CONTENT

EXECUTIVE SUMMARY

This report by National Australia Bank (NAB) examines the recent growth and future prospects of the US$ Reg S bond market in the Asia Pacific region. Based on the views of NAB specialists, internal and external data, and independent research, its key findings include:

- Increased global liquidity, Asia's growing wealth and the rise of the regional investor base have made the US$ Reg S market an increasingly important source of funding for Asia Pacific issuers;
- While Chinese issuers and investors are still the major players in the regional US$ Reg S market, it is becoming more diverse, with Australian, Japanese, Indian and other regional corporates exploring US$ Reg S issuance due to its diversification benefit, low costs and lighter documentation requirements versus other formats;
- Although the growth of the Asia Pacific US$ Reg S market is expected to moderate in the near-term, investor demand is expected to remain robust given the region's vibrant economic backdrop;
- The pressing need to fund regional infrastructure under programmes such as China's Belt and Road Initiative (BRI) will be a major future driver of Asia Pacific US$ Reg S issuance, which is also likely to include more green and social bonds to meet rising appetite for sustainable assets.

FOREWORD

We are delighted to introduce **Development and diversity: US$ Reg S comes of age in Asia Pacific**, the latest paper in our thought leadership series. The report is an unprecedented and comprehensive exploration of the forces driving the growth and shaping the future of the regional US$ Reg S bond market, which is fast emerging as one of the most promising from both the issuer and investor perspectives.

The first section of the paper examines the unique factors that are supporting US$ Reg S issuance and investment in Asia Pacific, including the global shift in wealth to the region and the increasing depth and diversity of the market. The paper goes on to highlight some of the compelling diversification, cost and compliance advantages inherent in US$ Reg S versus other bond formats.

Finally, the paper looks to the market's future, noting how US$ Reg S is ideally placed to help fund the region's rising demand for infrastructure and meet the ambitions of both issuers and investors increasingly focused on sustainability and long-term value.

At NAB we are proud of the role we have played in the Asia and Australia US$ Reg S growth story. This role has included everything from serving as bookrunner and lead manager on the benchmark US$ Reg S transactions that will breathe life into the region's biggest infrastructure initiatives, to taking a leading position in the structuring and execution of the innovative assets that will make up a larger part of the US$ Reg S landscape going forward, such as green and social bonds.

Our experience gives us confidence that the market will continue to develop in new and exciting ways in the years to come. We look forward to contributing further to this development, and to the growth of an increasingly dynamic and interconnected region.

Cathryn Carver
Executive General Manager
Client Coverage
Corporate and Institutional Banking
National Australia Bank

Steve Lambert
Executive General Manager
Corporate Finance
Corporate and Institutional Banking
National Australia Bank

I. A SHIFTING LANDSCAPE

The rapid development of Asia Pacific's debt capital markets, as institutions and corporates gear up to serve the region's growing economies, is creating a wealth of opportunities for issuers and investors alike. This paper focuses on one of the most dynamic — US$-denominated Regulation S (US$ Reg S) bonds.[1] These are offered to investors outside the United States, as opposed to Rule 144A issuances, which are sold to qualified US institutional buyers.

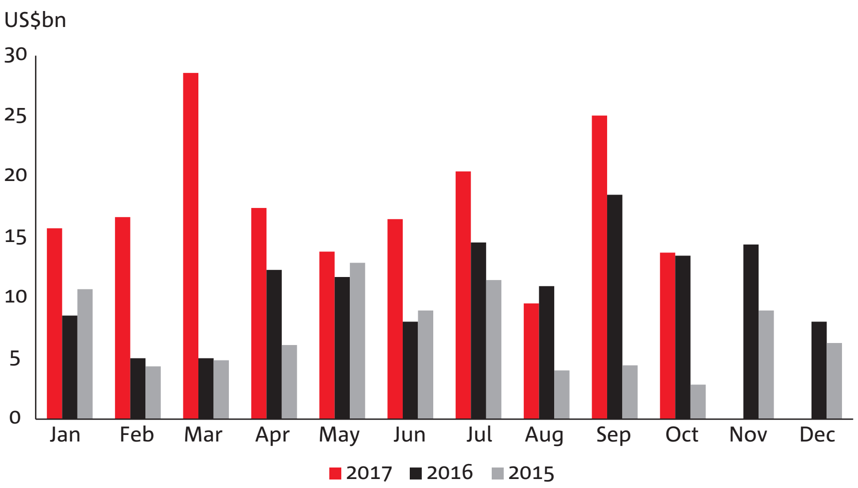
This market will continue to flourish as it acts as a channel for the region's rising prosperity. Asia's macroeconomic environment is shifting as wealth migrates from the West to the East and the middle class continues to grow. In addition, global quantitative easing (QE) is driving Asian investors' hunt for yield at a time when Chinese companies are adopting an international focus.

This year, total regional US$ Reg S issuance exceeded US$170 billion as at the end of October 2017, according to NAB data. That far exceeds the 2016 full-year figure of US$130 billion and represents nearly triple the total for 2012.

The US$ Reg S market is no longer an afterthought for issuers, according to Jacqueline Fox, NAB's General Manager, Capital Markets & Advisory, Corporate Finance.

"US$ Reg S is rising as really a global trend. Over the last two years, the US$ Reg S market has grown in importance for many issuers," Ms. Fox says. "In the past market issuers would use it to access for supplemental funding as the volumes achievable used to be smaller, i.e. US$300-$500 million per transaction, with issues maybe two times oversubscribed. However, the growth in Asian investor demand has made this market an important one in its own right, with transaction volumes of US$1 billion and books three times oversubscribed easily achievable, depending on the issuer in question."

Chart 1: Asia Pacific US$ Reg S issuance volume, Jan 2015 - Oct 2017



Source: National Australia Bank

Asia in the driver's seat

US$ Reg S issues used to be seen as a way for investment grade issuers to target the European US$ investor base, with demand from Asian investors viewed as less important. Now, Asian investors drive the order books for US$ public benchmark transactions. This in part reflects the flow of funds from the West, as well as the region's high household savings rates — 38% in China for example, versus 7% in Australia.[2] Pension funds and insurers in particular are seeking returns to support ageing populations and satisfy their investors.

"Fast wealth accumulation and demographic changes in the region have led to demand for assets that can generate stable investment returns," notes Arthur Lau, Managing Director, Co-Head of Emerging Markets Fixed Income and Head of Asia ex Japan Fixed Income at PineBridge Investments. "The growing investor base of pension, insurance and sovereign wealth funds is also supportive of the fixed income markets. This regional supply-demand dynamic has fostered a very friendly environment for the development of the US$ Reg S market."

"More and more issuers are recognising the attractiveness of the market," says Lorna Greene, Director, Debt Syndicate and Origination Asia, NAB. "Asian investors have this large pool of liquidity but struggle to find a lot of paper in the secondary market, as banks continue to shrink their credit portfolios to reduce pressure on the balance sheet, which in turn has driven stronger participation in primary market deals."

[1] For the purposes of this paper, '144A' bonds refers to those issued in Rule 144A format only; 'Reg S' to those issued in Reg S only, and '144A/Reg S' to those issued in both formats. While Reg S bonds can be issued in a range of currencies, this paper focuses on US$-denominated (US$) Reg S issuance.

[2] https://data.oecd.org/hha/household-savings.htm

The giant in the room

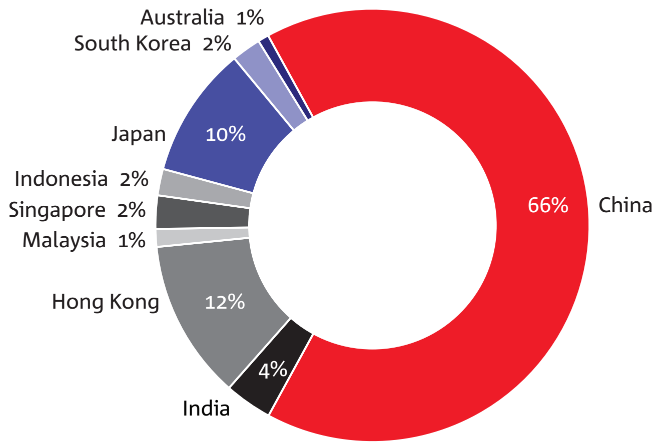
The largest contributor to the growth of the Asia Pacific US$ Reg S market is the region's largest economy: China. China is the main source of issuance for US$ bond in Asia, accounting as of September 2017 for 66% of total regional US$ Reg S issuance for the year, according to NAB. Chinese investors, including institutions, high net worth individuals and retail investors, also play a major role in the market as buyers of US$ Reg S debt.

The impressive growth is raising concerns among some market watchers that the Asian market is excessively dependent on Chinese investors to support funding needs.[3] This makes it vulnerable to risks such as defaults shaking investor faith in the model. However Chinese regulators appear increasingly determined to tackle excess leverage and financial risk,[4] and according to Ms. Greene there are also many reasons for optimism.

"The positive development seen over the last year has been not only the growth in market volumes, but also in the depth of the market, with an increasing number of issuers from different jurisdictions recognising the benefits of accessing the market for the first time or tapping the market more frequently,"

— Lorna Greene, Director, Debt Syndicate and Origination Asia, NAB

Chart 2: Asia Pacific US$ Reg S only issuance by country, Sep 2017



Source: Dealogic, National Australia Bank

"There's still strong demand for Chinese credits, and many good quality companies, particularly from the state-owned enterprise sector, that investors are keen to see issuance from," she says, citing the strong response to a recent issue by energy giant Sinopec as an example. The US$3.25 billion transaction, split over four tranches, attracted a total orderbook at reoffer of over US$4.8 billion, with even the longest-dated 30-year tranche receiving over US$500 million in orders across 29 accounts.

"However it's still key for investors to continue their bottom-up analysis of the credit coming to market," Ms Greene adds.

There are also clear signs of the market evolving to match the region's diverse issuer base, both in terms of type of issuer and geography.

"The positive development seen over the last year has been not only the growth in market volumes, but also in the depth of the market, with an increasing number of issuers from different jurisdictions recognising the benefits of accessing the market for the first time or tapping the market more frequently," Ms Greene explains. "We've seen the most pronounced interest coming from borrowers from Japan, Indonesia and India. This year in particular there are more financial and corporate names out of Australia, who have renewed focus on this market and are recognising the opportunities it offers for cost-effective funding."

[3] https://www.bloomberg.com/news/articles/2017-06-14/drive-by-dollar-bond-deals-trigger-warnings-on-credit-in-asia
[4] https://www.bloomberg.com/news/articles/2017-08-18/china-further-limits-overseas-investment-in-push-to-reduce-risk

II. WHY US$ REG S – AND WHY NOW?

The overall vibrancy and diversity of Asia Pacific bond markets provides a number of routes for potential issuers. Each of these has advantages and drawbacks, and some bond programs combine several.

Private placements, for example, can generally be executed quicker and at a lower cost. Sterling and euro issuances are natural means to access investment from those regions.

Asia's local currency bond market also continues to demonstrate robust growth, with the corporate segment in emerging East Asia expanding 1.5% year on year in the first quarter of 2017 to almost US$3.7 trillion.[5] Local currency bonds offer investors the potential for additional currency gains, but also the possibility of additional volatility that limit their appeal to more risk-averse investors.

US$-denominated issuance is typically the first choice and the biggest market for Asia Pacific issuers and investors, given its unmatched liquidity, supported by the dollar's status as the world's reserve currency.

US$ **First**

US$-denominated issuance is typically the **first choice** and **the biggest market** for Asia Pacific issuers and investors, given its unmatched liquidity, supported by the dollar's status as the world's reserve currency.

"Now you can come to this market and achieve benchmark-sized volume. That's certainly been the main advantage of the recent change and growth of liquidity in the region."

— Jacqueline Fox, NAB's General Manager, Capital Markets & Advisory, Corporate Finance

The US$ Reg S advantage

Would-be dollar issuers have the choice of US$ Reg S or 144A issuance, or combining both, to reach the widest possible range of investors. Nonetheless the US$ Reg S-only format has emerged as a particularly attractive option for several reasons.

First, the ability to access US investors comes with significant costs in terms of documentation and compliance.

Taking the example of Australian issuers, "The US$ Reg S market is the easiest way for them to access offshore liquidity as many have established EMTN (Euro medium term note) programs and there are no additional documentation requirements for US$ Reg S issuance," says Ms. Fox. "The 144A market also requires additional covenants in the documentation which would allow the bonds to be sold to the US investor base. It's just easier and cheaper for Asia Pacific issuers to access dollars via the US$ Reg S-only market."

"In addition, there's a strong desire for diversification among Asian investors that supports positive pricing outcomes."

Secondly, in the past, bypassing the US market could have serious consequences for demand and deal sizes, but Asia's more prominent global role means this is no longer necessarily the case.

"Now you can come to this market and achieve benchmark-sized volume," Ms Fox points out. "That's certainly been the main advantage of the recent change and growth of liquidity in the region. The other advantage of the US$ Reg S market is that Asian investors are a bit more open to considering new credits and debut issuers."

[5] https://asianbondsonline.adb.org/documents/abm_jun_2017.pdf

The case for Australian US$ Reg S issuance

The market's growing depth and relative openness has convinced more Australian issuers, many of which were previously focused on the domestic dollar market, to explore US$ Reg S funding — which can also offer diversification and cost benefits, depending on the type of issuance, Ms. Fox notes.

"Particularly for issuers targeting longer-dated funding, out to the 10-year point of the curve, the strong demand from the Asian investor base for those tenors and for Australian credit in general means they achieve more attractive pricing than if they went to the 144A/Reg S market."

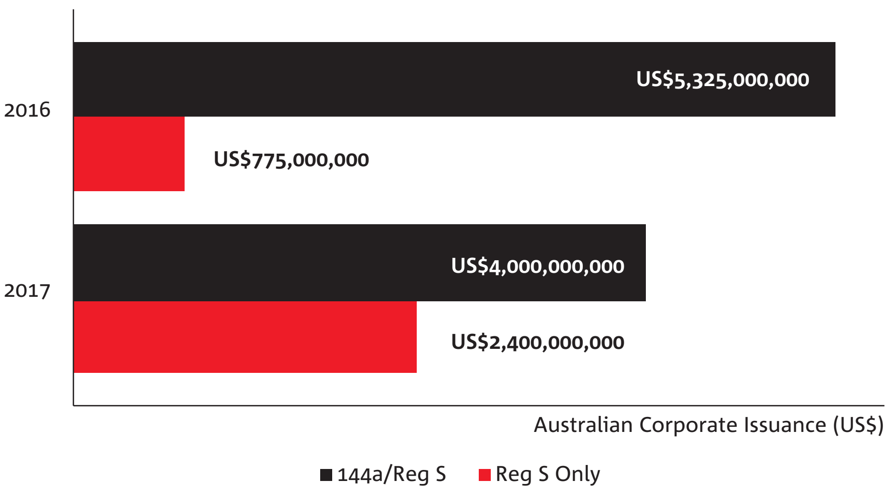
The strength of the region's appetite also means it is increasingly Asia that sets the tone for global transactions.

"Over the last 18 months, we've seen Asian demand increase significantly in the order books of 144A/Reg S bond issues from major Australian banks including NAB," notes Ms. Fox. "In some cases this has actually allowed for a revision of price guidance on the transaction announcement at the New York open."

"Another key driver for Australian corporates to look at the US$ Reg S market is the lower compliance work and cost compared to 144A or 144A/Reg S," Ms. Fox adds. "These conditions suit issuers whose funding volumes can still be met after excluding US investors; those who may be less favored by US investors and face higher re-offer prices if they are included; and those who aren't willing to give covenants to US private placement investors, but need to broaden their horizons beyond the A$ MTN market."

Recent NAB data confirms the rising interest in US$ Reg S issuance among Australian corporates, with total issuance tripling from US$775 million for all of 2016 — the first year Australian firms accessed the market — to US$2.4 billion in the first ten months of 2017 alone. With Australian borrowers accounting for just 1% of the US$ Reg S market, NAB expects there is ample room for growth, and that proportion is expected to rise to 2-3% by 2018.

Chart 3: Australia US$ Reg S-only issuance, 2016-2017



Note: As of October 2017
Source: Dealogic, National Australia Bank

NAB expects the proportion of Australian issuers will rise to **2-3%** in regional US$ Reg S market by 2018.

III. GET TO KNOW YOUR INVESTORS

As the regional US$ Reg S opportunity evolves, more potential issuers will be wondering how to approach the market. Australian issuers begin with a few natural advantages. Rapidly developing regional ties mean many Asian investors are already participants in the domestic Australian bond market and hence have a degree of familiarity with Australian names, creating a "natural flow" of investors following these names into the US$ Reg S market, according to Ms. Greene.

> "I'd love to see more Australian issuers come to the (US$ Reg S) market. Australian legal and accounting systems are well developed and advanced, offering a transparent and creditor-friendly environment. Moreover, the majority of issuers have investment-grade credit profiles, providing quality investments."
>
> — Arthur Lau, Co-Head of Emerging Markets Fixed Income and Head of Asia ex Japan Fixed Income, PineBridge Investments

Australia's strong legal and regulatory environment, and the generally high ratings and positive prospects for risk-adjusted returns on Australian assets, also make these assets attractive to Asian investors.

"Certainly (Asian) investors are comfortable with Australian credit, with demand remaining strong despite the tightening in pricing we have seen year to date," says Ms. Greene.

"I'd love to see more Australian issuers come to the (US$ Reg S) market," says Mr Lau of PineBridge Investments. "Australian legal and accounting systems are well developed and advanced, offering a transparent and creditor-friendly environment. Moreover, the majority of issuers have investment-grade credit profiles, providing quality investments."

The broadest part of the Asian investor base is institutional, with commercial banks and asset managers in China, Hong Kong, Taiwan and Singapore, and insurance companies in Taiwan, Japan and Singapore among the main market actors. Some residual demand comes from banks in markets like Japan and South Korea. This mix tends to drive demand for longer-dated deals.

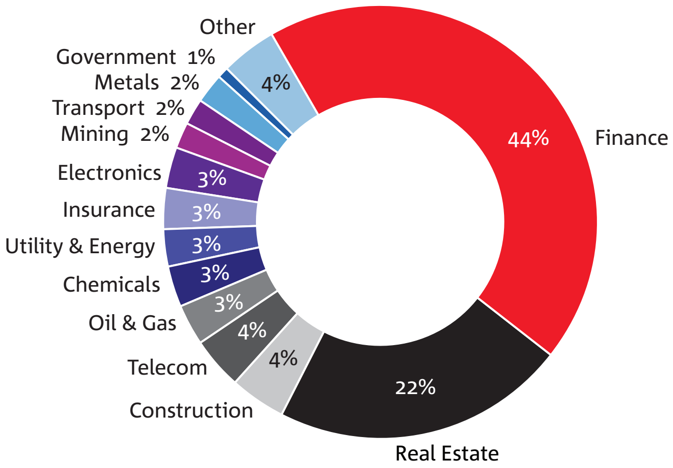
"A lot of insurance companies in Taiwan, South Korea and Japan have become more concerned about liquidity," says Ms. Greene. "They were traditionally quite active private placement buyers, but they have been registering their interest for longer-dated public market issuance. As a result, we've seen an increase in the number of 10-year transactions, or 10-year tranches that have been added to other transactions in response to reverse enquiry interest at transaction open."

Asian investors also tend to prefer offerings from 'steady' sectors like infrastructure and utilities, but the region should not necessarily be viewed as a bloc, Ms. Greene notes.

For example, given the importance of the local technology industry, Taiwanese investors tend to hone in on tech names, whereas Japanese investors prefer credits where they can "tangibly see" the product or asset bond proceeds will finance, like infrastructure or project bonds. Singaporean investors, meanwhile, are keen on the property sector and eager buyers of bonds issued by real estate investment trusts (REITs).

US$ Reg S may offer pricing advantages over 144A/Reg S — but whether an issuer achieves these advantages depends on multiple factors, including local market comparables, the supply/demand balance, as well as the appetite for a particular sector, Ms. Greene notes.

Chart 4: Asia Pacific US$ Reg S issuance by sector



Source: Dealogic, National Australia Bank

Prepare for inspection

Though sector, yields and ratings all remain important considerations, regional investors are also growing increasingly discerning. They are more likely to conduct comprehensive due diligence on any given credit.

"We've noticed a big shift," says Ms. Greene. "More investors have moved to doing their own credit work to assess the issuer and the pricing they view as fair value. Investors are also considering longer tenors rather than going further down the credit curve, or doing both, to achieve higher yields."

Asian investors have also grown more conscious of a credit's provenance and economic context — a tendency that favours Australian and New Zealand issuers, given the strong traditions of governance and robust growth associated with both economies.

The growing emphasis on individual credits makes it particularly important that issuers take the time to cultivate various Asian investor bases, Ms. Green notes — even if it's not their first issuance into the region.

"We always recommend that an issuer conduct a roadshow to meet with investors in target jurisdictions, not only to help with the process of setting up lines for a name that these investors haven't bought in the past, but also to keep engaged with them. When there is more regular engagement investors tend to be more loyal."

IV. FUTURE PROSPECTS

The 40-50% expansion rates seen in the Asia Pacific US$ Reg S market in recent years are likely to moderate as the market normalises. However given the region's strong economic growth forecasts and the funding needed by the infrastructure sector, NAB is still anticipating annual growth rates of 20% from 2017 onwards.

In addition, "diversification is definitely set to increase further, though I don't think we'll see China falling below 60-65% market share," Ms. Greene explains. "We have already started to see more issuance coming out of Japan, India and Indonesia in particular. We also anticipate more Australia and New Zealand based borrowers accessing the market as they look to diversify their funding sources and continue to recognise the benefits that the US$ Reg S market offers. Most recently, Mirvac and Santos both issued debut, longer-term transactions finding strong demand for their respective 9.5-year and 10-year bonds offerings in September. "

The growth of US$ Reg S-only issuance will not necessarily be at the expense of other options, according to Ms. Greene.

"A lot of issuers from the region already have 144A/Reg S programmes in place," she says. "Given the time and expense that went into establishing those programmes, and given they have begun to establish a curve, issuers are mindful of using them on a regular basis. Particularly in the case of countries like South Korea, borrowers that have traditionally had large funding needs before the strong growth in the US$ Reg S-only market have had to access the US$ 144 A/Reg S market to source that volume, and will therefore continue to issue in this format."

"We also anticipate more Australia and New Zealand based borrowers accessing the market as they look to diversify their funding sources and continue to recognise the benefits that the US$ Reg S market offers."

— Lorna Greene, Director, Debt Syndicate and Origination Asia, NAB

Bracing for tighter times

As global QE is a major factor behind the growth of the US$ Reg S market, there are questions as to the market's health when liquidity is reined in and rates rise. But according to Ms. Fox this won't change the broader global trend or the market's overall trajectory.

"As QE is withdrawn and rates rise in some Asia Pacific jurisdictions, domestic assets will become more attractive again," she explains. "However, we don't expect this to have a large impact on the demand for US$-denominated assets. US$ rates are still on an upward trajectory and with more wealth being generated as a result of the development of some of the region's emerging economies, investor appetite will remain strong."

"The US$ market will remain the market of choice for a majority of global issuers from the broadest range of sectors and jurisdictions," Ms. Fox adds. "It's always going to offer investors broader diversification and access to a larger range of credits. We can expect to see some slight fluctuations from year to year based on market conditions, however this is a global trend that's here to stay."

Regional development plans such as China's ambitious Belt and Road Initiative (BRI), which aims to transform and enhance the infrastructure connecting Asia to Europe, also represent a significant area of US$ Reg S opportunity as they "will need to be financed in part by the public sector, which will result in more borrowers looking to tap the US$ Reg S market," says Ms. Fox.

NAB still anticipates **20%** annual growth of Asia Pacific US$ Reg S market from 2017 onward.

Benchmarking emerging trends

One key trend shaping the market going forward is investors' growing focus on sustainable assets; that is, assets that are designed to generate environmental or social as well as financial gains. In Australia and New Zealand, for example, socially responsible assets now account for half of assets under professional management, having grown 247% from 2014 to 2016.[7]

247%

From 2014 to 2016, **socially responsible assets grew 247%** in Australia/ New Zealand.

There's an increasingly clear connection between sustainability and financial performance; of 92 Australian impact investments analysed by Impact Investment Australia in the past five years, all showed positive returns. The actual return range on debt instruments reached 3.25%-17%.[8]

Both supply and demand of sustainable assets are rising as more governments (and companies) prioritise environmentally friendly energy and infrastructure, and more investors grapple with sustainability mandates and reporting obligations.

China alone will require annual investment of at least RMB 2 trillion (US$303 billion) to achieve its environmental targets.[9] Spending on infrastructure — much of it with an environmental component — is also set to increase as a result of the BRI, and as countries such as Indonesia and Philippines seek infrastructural improvements.

In Australia, the government pledged a record A$75 billion in investment earlier this year to fund infrastructure projects.[10] However, as Ms. Greene notes, even this is unlikely to be enough to finance the upgrades required as a result of ongoing strong population growth. That points to a greater role for public financing — with debt market issuance one of the most efficient ways to source the necessary funds.

Market conditions will continue to make bonds, particularly US$-denominated bonds, an attractive source of funding for the companies behind infrastructure and clean energy projects. This is especially true given the rise of green bonds, designed to fund positive environmental outcomes. Green bond issuance doubled last year and is expected to nearly double again this year to US$130 billion, with China and Australia among the countries leading the charge.[11]

Table 1: Growth of global SRI assets

Region	2014	2016	Growth over period	Compound annual growth rate
Europe	$ 10,775	$ 12,040	11.7%	5.7%
United States	$ 6,572	$ 8,723	32.7%	15.2%
Canada	$ 729	$ 1,086	49.0%	22.0%
Australia/New Zealand	$ 148	$ 516	247.5%	86.4%
Asia ex Japan	$ 45	$ 52	15.7%	7.6%
Japan	$ 7	$ 474	6689.6%	724.0%
Total	**$ 18,276**	**$ 22,890**	**25.2%**	**11.9%**

Note: Asset values are expressed in US$ billion.

Asia ex Japan 2014 assets are represented in US$ based on the exchange rates at year-end 2013. All other 2014 assets, as well as all 2016 assets, are converted to US$ based on exchange rates at year-end 2015.

Source: GSIR Review 2016, National Australia Bank

7 http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf

8 https://impactinvestingaustralia.com/wp-content/uploads/Benchmarking-Impact.pdf

9 http://www.reuters.com/article/us-china-investment-environment/china-needs-10-trillion-yuan-green-investment-by-2020-china-securities-journal-idUSKBN0U800W20151225

10 http://www.reuters.com/article/us-australia-economy-infrastucture/australia-to-invest-a75-billion-in-infrastructure-to-kickstart-australias-next-growth-phase-idUSKBN18510A

11 https://www.climatebonds.net/

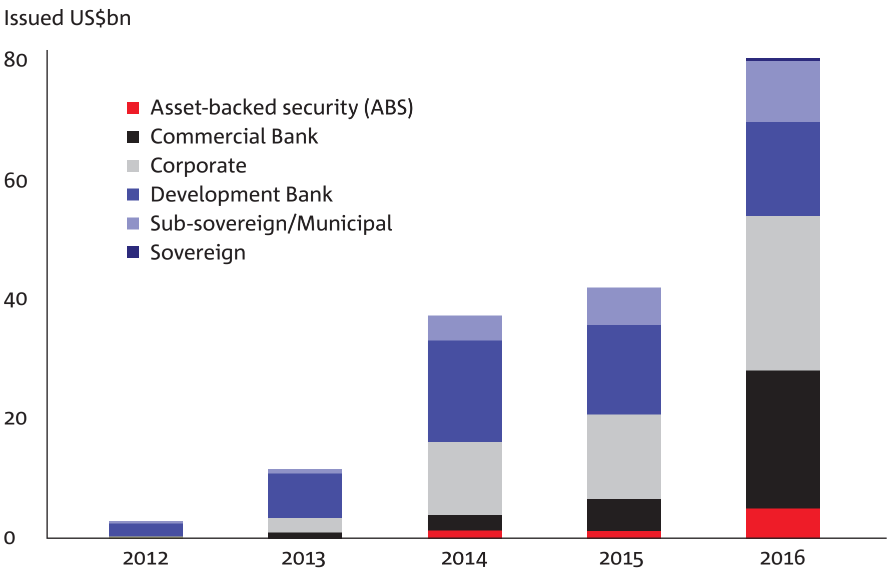
Social bonds, which are similar to green bonds but designed to fund social outcomes such as poverty reduction or affordable housing, are a more nascent asset class, but are also attracting significant issuer and investor interest. NAB recently issued the world's first social bond designed specifically to promote workplace gender equality. The 5-year, A$500 million issuance attracted a number of superannuation funds and institutions from Asian markets such as Hong Kong, Singapore, Taiwan and South Korea. This was quickly followed by Australia's first sustainability bond, combining both environmental and social goals, which NAB placed for Australian Catholic University. While the bond was sized at A$200 million, the order book peaked at over A$500 million.

Catering to investor demand for sustainable and US$ denominated assets, and issuer funding and sustainability goals, US$ Reg S green, social and sustainability bonds represent a clear area of potential, Ms. Greene says.

"Given that a lot of issuers from the region will be the ones driving these infrastructure projects, they're going to have increasing funding needs, which will make them more active going forward," she explains. "And green and sustainable bonds will be the best way to fund a lot of these new projects, which have to be developed in a more mindful way, looking to the future use of these assets and their efficiency."

While Asia Pacific has been a relative latecomer to sustainable investment, "there's an increasing demand for (sustainable) assets from sustainable and responsible investment funds and portfolios," Ms Greene adds. "The additional pool of demand issuers can access by issuing in this format is certainly very positive from an investor diversification, volume and pricing perspective."

Chart 5: Green bond issuance 2012-2016



Source: Climate Bond Initiative, National Australia Bank

V. CONCLUSION: COMING TO TERMS WITH ASIA PACIFIC

The decision whether to issue via US$ Reg S alone, or via additional or other formats, whether 144A, local currency debt or private placement, comes down to careful analysis based on several factors: the composition of the issuer's existing debt programmes; its funding goals; sector and market context; the presence (or lack) of comparables in the market; the issuer's capacity to address compliance issues, and the desired diversity of the investor base. As with any complex decision, there is no universally right answer.

Nonetheless, it is clear that with Asia's arsenal of investment capital expanding rapidly, and many regional investors aggressively seeking diversification opportunities, US$ Reg S bonds represent a particularly compelling way for would-be issuers to explore the vast and diverse Asian investment landscape.

The issuers that familiarise themselves with the Asia Pacific investment base, and acknowledge the growing emphasis on sustainability and tailored innovative offerings are those who will be best placed to benefit from the changes sweeping the region.

APPENDIX I: CASE STUDY – FUNDING CHINA'S 'BELT AND ROAD'

In February 2017, the Hong Kong branch of China Development Bank (CDB) — the world's largest development bank and one of the largest Asian US$ bond issuers of recent years — launched a US$ Reg S issuance aimed at facilitating projects under China's Belt and Road initiative. As of the end of last year, BRI-related loans accounted for over a third of CDB's international business lending.

Consisting of US$2 billion in dual-tranche 3 and 5-year Reg S floating rate senior unsecured notes, the transaction was exceptional on several fronts. It was CDB's largest-ever US$ floating rate issuance at a group level. Announced into the Asian morning, it was very positively received by investors, with books reaching US$2 billion within two hours.

The transaction was then re-announced in London with pricing guidance to maintain the strong order book momentum. Total demand reached US$5.5 billion, creating a strong pricing outcome (3 month US$ Libor +55 bps for the 3-year tranche and 3 month US$ Libor +70 bps for the 5-year). The offering priced close to flat or negative versus existing secondaries and comparables, resulting in the repricing of CDB's entire US$ curve.

Importantly, while as a longtime issuer CDB is very familiar to the Chinese investment base and the issue could in effect count on healthy Chinese demand, NAB was able to help the bank meet its goal of achieving a genuinely international transaction, and diversifying into a broader Asia Pacific and European investor network. The final order book included some 200 accounts from a diverse range of investor types, including central banks. The participation rate of investors from the EMEA (Europe, Middle East and Africa) region in the 3-year tranche reached 17% — far higher than the average for Chinese issuance of that type.

"There were a lot of additional investors across the region as well as from Australia that we managed to bring into the book," says Ms. Greene. "The key point in this case is that investors are broadly becoming more comfortable with China credit. We also saw more investors out of Singapore and Taiwan that had been price sensitive in the past, and had bought into the big four Chinese banks but not CDB because the spread this credit offers was tighter. However investors are now looking more at the quality of individual credit and therefore participated in the deal, and for the first time in some cases. That was a positive development."

Table 2: US$2bn dural tranche Reg S senior unsecured floating rate notes

Transaction Details	
Issuer	China Development Bank Corporation, Hong Kong Branch
Issuer's Ratings	Moody's: Aa3 / S&P: AA-
Expected Issue Ratings	Moody's: Aa3 / S&P: AA-
Format	Regulation S Category 2, Registered Form
Ranking	Senior Unsecured

Tenor	US$ 3 Year FRN	US$ 5 Year FRN
Issuance Size	US$ 850m	US$ 1.15bn
Reoffer Spread	+55 vs 3m$L	+ 70 vs 3m$L
Reoffer Price	100.00	100.00
Launch Spread	3m$L + 55 bps	3m$L + 70 bps
Settlement Date	6 March 2017	6 March 2017
Maturity	6 March 2020	6 March 2022
Documentation	Drawdown off China Development Bank Corporation's US$ 30 Billion Debt Issuance Programme	
Denominations	US$200,000/1,000	
Listing	Hong Kong Stock Exchange	
Governing Law	English Law	
Use of Proceeds	For working capital and general corporate purposes	
NAB Role	Bookrunner and Lead Manager	

APPENDIX II: NATIONAL AUSTRALIA BANK – HOUSE OF CHOICE FOR US$ REG S

The strength of NAB's Asian distribution capability allows us to provide access for our customers to the rapidly growing US$ Reg S market. Together with our experience as a leader in the Australian/New Zealand market, NAB is well positioned to be the House of Choice for our customers in the US$ Reg S market.

As the "go-to" bank for Asian investors looking to source Australian credit, NAB can provide access to the key global investors actively buying Australian credit ranging from top-tier institutional investors to our market-leading sub-institutional distribution channel across Asia and EMEA, ensuring best execution for NAB-led transactions.

What is a US$ Reg S bond?

A US$ denominated bond transaction, issued off a standardised issuance Program such as EMTN/GMTN, which is publicly offered to investors outside the United States. US$ Reg S issuance cannot be bought by US-based investors.

Why is the US$ Reg S market important?

The US$ Reg S market is emerging as one of the key global debt markets. In recent years, the majority of US$ Reg S demand comes from Asia and the importance of the Asian investor base has grown to rival that of the US and Europe.

Larger Pools of Liquidity in Asia	Asian investors continue to hunt for yield and have more cash to deploy. This is driving the bid for US$ issuance, increasing the volumes achievable in the US$ Reg S-only market, with an average of 80-85% bonds placed into Asia.
Shift in Investor Preferences	Asian investors have become more conservative on credit investments as they continue to grow and mature. This year, investors have preferred safer credits, moving down the credit structure in the hunt for yield and opening the market to more international borrowers.
Strong Market Growth as Issuance Expands	More Asian borrowers have been tapping overseas markets, and have targeted US$ Reg S as their debut market of choice due to the simplicity of issuance and the ample liquidity available. This has been adding more depth to this rapidly growing market.
Resilient Market	Pre and post significant risk events including Brexit and the US election, saw 144A/Reg S market shut however the Asian US$ Reg S market remained open for issuance.

Features of the US$ Reg S market

- **Deep, Liquid & Stable Market**
- **No Specific Regulatory Approvals Required**
- **Minimum Benchmark Size of US$300m up to US$1bn+ Achievable**
- **Investor Diversification**
- **Issuance Off Existing GMTN/EMTN Programme**
- **Pricing Advantage vs 144A Market**

NAB's recent US$ Reg S credential

- QBE Insurance Group, US$300 million long 5 year Senior Unsecured Reg S Fixed Rate Notes
- ICBC, Hong Kong Branch, US$700 million 3 & 5 year Reg S Senior Fixed Rate Notes
- China Development Bank, Hong Kong Branch, US$2 billion 3 & 5 year Reg S Senior Fixed Rate Notes

Awards and Accolades

Kangnews Award 2016
- Australian Issuer Offshore Debt House of the Year

FinanceAsia
- Best Debt Finance House
- Best Debt Finance Deal
- Best Local Bond Deal - DBS Covered Kangaroo bond

NAB is the #1 Australian bank for Asian financials

NAB is the most active Australian international bond house in Europe

NAB is active in arranging private placements & certificates of deposits in USD, AUD, HKD, CNH, and SGD

Source: FinanceAsia, IFRAsia, KangaNews, Euromoney, GlobalCapital, Peter Lee Associates – Debt Securities Originations Survey Australia 2016

ABOUT NAB

For more than 150 years, we've been helping our customers with their money. Today, we have more than 35,000 people serving 10 million customers at more than 800 locations in Australia, New Zealand and around the world. We have built our business on understanding our customers and supporting them. We aim to take the hard work out of banking.

As Australia's largest business bank, we work with small, medium and large businesses to help them start, run and grow. We fund some of the most important infrastructure in our communities — including schools, hospitals and roads. And we do it in a way that's responsible, inclusive and innovative.

We know that to be Australia and New Zealand's most respected bank, we need to be good with money. And we need to be just as good with people, too.

Our Corporate & Institutional Banking (C&IB) division is a global business specialising in servicing and managing the relationships with corporate Australia and New Zealand in the public and private sectors. We connect Australian and New Zealand borrowers and investors into Asia, London and New York and international investment back into Australia and New Zealand.

CONTACT US

Australia

Melbourne
500 Bourke Street, Melbourne VIC 3000
Tel: +61 13 10 12

Sydney
255 George Street, Sydney NSW 2000
Tel: +61 13 10 12

Hong Kong

Level 27, One Pacific Place
88 Queensway, Hong Kong
Tel: +852 2826 8111
Fax: +852 2845 9251

Singapore

12 Marina View, #20-02 Asia Square Tower 2
Singapore 018961
Tel: +65 6419 7000
Fax: +65 6336 0067

Japan

Tokyo
Muromachi Higashi Mitsui Building
18F, 2-2-1 Nihonbashi Muromachi
Chuo-ku, Tokyo 103-0022, Japan
Tel: +81 3 3241 8781
Fax: +81 3 3241 8951

United Kingdom

London
88 Wood Street, London, EC2V 7QQ
United Kingdom
Tel: +44 (0) 207 710 2100
Fax: +44 (0) 207 710 1351

United States of America

New York
245 Park Avenue, 28th Floor
New York, NY 10167
United States of America
Tel: +1 212 916 9500
Fax: +1 212 983 5252

China

Beijing
Unit 26-32, Level 23, China World Office 1
No 1 Jian Guo Men Wai Avenue
Beijing 100004, China
Tel: +86 10 6535 9800
Fax: +86 10 6505 8836

Shanghai
Suite 4201-4204, 42nd Floor, One Lujiazui
68 Middle Yincheng Road, Pudong
Shanghai 200120, China
Tel: +86 21 2089 0288
Fax: +86 21 6100 0531

India

Mumbai
901, 9th Floor, Nariman Bhavan
227 Backbay Reclamation, Nariman Point
Mumbai 400021, India
Tel: +91 22 6198 8200
Fax: +91 22 6198 8299

Indonesia

Jakarta Representative Office
106E, 6th Floor, Sentral Senayan I
Jl. Asia Afrika No.8
Gelora Bung Karno, Senayan
Jakarta Pusat 10270, Indonesia
Tel: +62 21 572 4111
Fax: +62 21 572 4120

Vietnam

Hanoi Representative Office
14th floor, CornerStone Building
16 Phan Chu Trinh, Hoan Kiem
Hanoi, Vietnam
Tel: +84 24 3937 8889
Fax: +84 24 3936 5725

For more information, please visit:
nationalaustraliabank.com
Australian Business Insights

Acknowledgements
NAB would like to acknowledge the following people for their valuable contribution to this paper: PineBridge Investments (Arthur Lau), NAB's Corporate Finance (Lorna Greene, Jacqueline Fox, Melissa Gribble, Clare Lewis, Neil Parekh, Michelle Wong), NAB's Fixed Income, Currencies and Commodities (Jessica Tilton, Eliza Lin, Christy Tan), NAB's Marketing & Corporate Affairs (Michelle Toy, Gillian Green, Melody Fu and Aida Mekonnen) and New Narrative Ltd (Jonathan Hopfner and David Line).