NAB SECURITISATION, THE 'GO TO' HOUSE *for Australian* RMBS AND ABS

NAB's Securitisation team goes from strength to strength, being the clear house of choice for customers and thought leader in the market.

Sarah Samson

Markets have been open and stable throughout 2017, supporting record YTD issuance volumes since the GFC. For NAB Securitisation, this year has been the strongest to date, with the team involved in the bulk of transactions to market and undertaking the JLM role for 89% of these, excluding self-led issues. Private side activity has also been buoyant during the year as new lenders enter into finance arrangements for assets which will find their way to public term transactions in the future. New Zealand and United Kingdom have also had a busy year, contributing to the team's overall activity. The 2017 Peter Lee Debt Securities customer advocacy survey ranks NAB highest across seven key measures, affirming the team's capabilities and customer service orientation. We are also proud to be acknowledged and respected by our customers for the 6th consecutive year as Securitisation House of the Year (KangaNews), among several awards.

These awards are determined by votes submitted by debt-markets participants, and as such represent the views of our clients and peers.

Key measures

- Participation rate of 89% (NAB has acted as a JLM on 23 out of 25 deals to market[1])
- Arranger Rate of 68% (NAB has Arranged 17 of those 23 deals[1])
- No. 1 on KangaNews Securitisation League Tables

2017 Australian Securitisation league table (including AUD and foreign currency tranches)*

Bookrunner	Including self lead			Excluding self lead		
	A$m	No. of deals	Rank	A$m	No. of deals	Rank
National Australia Bank	**8,256**	**37**	**1**	**8,256**	**37**	**1**
Westpac	7,573	31	2	5,832	30	2
CBA	6,649	16	3	2,601	14	6
Deutsche Bank	3,609	16	4	3,609	14	3
ANZ	3,384	14	5	3,384	14	4
Citi	3,078	7	6	1,087	5	7
Macquarie Bank	3,050	16	7	2,730	14	5
BAML	553	2	8	533	2	8
MUFG	449	2	9	449	2	9
JP Morgan	436	2	10	436	2	10

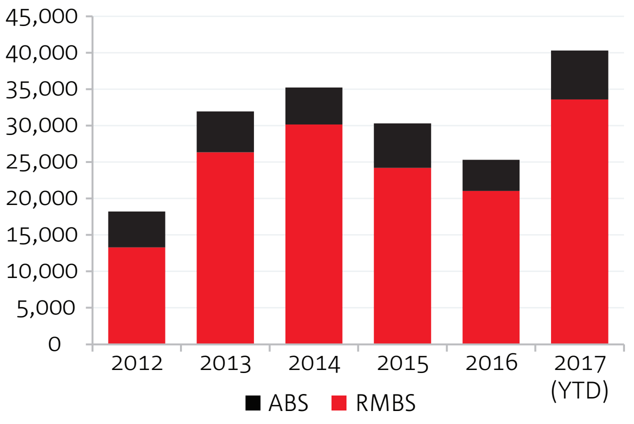
* As at 23 November 2017
Source: KangaNews, 2017 AU Securitisation League Table 23 November 2017

[1] Excluding Self-Led & Private Placements

Reflecting strong market conditions, securitisation issuance volumes are up year on year and will close the calendar year out higher than any other year post the GFC.

Books have been well bid with oversubscription across note classes. This has allowed for price testing and ultimately tighter pricing to be achieved by issuers. This holds true across issuer sectors and product (prime, nonconforming, ABS).

Total Australian RMBS and ABS issuance (A$m)

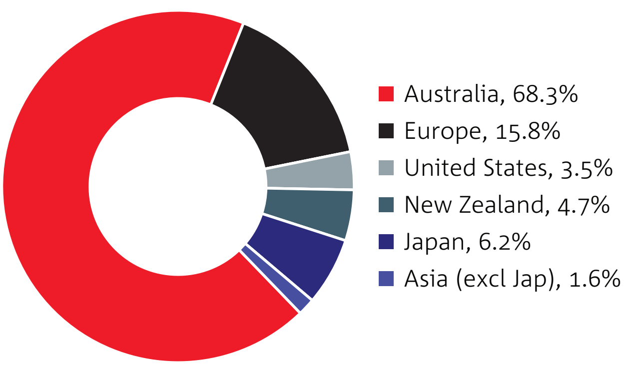


Source: NAB, 23 November 2017

Throughout the year, issuers have been well supported by domestic and offshore fixed income investors with the balance sheet bid continuing to be represented albeit to a lesser extent that for 2016.

Offshore investor participation has grown for Australian securitised product with the continued entry of new investors across regions. RMBS investor location is shown below, representing ~32%.

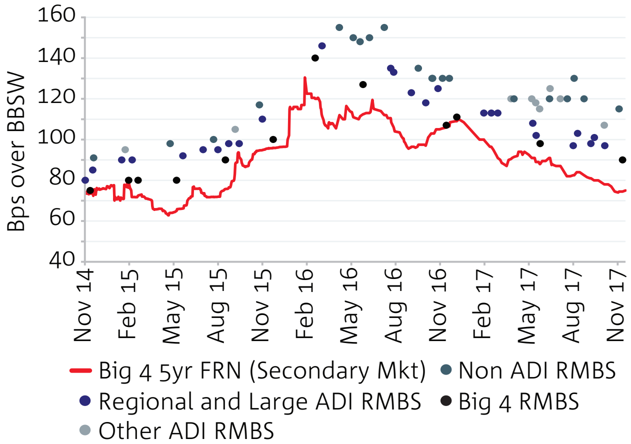
RMBS investor location, 2017



Source: NAB, 23 November 2017

Similar to senior unsecured spreads, RMBS/ABS spreads have contracted throughout the year.

Spread relativity: prime RMBS to 3 and 5 year bank senior unsecured

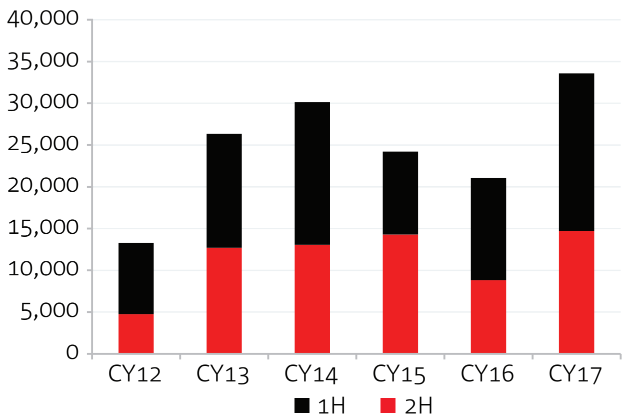


Source: NAB, Yieldbroker

RMBS

RMBS continues to represent the bulk of the Australian securitisation market at 83%, with approximately A$33.6 billion (equivalent) in public issuance across a total of 43 deals as at 23 November 2017. With a number of transactions still to price in 2017, RMBS volume has exceeded 2014 volume of A$30.1 billion, making 2017 the strongest year in RMBS since 2007. We anticipate a strong pipeline moving into 2018.

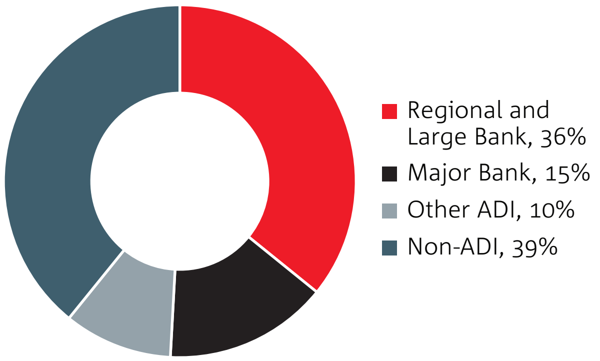
RMBS issuance (A$m)



Source: NAB, 23 November 2017

All RMBS issuer classifications were active during the course of the year. The chart above illustrates that 2017 first half issuance volumes were significantly up on 2016, probably reflecting lower issuer volumes in 2016. Given market conditions are expected to remain constructive for the remainder of the calendar year and a decent pipeline of deals still to come, it is highly probable that second half issuance will exceed A$19 billion, eclipsing that of H2 2014.

YTD2017 RMBS issuance volume by issuer type

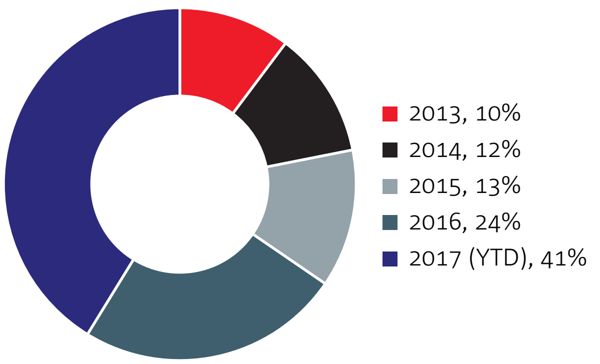


Source: NAB, 23 November 2017

The proportion of nonconforming RMBS public issuance as at 23 November grew throughout 2017 in absolute terms to over A$7.7 billion, up from A$4.5 billion in the prior full year.

Consistent with prior years, non-ADI names continue to tap the US market via USD 144A format providing for greater diversification across markets and their investor base. We expect a small group of issuers including Pepper and RESIMAC will continue to invest in diversification with opportunistic transactions during the course of 2018. We have also seen non-ADIs such as Liberty Financial access specific EUR demand and subject to policy easing in UK/EUR, anticipate this demand will still be accessible.

Public non-conforming issuance



Source: NAB, 23 November 2017

ABS

Total year to date issuance for Australian ABS has increased year-on-year, standing at just over A$6.7 billion, the highest volume certainly since the GFC. Latitude Financial entered the capital markets this year with their inaugural credit card and sales finance master trust issue and followed up with a subsequent tap. In mid-November Latitude also priced a new personal loan issue.

ABS transactions priced for 2017 as at 23 November totals 9 deals, and with the year still not over we are anticipating another couple of issues. Other well-known issuers who have come to market in 2017 include: Macquarie-SMART; Westpac-Crusade; Eclipx Group, Volkswagen-Driver; and CNH Capital. Consumer finance lender Flexigroup-Certegy also revisited the market and followed up with another inclusion of their innovative ‘green’ tranche, which was well bid by SRI investors.

ABS issues are typically well supported by investors given the diversification value and their shorter tenor to most RMBS issues and 2017 has been no different. Innovation and thought leadership

Innovation and thought leadership

At NAB we pride ourselves on innovation and thought leadership. This year NAB has been involved in a variety of leading issues: Latitude’s master trust issuance, FlexiGroup’s Certegy ABS issue which for the second time included a ‘green’ tranche, the only Australian securitisation issuer to do so, and Bank of Queensland’s inaugural and very successful €500 million Conditional Pass-Through Covered Bond. NAB also sponsored a ‘green’ themed panel at the recent Australian Securitisation conference drawing a range of participants and was a key promotor and participant in the ASF's twilight series on the emerging application of green securitisations.

We view securitisation as a transparent funding tool for green assets and believe the Australian market will evolve over time to include more transactions carrying the ‘green’ label, which will ensure that the securitisation product is accessible to investors who are increasingly focussing on SRI.

Regulatory impacts

In November 2016, APRA released its final draft of APS120. Unsurprisingly to the industry, there was little movement on some of the core changes made in the November 2015 discussion paper. The primary impacts relate to increased risk weights for financial intermediaries providing warehousing and/or investing to customers. There are not expected to be any challenges leading into the effective date of 1 January 2018, although there continues to be a fair amount of warehouse restructuring as issuers have sought to introduce third party mezzanine financing to warehouse structures to manage risk weighted assets.

Overall it is good for the market that APS120 uncertainties have been put to bed and for the first time in quite a while APS120 is not a key topic of discussion with investors.

Another area of regulation that has been of topical discussion is Treasurer Scott Morrison's proposed legislation on the extension of APRA's powers to make rules relating to lending by non-ADIs. This has now been introduced to the House of Representatives. The rationale for the introduction of the proposed legislation is that there was a gap in APRA's ability to manage material financial stability risks that might arise from the lending activities of entities that are not ADIs (for example, non-ADI lenders).

The Bill's Explanatory Memorandum explains that this 'gap' will be closed by providing APRA a reserve power to make rules in respect of the lending activities of non-ADI lenders, should these activities be materially contributing to risks of instability in the Australian financial system. The main point to note here is the use of the word 'material'. It is not expected that the powers will result in any new rules being applied to non-ADI lenders in the immediate future given this test. Rather, non-ADI lenders will need to register with, and provide data, to APRA. Through collection and analysis of data, APRA will have a better understanding of this part of the financial sector and will be able to make rules should the materiality threshold ever be in risk of breach. The intention to provide appropriate tools for APRA to deploy should the size of the sector change, or lending practices within the sector become a cause for concern when viewed through the lens of risk to the stability of the Australian financial system.

Also of note to stakeholders is that the Bill includes legislative changes to:

- remove restrictions on ADIs on the use of the term 'bank', with the Explanatory Memorandum noting that the Bill will promote a reduction of barriers to new entrants to the banking sector and provide a more level playing field amongst ADIs. Further noting that the changes will align community expectations in respect of the use of the term 'bank' with the fact that ADIs are prudentially supervised by APRA and deposits are covered by the Financial Claims Scheme guarantee
- amend the Credit Act to introduce a number of reforms to improve consumer outcomes under credit card contracts. The purpose of the amendments is to reduce the likelihood of consumers being granted excessive credit limits, align the way interest is charged with consumers' reasonable expectations and make it easier for consumers to terminate a credit card or reduce a credit limit.