



# CURRENT FUNDING MARKETS

**MARK BOWER, HEAD OF NON-RATED ORIGINATION  
NATIONAL AUSTRALIA BANK**

**August 2016**

# CONTENTS

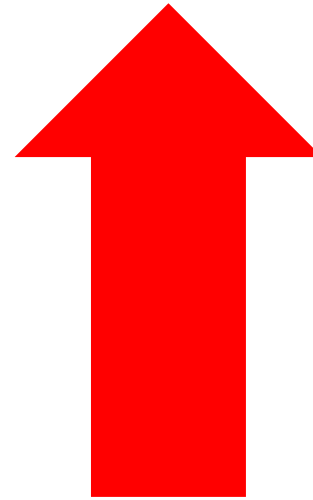
---

- Current Conditions
  - Tailwinds
  - Headwinds
- Current Market Focus
  - Bank Loans
  - US Private Placement
- New Developments
  - Institutional Term Loan
  - A\$ Unrated Bond
- Summary

# CURRENT STATUS OF MARKETS

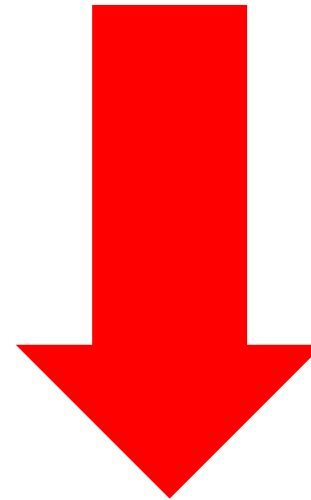
---

- Conditions Strong
- Credit markets remain susceptible to surprises
- Demand for credit high
  - Loan Market demand strong
  - US Markets seeking assets
  - There are some voodoo sectors
- Pricing of credit remains the uncertainty
- New markets developing locally



## Tailwinds

- Significant liquidity
- Search for yield

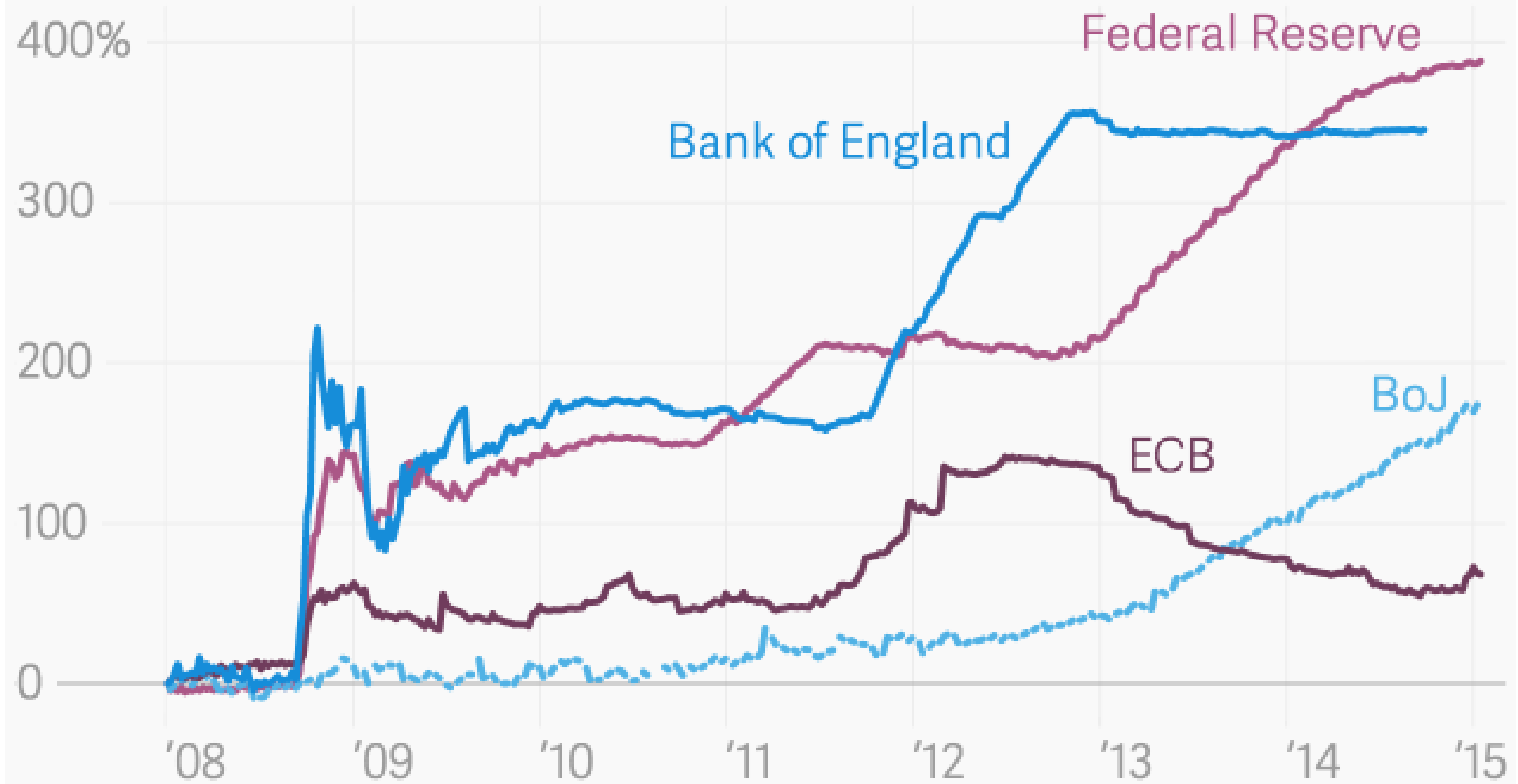


## Headwinds

- Bank Regulation
- Political Uncertainty

# TAILWINDS OF LIQUIDITY *QE leaves money to invest*

Central bank balance sheet growth, since 2008

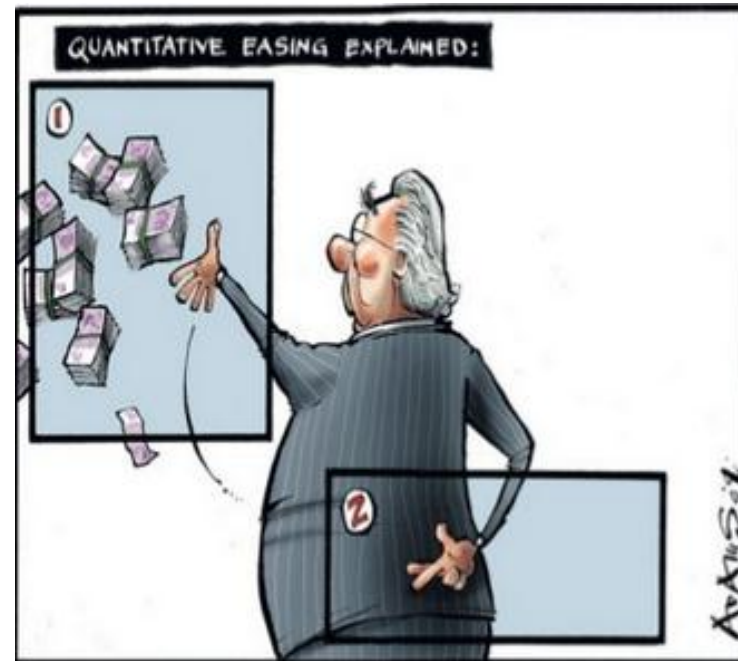


Quartz | qz.com

Data: FactSet

# TAILWINDS OF LIQUIDITY *QE leaves money to invest*

- Creating market distortions as predicted by many
- Flowing through banks into foreign loan markets
- Effect seen in Australia with European banks
- Has flattened credit spreads
- Has changed investor appetite with funds to invest



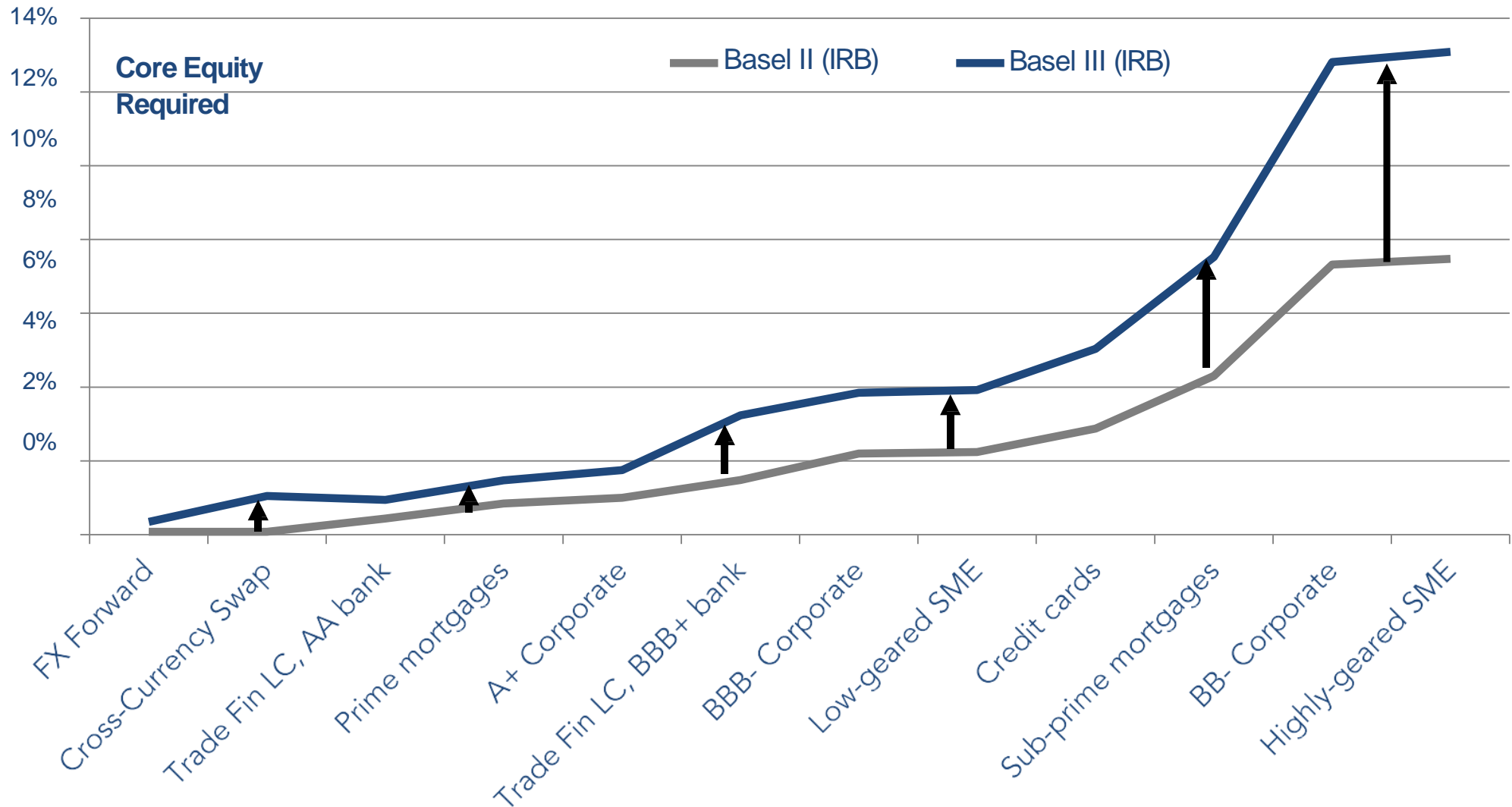
# WHY IS REGULATION A HEADWIND? *Regulatory Change Timelines*

	2016	2017	2018	2019
Fundamental Review of the Trading Book (FRTB)	Final BCBS standard released	APRA consultation expected		Implementation expected
FSI Mortgage Risk Weights	Implementation			
Internal Model Approaches to Credit Risk	BCBS consultation on revision	Final BCBS standards expected	APRA consultation expected	
Revised Standardised Approach to Credit Risk	BCBS consultation on revision	Final BCBS standards expected	APRA consultation expected	
Standardised Measurement Approach to Operational Risk	BCBS consultation on revision	Final BCBS standards expected	APRA consultation expected	
Capital Floors	BCBS consultation expected	Final BCBS standards expected	APRA consultation expected	
Interest Rate Risk in the Banking Book (IRRBB)	Final BCBS standards released	APRA consultation expected	Implementation	
Securitisation	APRA consultation		Implementation	
Total Loss Absorbing Capital (TLAC)		APRA consultation expected		
Net Stable Funding Ratio (NSFR)	APRA consultation		Implementation	
Leverage Ratio	BCBS consultation	BCBS final calibration expected	APRA consultation expected	Implementation

Implementation to be advised

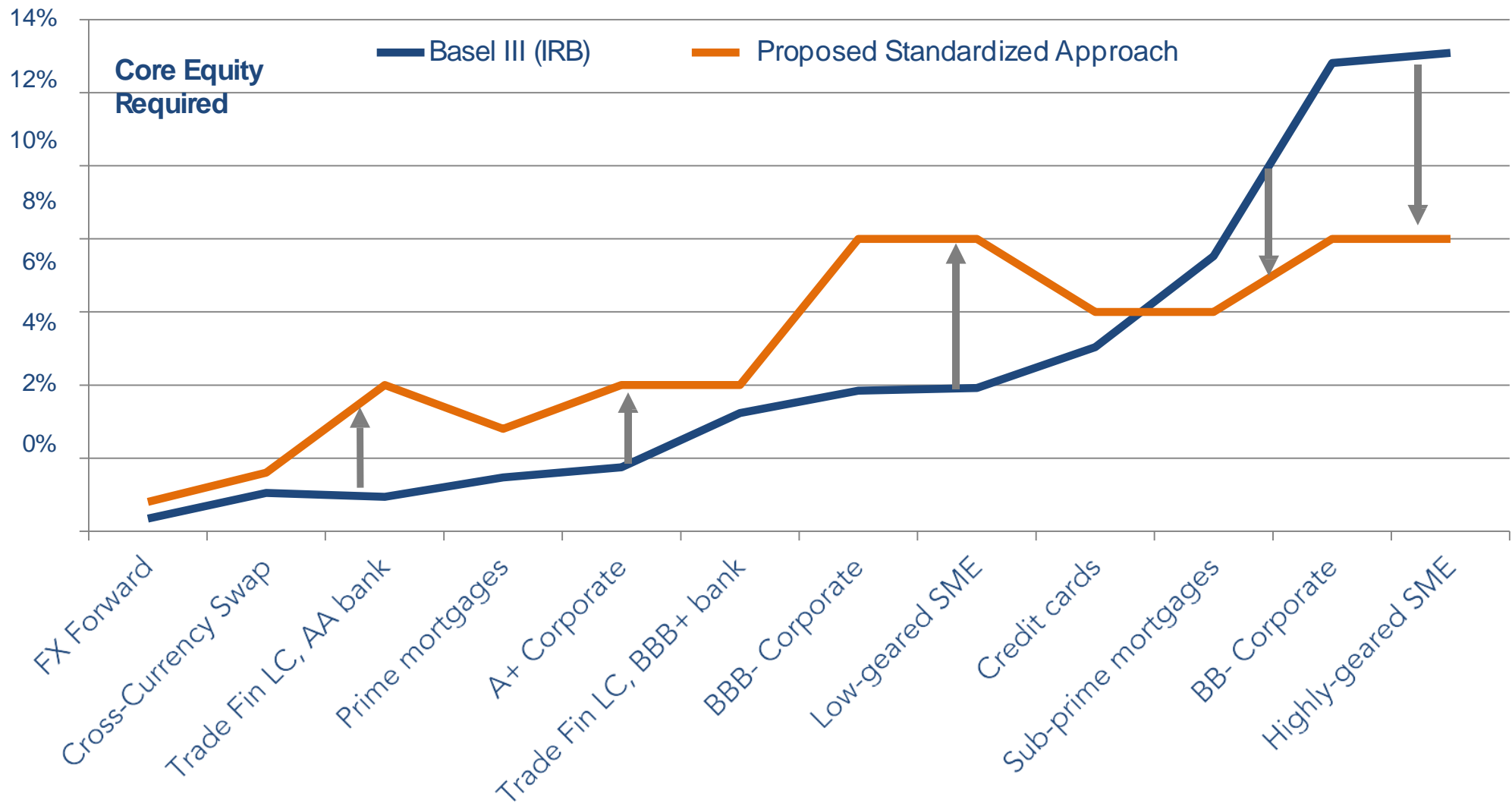
Implementation to be advised

# CURRENT TRANSITION *How BASEL III generally changed capital...*



Source: Institute of International Finance

# WHAT COMES NEXT *How BASEL IV looks like influencing capital...*



Source: Institute of International Finance



## WHAT MIGHT THIS ALL MEAN? *general market observations...*

---

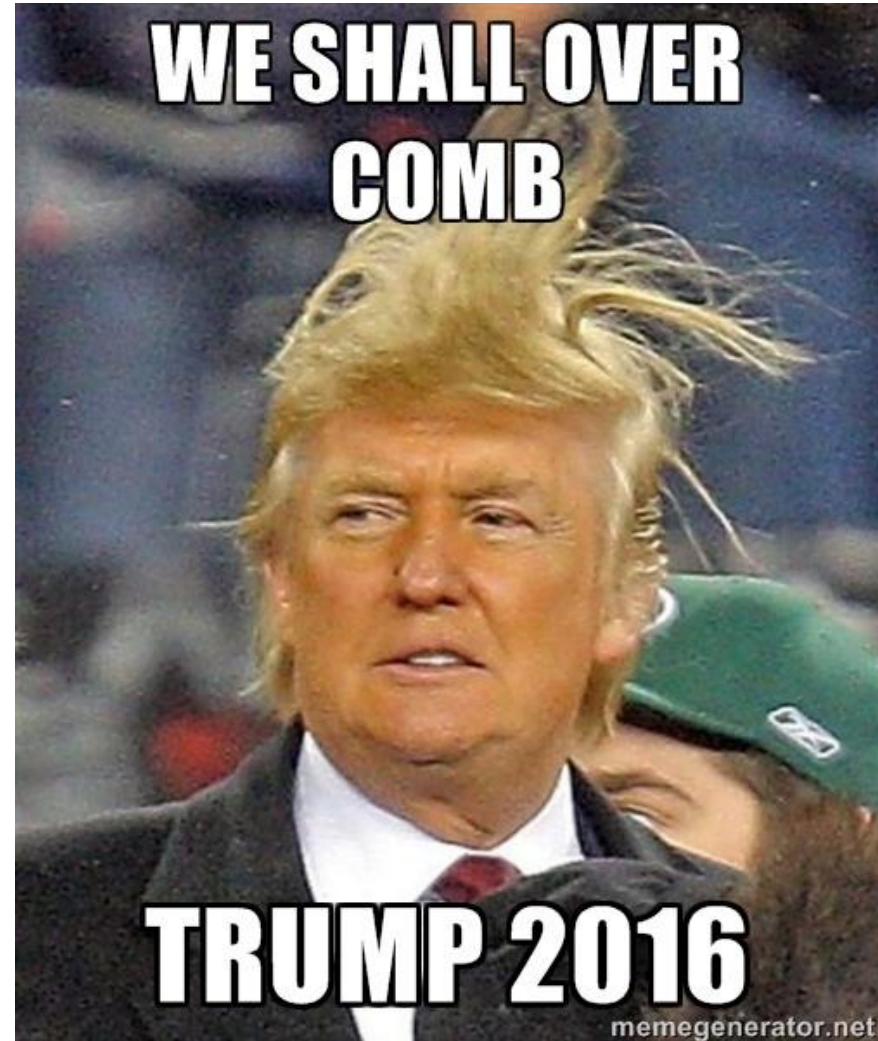
- Each bank will have its own response
- Generally looks like more capital allocated to loan assets
- More capital generally means more cost:
  - Falling ROE or increased cost?
  - Offshore banks less impacted?
  - Will credit margins respond?
- Moving loan markets to parity with bond markets...



## **POLITICAL HEADWIND** *Uncertainty is the basic outcome*

---

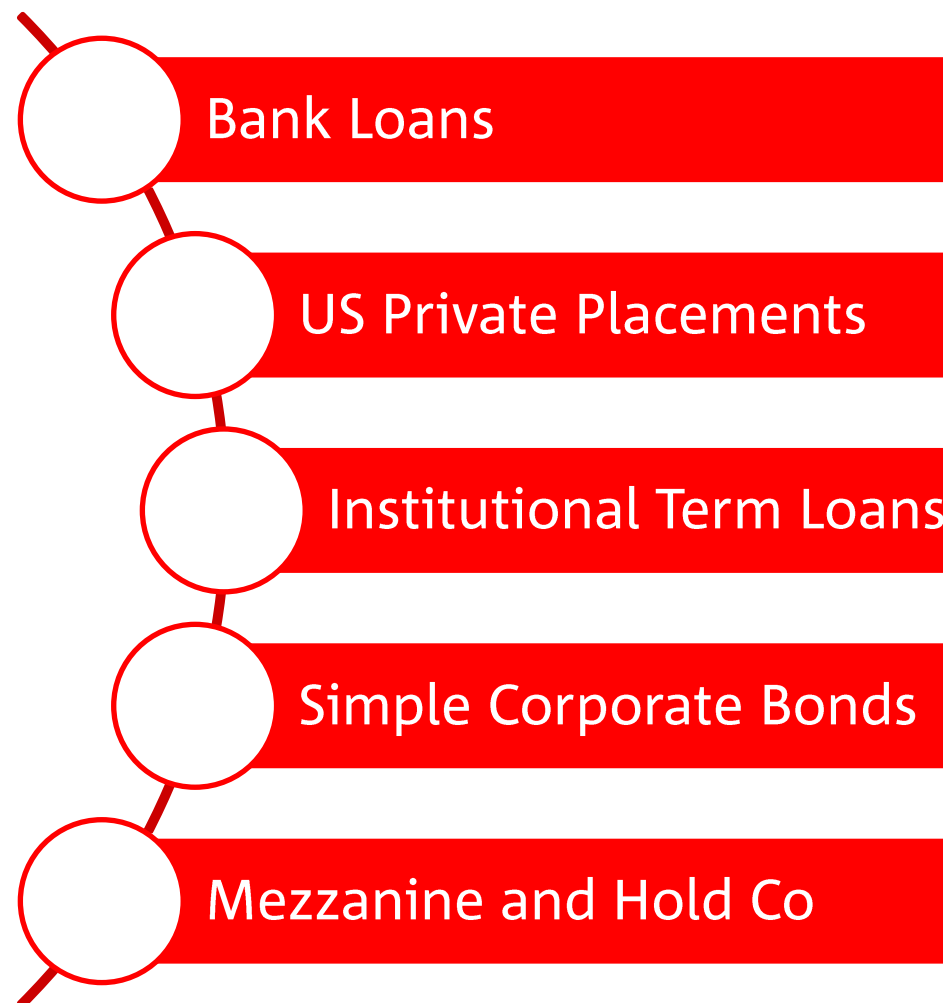
- Brexit response immediate but now muted?
- European economic conditions still difficult
- Chinese economic performance still a concern for some
- Can this man -----> really be president?
- If events occur then markets will react:
  - typically with repricing
  - often with flight to quality



# WHAT HAVE WE BEEN WORKING ON?

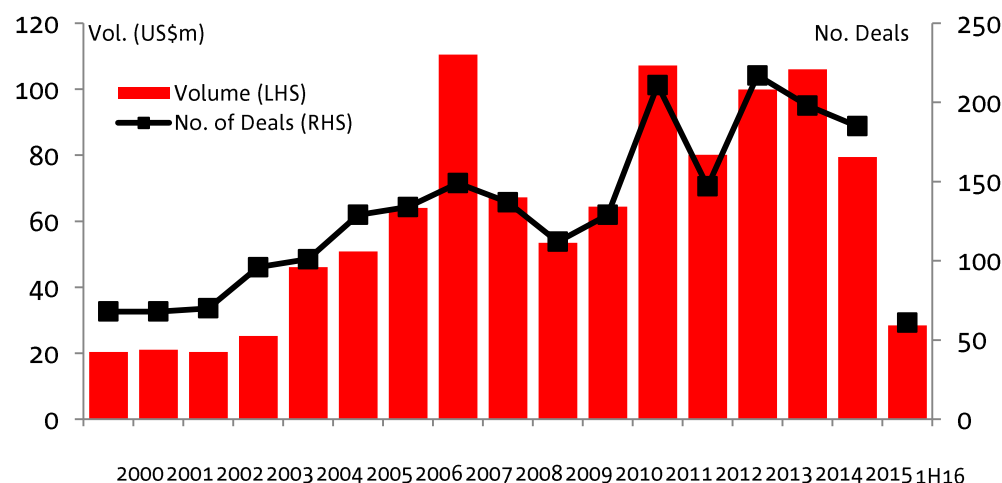
---

- Continuing to monitor traditional markets
- Creating and sponsoring new market developments:
  - Institutional Term Loans
  - Simple Corporate Bonds
- Thinking creatively about debt structures:
  - Covenant lite structures
  - Holdco and sub debt
  - Extending tenor for the “margin hedge”



# BANK LOAN MARKET

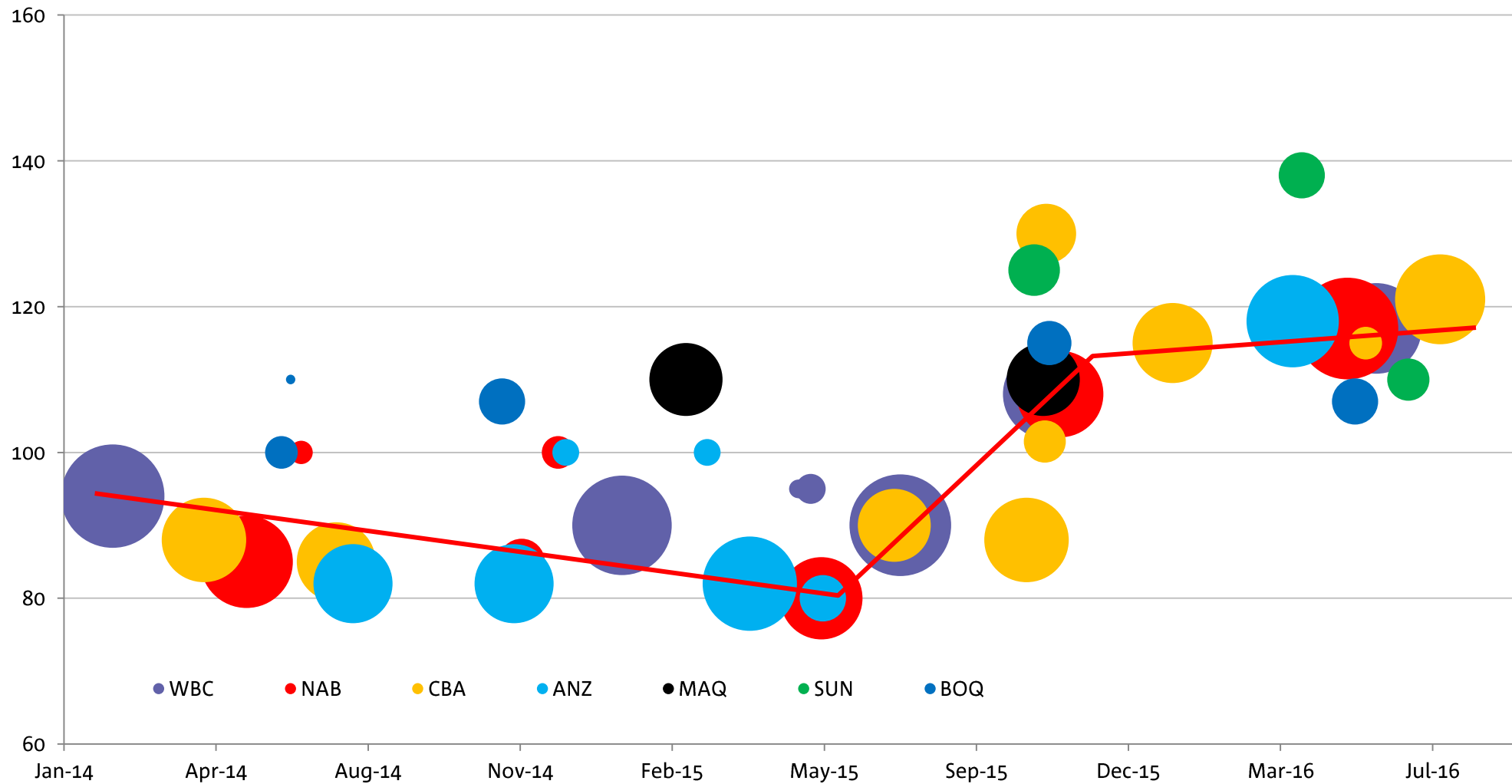
**STRONG MARKET LIQUIDITY DRIVEN  
BY *a lack of deal flow 2016 YTD***



- Strong demand for credit
- Asian banks remain active
- Mixed pricing depending on funding base and cross sell
- Likely that capital increases will keep pressure on pricing
- Competition will act to keep pricing as low as possible
- Expect resilience and continued access to capital

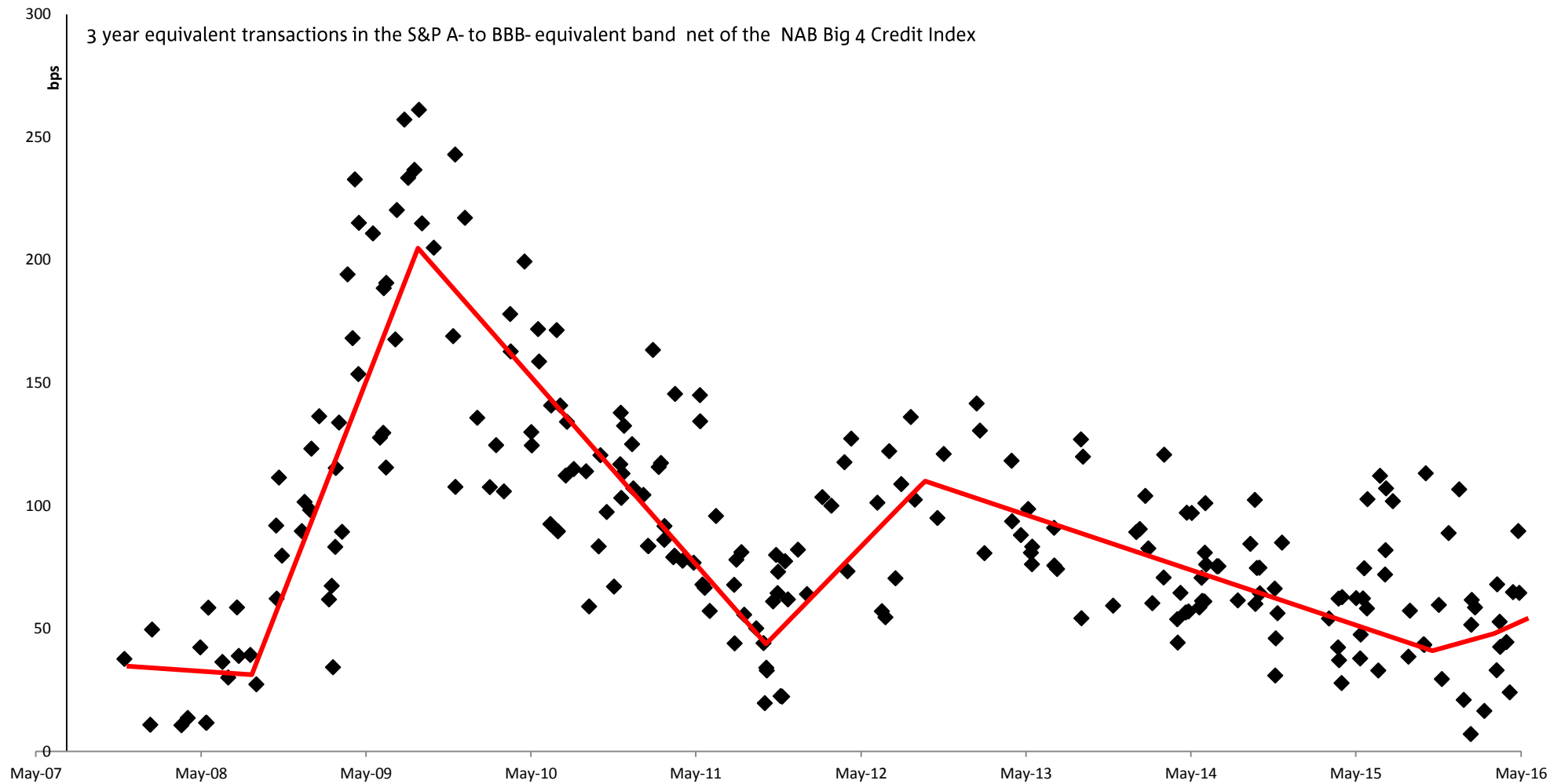
Source: Thomson Reuters

# FUNDING LEVELS *Major bank issuance (5 years)*



Source: Bloomberg

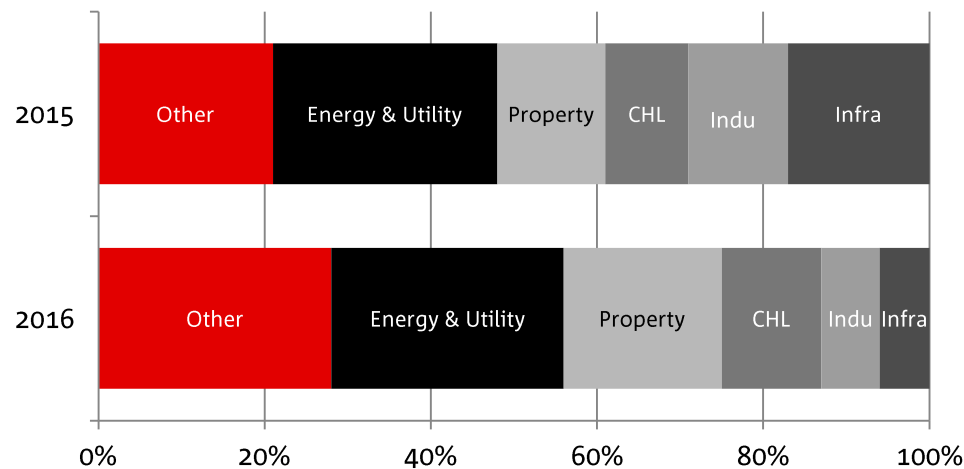
# THEORETICAL NET CREDIT SPREAD *relative to Major bank issuance index*



Source: Thomson Reuters/NAB

# US PRIVATE PLACEMENT MARKET *continues as a strong option*

**STRONG APPETITE FOR AUSSIES**  
*with low supply and strong  
market dynamics*



- Logical long dated market
- Investor appetite remains high
- Australian names are still attractive to investors
- Strong market demand persists for property
- Scarcity of supply continues to drive flexible structures
- Scarcity drives competitive book-builds on price

# US PRIVATE PLACEMENT *why go there?*

---

- Buy and hold investors, resilient to market events
- Diversity of investor base
- Long tenor
- Great liquidity and competitive pricing
- Comes at a cost though:
  - Minimum issue size to get best execution
  - Currency swap cost
  - Long dated make-whole

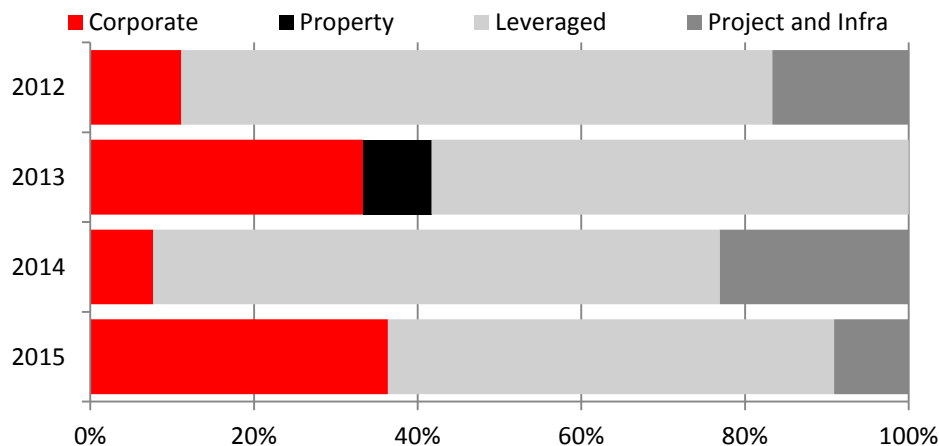




# INSTITUTIONAL LOAN MARKET *emerging and fills a gap*

**NEW CLASS OF INVESTORS  
BECOMING VIABLE** *with changes in  
bank capital driving pricing parity*

- NAB fostering a local option
- Traditionally high yield but now Investment Grade
- Funds “in-housing” some credit analysis
- Mandates generally in Infrastructure or Property
- Years of talk but now action:
  - Funds have now been allocated;
  - Pricing parity is closer



Source: Thomson Reuters/NAB

# INSTITUTIONAL TERM LOAN *a transaction in Detail*

Format	•Term Loan with a non-call period
Tenors Available	•7 – 15 years
Volume Available	•\$50 - \$200m
Ranking	•Pari Pasu with bank obligations
Credit Rating	•Not required
Investor Base	•Superannuation Fund Managers, US Life Insurers and other debt Funds
Marketing	•Sounding round with soft bid. One-on-one presentation from NAB as existing banker
Currency Considerations	•A\$ denominated
Disclosure	•Information Memorandum
Financing terms	•Terms mirror bank loan



- Loan subject to call protection
- Utilise same documents as bank loans
- Require pari-passu status with voting rights
- Cheaper to execute for small term debt requirements

# INSTITUTIONAL TERM LOAN *Recent Issuances*

**GROWTHPOINT**  
PROPERTIES

A\$250m to  
extend debt  
maturity  
profile

Extended profile to  
4.7 years

Bank debt repaid to  
create debt  
headroom

7 year tenor

Weighted fixed rate  
4.46% pa

Issuance provided  
capacity for:  
•capital expenditure; and  
•potential acquisitions

**transurban**

A\$200m  
direct  
placement  
to refinance  
bridge

Refinanced  
acquisition  
bridge

Longest tenor  
achieved across  
Australian assets

15 year tenor

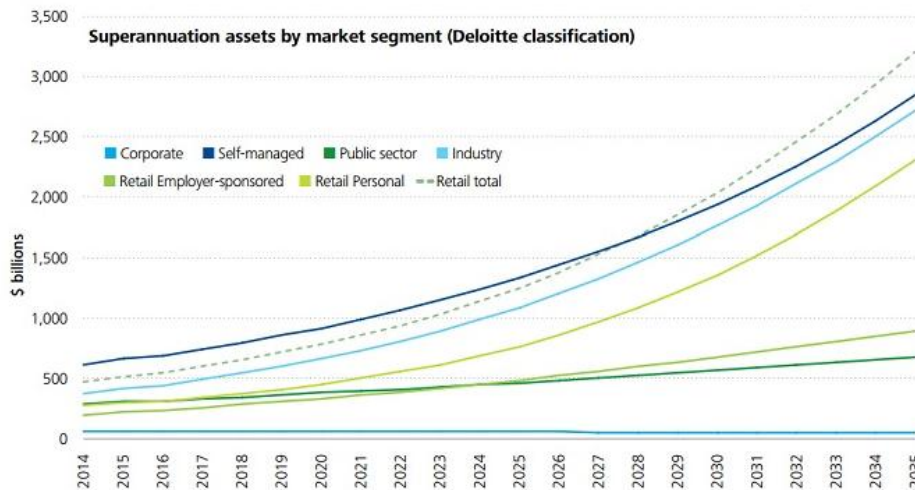
Issued floating at  
c.200bps.

A\$MTN 7 & 10yrs  
at + 160bps & +  
190bps in Q4  
2014

# A\$ UNRATED BOND MARKET *get access to self managed money*

**ACCESS TO THE LARGEST POOL OF INVESTORS** *freed up via changes to regulatory requirements*

- NAB has been developing and sponsoring
- Provides access to the huge SMSF pool
- SMSF heavily invested in financials and term deposits
- Demand for diversification into corporate assets
- Some tenor is available but focus is on flexible capital



Source: APRA and Deloitte Actuaries & consultants, 2015

# A\$ UNRATED BOND *a transaction in Detail*

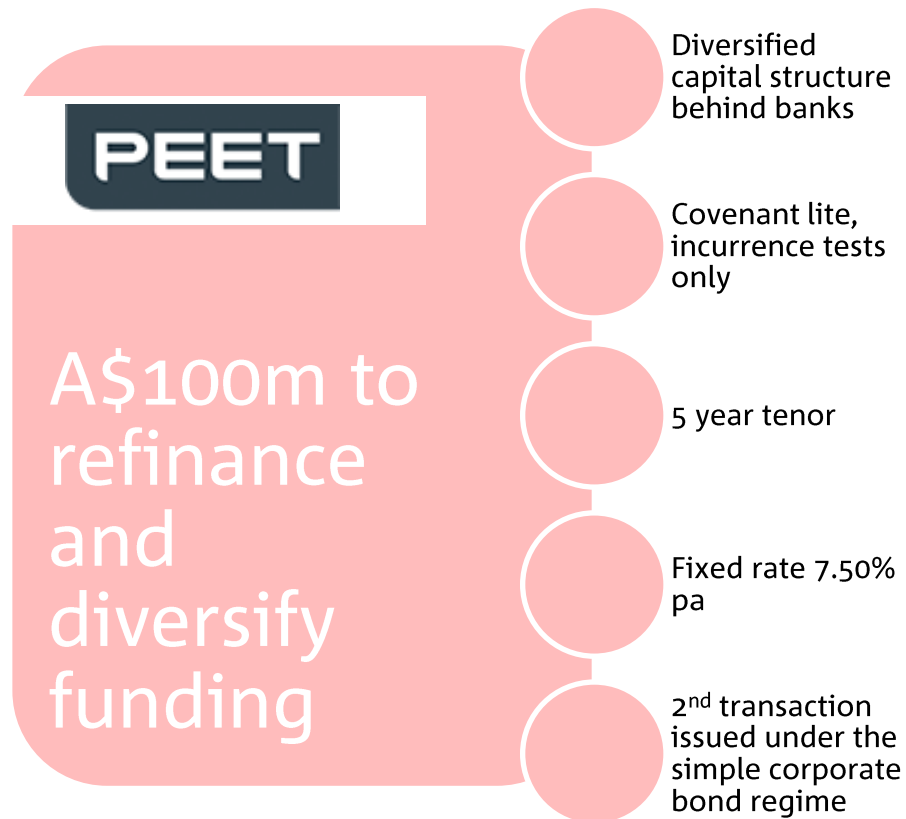
Tenors Available	• 3 – 10 years
Volume Available	• \$50- \$200m (depending on format)
Flexibility	• Bond format, no early redemption
Ranking	• Senior Secured or senior unsecured notes
Credit Rating	• Not required
Investor Base	• Wholesale and Retail if Simple Corporate Bond
Marketing	• Roadshow
Currency Considerations	• A\$ denominated
Disclosure	• 2 part Prospectus for Simple Corporate Bond or basic Offering Memorandum for Wholesale
Financing terms	• <i>Incurrence based covenants only</i>

**FLEXIBLE TERM DEBT**  
*Local format, AUD,  
Covenant Lite Funding*

- Bond format, fixed or floating
- Listed available under Simple Corporate Bond rules
- Unlisted available for lower volume needs
- Covenant lite and flexible
- Easy to execute

# A\$ UNRATED BOND *Recent Issuance*

---



# SUMMARY

---

- Conditions are strong at the moment but picking the window to execute is important
- There is change coming that will result in changes to funding options and preferred mixes so be aware
- New finance options are emerging to give you choices when selecting a new preferred funding mix
- New options are about providing access to appropriate investor classes to match tenor or risk
- NAB is at the forefront and we want to be there to have the discussions with you



## Disclaimer

IMPORTANT NOTICE: AUSTRALIAN DISCLAIMER: National Australia Bank Limited (ABN 12 004 044 937), its related bodies and any officer, employee, agent, adviser or contractor thereof ("NAB") do not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("Information") is accurate, reliable, complete or current. The Information has been prepared for dissemination to professional investors for information purposes only and any statements as to past performance do not represent future performance. The Information does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. In all cases, anyone proposing to rely on or use the Information should independently verify and check the accuracy, completeness, reliability and suitability of the Information and should obtain independent and specific advice from appropriate professionals or experts. The Information is not intended as an offer or solicitation for the purchase or sale of any financial instrument.

This presentation is for discussion purposes only and may provide indicative terms and conditions which National Australia Bank may submit for credit approval to provide finance. The issue of these materials is not intended in any manner, and should not be interpreted as, representing or creating any offer of financing or the provision of any financial accommodation, or that financing will be available on these or any other terms. Any offer of finance is subject to satisfactory completion of National Australia Bank's usual due diligence requirements and internal credit and pricing assessment processes. These materials are also provided subject to legal advice, financial modelling and all necessary financing documentation.

To the extent permissible by law, NAB shall not be liable for any errors, omissions, defects or misrepresentations in the Information or for any loss or damage suffered by persons who use or rely on such Information (including by reasons of negligence, negligent misstatement or otherwise). If any law prohibits the exclusion of such liability, NAB limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. NAB, its affiliates and employees may hold a position or act as a price maker in the financial instruments of any issuer discussed within this document or act as an underwriter, placement agent, adviser or lender to such issuer.

The Information is governed by, and is to be construed in accordance with, the laws in force in the State of Victoria, Australia, and any dispute or claim arising from, or in connection with, the Information is subject to the non-exclusive jurisdiction of the courts of that State.

Please be aware that any telephone calls to NAB may be recorded. If you would like more details regarding the privacy of your information at nab, please visit the nab website.

The Information contained within this presentation that has been prepared is confidential and must not be disclosed to third parties without NAB's consent.