Australia Mortgage Covered Bonds Programmes: Major Banks – Peer Review

Three-Notch Protection Against IDR Downgrade on Ratings

Ratings Resilient to IDR Downgrade: All else being equal, the 'AAA' rated covered bonds can sustain a three-notch downgrade of a bank's Long-Term Issuer Default Rating (IDR), given the major Australian banks' IDRs of 'A+' combined with a total uplift above their respective IDR of seven notches. The Stable Outlook on the 'AAA' ratings reflects the buffer against an IDR downgrade.

Zero Resolution Uplift: There is no specific advanced resolution regime in Australia, but the Australian Prudential Regulation Authority (APRA) has the ability to resolve a bank under its regulatory powers pursuant to the Banking Act. Even so, covered bonds are not explicitly exempt from bail-in should a bank be resolved, which may result in the direct enforcement of recourse against the cover pool for the payment of the outstanding covered bonds.

Strong Liquidity Protection: All programmes have a six-notch payment continuity uplift (PCU), driven by the 12-month maturity extension on the soft bullet bonds, providing liquidity protection. The programmes also provide for a reserve covering three months of interest and one-quarter of annual senior fees, which, with the exception of WBC, were funded when the banks' Short-Term IDRs were downgraded to 'F1' from 'F1+' in April 2020.

Good Pool Credit Quality: All pools are composed of prime Australian residential mortgages, with weighted-average (WA) loan-to-value (LTV) ratios of lower than 65% and limited adverse characteristics. WBC has the highest credit loss component making up Fitch's breakeven overcollateralisation (OC), compared with peers, as its cover pool contains higher WA LTV and larger percentages of interest-only and investment loans than the peer average.

Covered Bonds Protected from Collections Disruption: The cover pools had experienced take-up of payment holidays amid the pandemic. The average proportion of loans in the cover pools of the four programmes, by balance, was around 1.6% as of end-December 2020, in line with the Australian average. Fitch expects loans with payment holidays to remain in the cover pools, unless removed by the issuer. The dual-recourse nature of covered bonds means issuers remain liable to pay irrespective of the cover pools' performance.

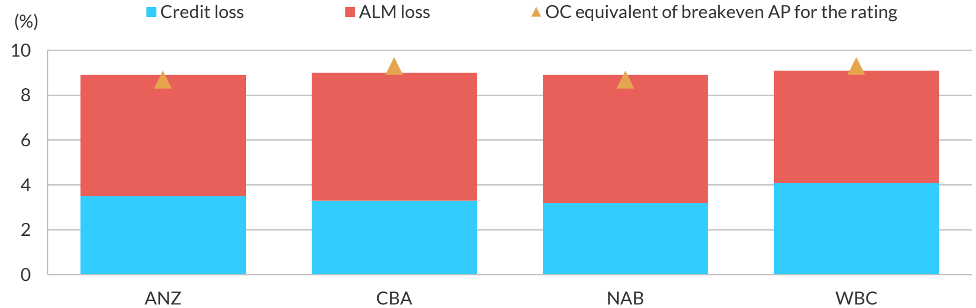
No Coronavirus Ratings Impact: Fitch expects the coronavirus containment measures to negatively affect Australian residential loans, and performed a downside sensitivity stress to the programmes by increasing the probability of default and decreasing the recovery rate on the mortgage loans, as well as raising the stressed cost to refinance the cover pools. We found that while the relied-upon APs supporting the 'AAA' ratings would provide less protection than the stressed 'AAA' breakeven APs, Fitch believes there are mitigating factors that would support the assigned 'AAA' ratings.

Key Rating Drivers

Programme	Australia and New Zealand Banking Group Limited (ANZ)	Commonwealth Bank of Australia (CBA)	National Australia Bank Limited (NAB)	Westpac Banking Corporation (WBC)
LT IDR	A+	A+	A+	A+
Resolution uplift (notches)	0	0	0	0
PCU (notches)	6	6	6	6
Timely payment rating level	AA+	AA+	AA+	AA+
Recovery uplift (notches)	1	1	1	1
CVB rating	AAA	AAA	AAA	AAA
CVB Outlook	Stable	Stable	Stable	Stable
Buffer against IDR downgrade	3	3	3	3
Breakeven AP for rating (%)	91.5	91.5	92.0	91.5
AP Fitch relies upon (%)	90.5	91.5	92.0	91.0

Source: Fitch Ratings

Breakeven OC for Covered Bond Ratings



Source: Fitch Ratings

Jimmy Tanzil
+61 2 8256 0305
jimmy.tanzil@fitchratings.com

Marija Buzevska
+61 2 8256 0340
marija.buzevska@fitchratings.com

Cover Pool – Peer Analysis

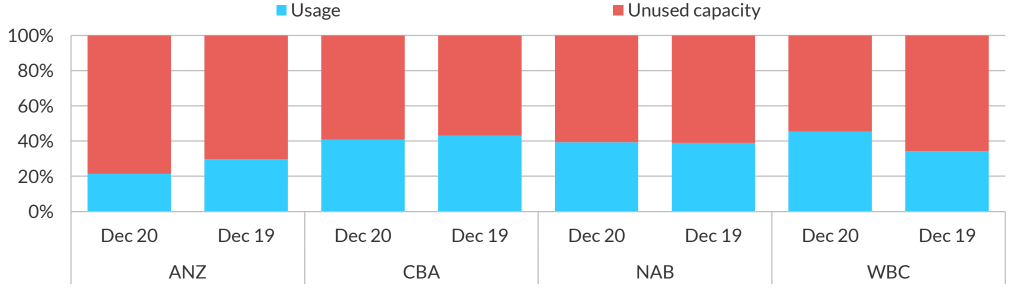
Cover Assets Credit Analysis

	ANZ	CBA	NAB	WBC
Covered bonds rating	AAA	AAA	AAA	AAA
Rating default rate (RDR) for rating (%)	7.8	7.6	9.1	9.9
Rating recovery rate (RRR) for rating (%)	49.0	50.3	58.3	53.5
Rating loss rate (RDR*(1-RRR) for rating (%)	4.0	3.8	3.8	4.6
'B' case loss rate (%)	0.5	0.6	0.2	0.4

Source: Fitch Ratings

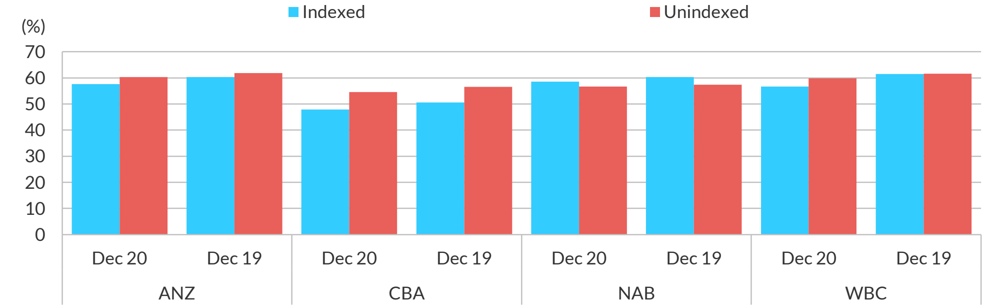
- All cover pools include first-ranking prime residential mortgage loans denominated in Australian dollars and backed by residential properties in Australia. The average 'B' portfolio loss rate (PLR) for the four cover pools is 0.4%, which has remained mostly stable.
- Among the peer group, CBA's cover pool exhibits the strongest credit characteristics with the lowest LTVs, high seasoning and low levels of interest-only and investment loans. The pool also has the highest proportion of loans with lenders' mortgage insurance (LMI). These have contributed to a low rating loss rate. This is followed by the ANZ pool, whose stronger pool credit quality is slightly offset by the higher WA LTV and no LMI credit given to loans with ANZ LMI.
- Both CBA and ANZ programmes' rating loss rate, pre-credit to LMI, is floored at the minimum defined in Fitch's criteria (4.0% at 'AAA') to account for idiosyncratic risks.
- WBC has the highest RDR among the peer group of 9.9%, driven by adverse credit characteristics, which include higher WA LTV ratio and higher proportions of interest-only and investment loans than the peer average.
- No credit to LMI is given to ANZ and WBC cover pools, as WBC portfolio includes a small amount of LMI coverage loans, mainly by Westpac LMI while ANZ portfolio includes loans covered by ANZ LMI, both of which are not rated by Fitch and hence are not given credit to in Fitch's analysis.
- Loans with an interest-only period have been declining in the cover pools over the last 12 months as the interest-only terms end and the loans begin to amortise for the remainder of the mortgage term.
- The cover pools have maintained a relatively low level of arrears, supported by Covid-19 relief packages provided by the banks. However, loans in 90+ day arrears are not given credit in the asset coverage test (ACT) calculation, so issuers tend to remove these loans from the pools.
- Cover pools are geographically concentrated in the eastern states of Australia.

Issuance Available Capacity



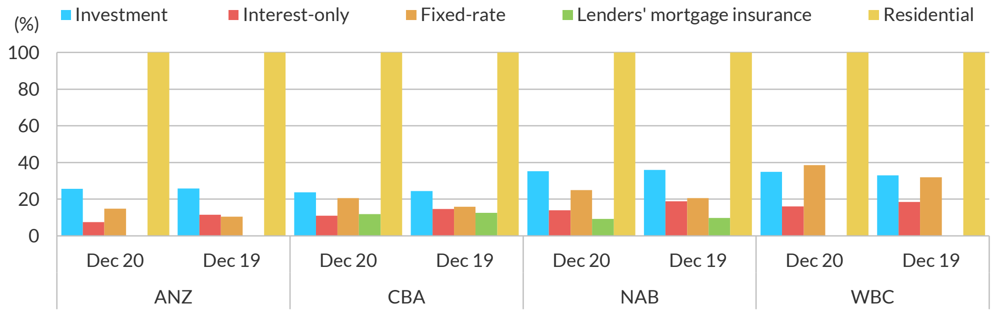
Capacity calculated as 8% of 31 December 2020 resident assets and includes overcollateralisation
Source: Fitch Ratings, APRA

Loan-to-Value Ratio Type



Source: Fitch Ratings, ANZ, CBA, NAB, WBC

Loan Type (% of Pool)



Source: Fitch Ratings, ANZ, CBA, NAB, WBC

Breakeven OC – Peer Analysis

Breakeven OC Components for the Ratings

Programme	ALM loss (%)	Credit loss (%)
ANZ	5.4	3.5
CBA	5.7	3.3
NAB	5.7	3.2
WBC	5.0	4.1

Source: Fitch Ratings

Credit Loss

The credit loss component reflects the stressed credit loss derived by Fitch under its analysis of each cover pool of the four programmes in the 'AA+' timely payment rating level, which is the driving scenario for the 'AAA' breakeven AP.

The expected loss (EL) for all pools is low, reflecting the good credit quality, highly seasoned cover assets. WBC has the highest credit loss, driven by higher proportion of interest-only and investment loans in the cover pool compared with the peer average.

ALM Loss

For the four programmes, ALM loss remains the largest component of Fitch's 'AAA' breakeven OC. This reflects the modelled asset and liability mismatches, inclusive of the modelled excess spread, taking into account the effect of the pro rata asset sales clause in the programmes. This clause limits the assets that can be sold to the pro rata proportion of the maturing bond.

WBC's ALM loss component of 5.0% is the lowest of the four programmes, driven by a less concentrated maturity profile, which reduces the modelled mismatches.

CBA's and NAB's ALM loss components of 5.7% are the highest, driven by upcoming concentrated bond maturities in the respective programmes. Approximately AUD8.7 billion equivalent bonds or 30.6% of CBA's current outstanding covered bonds are maturing over a 12-month period from November 2021. NAB's programme also has a high concentration of redemptions between November 2021 and November 2022, which account for AUD5.5 billion or 24.5% of current outstanding bonds.

Maturity concentration creates the need to sell more cover assets under our modelling, and has a negative impact on the programme's pro rata sales clause because it only allows the pro rata proportion of assets to be sold for the liabilities being redeemed. Therefore, a higher level of OC would be needed to pass the pro rata test.

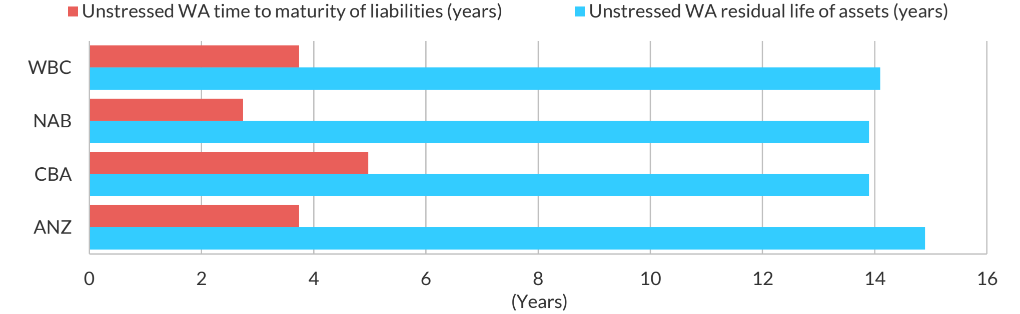
Covered bond swaps are in place to cover currency and interest-rate mismatches on the bonds until the extended due-for-payment date.

Cash Flow Analysis Driving Scenarios

Programme	Driving prepayment scenario	Driving interest-rate scenario	Driving default timing scenario
ANZ	Low	Stable	Front-loaded
CBA	Low	Stable	Front-loaded
NAB	Low	Stable	Front-loaded
WBC	Low	Stable	Front-loaded

Source: Fitch Ratings

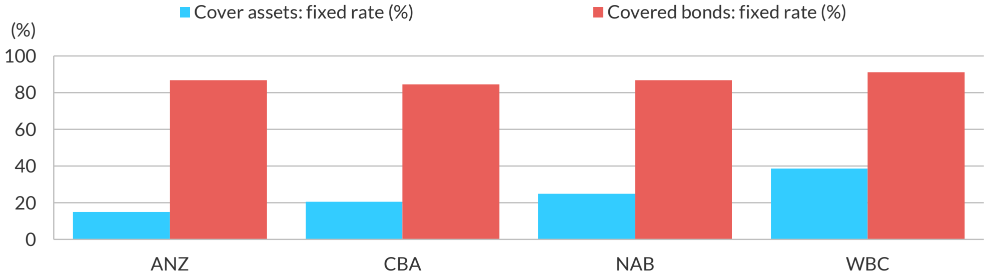
Unstressed Assets & Liabilities Maturity Mismatches (31 December 2020)



Source: Fitch Ratings

Pre-Swap Fixed Rate Assets and Liabilities Interest Rate Mismatches

At 31 December 2020



Source: Fitch Ratings

Resolution Uplift, PCU and Recovery Uplift – Peer Analysis

Continuity Uplift Assessment

Programme	Resolution uplift (notches)	PCU (notches)
ANZ	0	6
CBA	0	6
NAB	0	6
WBC	0	6

Source: Fitch Ratings

Resolution Uplift

Fitch understands the option to resolve authorised deposit-taking institutions (ADIs) is possible as part of APRA's supervisory powers under the Banking Act. However, Fitch believes the framework does not contemplate the power to bail-in creditors and covered bonds are not explicitly exempt from this, giving rise to the risk of cover pool enforcement. As there is no preferential treatment of covered bonds compared to the banks' senior unsecured debt, a resolution uplift of zero notches currently applies to all Australian covered bond programmes.

PCU

- Where both hard and soft bullet bonds are issued, the assessment is driven by the weakest form of protection provided. For CBA, NAB and WBC, the assessment is based on the 12-month maturity extension on the outstanding soft bullet bonds. ANZ's assessment is based on a 12-month pre-maturity test (PMT) on the hard bullet bonds, which allows up to 12 months to sell assets.
- CBA's PMT has a longer cure period of six months, providing less liquidity protection on the hard bullet bonds although the likelihood of it causing a cross-default on the soft bullet bonds is not considered high by Fitch. This is due to the size and distribution of the remaining hard bullet bonds in the programme. Hard bullet bonds represented 15.6% of ANZ's outstanding covered bonds, 5.7% of CBA's and 2.2% of NAB's, as of end-December 2020.
- The programmes provide for a reserve covering three months of interest and one-quarter of annual senior expenses, which, with the exception of WBC, were funded after the banks' IDRs were downgraded to 'A+' and 'F1' from 'AA-' and 'F1+' in April 2020. WBC's reserve fund will be funded when its IDRs are downgraded below 'A-' and 'F1', which is in line with Fitch's minimum direct counterparty ratings for the timely payment rating level of 'AA+'. Account banks for the programmes are subject to replacement languages (at the loss of 'A' or 'F1'), which are more conservative than Fitch's criteria (at the loss of 'A-' and 'F1'), except WBC whose account bank replacement languages are in line with Fitch's criteria.
- No other risks have an impact outside of liquidity on the PCU assessment.

Recovery Uplift Assessment

Programme	'AAA' credit loss (%)	OC (%) Fitch relies upon in its analysis	Pre-swap non-AUD bond exposure (%)	Maximum achievable recovery uplift (notches)
ANZ	4.2	10.5	93.1	1
CBA	3.9	9.3	90.9	1
NAB	3.9	8.7	90.0	1
WBC	4.8	9.9	88.3	1

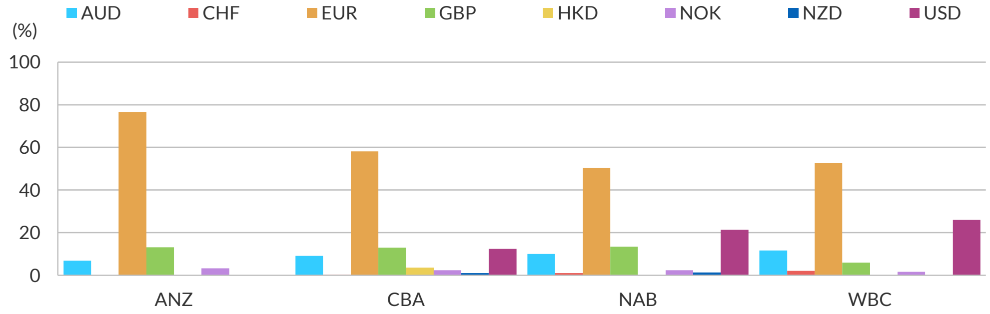
Source: Fitch Ratings

Recovery Uplift

All the programmes are granted a one-notch recovery uplift. This is driven by:

- The cover assets are standard Australian residential mortgage loans;
- The recovery uplift is capped as the programmes are significantly exposed to foreign-exchange risk that could affect recoveries given a default of the covered bonds. There are swaps in place on the liabilities, but we expect the swaps to terminate upon a covered bond default. This would mean the longer-dated Australian-dollar asset cash flow would need to provide recoveries for the non-Australian-dollar denominated covered bonds;
- No rating cap is applied as a result of the applicable sovereign rating (Australia, AAA/Negative);

Covered Bonds by Currency (End-December 2020)



Source: Fitch Ratings, ANZ, CBA, NAB, WBC

Impact of Coronavirus on Covered Bonds

Cover Pools Resilient, but not Immune, to Coronavirus Crisis

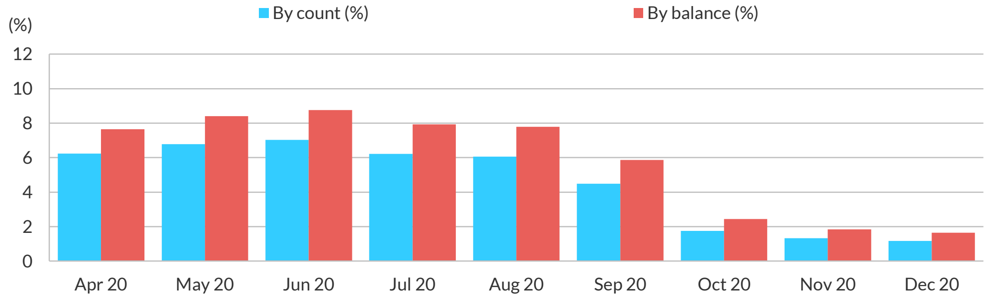
Fitch expected coronavirus containment measures to have a negative impact on the performance of Australian residential mortgage loans. The Australian government has taken substantial measures to support the economy through the JobKeeper wage-subsidy programme, which has been extended to 28 March 2021, and the temporary mortgage deferrals to borrowers. The delay in foreclosures, take-up of the payment deferrals, as well as the effect of higher arrears and lower prepayments, could affect available cash flows and liquidity.

Government Schemes Support Performance in the Short Term

Australian ADIs have granted temporary assistance to residential mortgage borrowers financially affected by Covid-19 since March 2020. This includes deferring interest and principal mortgage repayments for up to six months, entering into temporary interest-only payment arrangements, extending loan terms, consolidating debt, or a combination of these and other measures. For most, these arrangements were due to end from September 2020.

In July 2020, following discussions with APRA and the Australian Securities and Investments Commission, the ADIs agreed to extend this temporary support for another four months (ending no later than 31 March 2021), but this will not be automatic and borrowers have to meet tighter eligibility criteria. APRA also extended the regulatory approach for these loans, where they will be considered in arrears for regulatory reporting after a maximum 10 months from the start of the deferral, or until 31 March 2021, whichever comes first. APRA reported that as of 31 December 2020, AUD51.2 billion of loans were granted payments assistance, of which AUD42.9 billion were housing loans, representing about 2.4% of the ADIs' housing loans outstanding.

Average Covid-19 Payment Assistance Approval in Cover Pools



Source: Fitch Ratings, ANZ, CBA, NAB, WBC

The graph above shows the average of the four issuers' cover pools that have been on Covid-19-related payment assistance since April 2020, split by count and balance. The average by balance is higher, indicating that borrowers with high loan balances or LTVs have been more likely to request payment assistance. APRA's reporting showed that more assistance has been extended to owner-occupied borrowers with principal and interest repayments.

The average by balance in December for the four issuers stood at around 1.6%, in line with the Australian average. The number and value of loans under payment holiday arrangements have been declining since June 2020 with most applications approved prior to April 2020. All four issuers saw a significant decline in the number of deferrals in October 2020, after the first set of payment assistance expired in September 2020. Full payment deferral (principal and interest) represents the largest proportion of Covid-19 payment assistance approved in Australia, compared with New Zealand, where most lenders have an increasing proportion of loans moving to interest-only payment arrangements.

Coronavirus Rating Impact

Fitch performed a stress sensitivity scenario to reflect the delay in repossessions and the take-up of payment deferrals by borrowers. Fitch increased the cover pools' probability of default and decreased recovery expectations on the mortgage loans, as well as increased the stressed cost to refinance the cover pools and the recovery time lag of the mortgage loans.

While the relied-upon AP supporting the 'AAA' rating for the four programmes would provide less protection than the stressed 'AAA' breakeven AP, the programmes still have significant amount of nominal OC of 76.9%, (ANZ), 21.8% (CBA), 32.3% (NAB) and 19.9% (WBC), as of end-December 2020. They also have used less than 50% of their maximum mortgage cover asset limit (based on 8% of total resident assets) allowed under the covered bond legislation, which means the issuers have the capacity to add more performing mortgages to the cover pools as required. Based on these mitigating factors, we believe the programmes have the capacity to support the 'AAA' ratings.

Issuers' Credit Quality as First Defence

The dual recourse nature of covered bonds means that the issuers are liable to pay the bonds irrespective of the performance of the cover pools. The main protection to covered bond ratings is thus the three-notch buffer against a downgrade of the banks' IDRs.

Under APRA's guidelines, loans receiving temporary assistance are not reported as arrears and will have no impact on a borrower's credit reporting or rating while this remains the case. This means the transition of these loans into arrears is delayed and, therefore, has a neutral impact on the programme ACTs. However, eventually we expect a proportion of these loans will transition into arrears, which may affect the ACT. Therefore, we expect those loans will be removed from the cover pools once they are more than 90 days in arrears, as they are given no value in the ACT.

Further structural protections include the interest rate shortfall test and the reserve fund. The interest rate shortfall test (or threshold rate mechanism for WBC) ensures there are sufficient collections to cover interest payments on the bonds. The servicer must set the relevant margins so that no shortfall arises on the next determination date should cover-pool interest received decrease significantly due to payment deferrals.

The programmes are further protected from any shortfalls arising from payment deferrals because they benefit from reserves covering three months of upcoming interest payments and at least one-quarter of annual senior costs (currently funded for ANZ, CBA and NAB. For WBC, the reserve will be funded when its IDRs are downgraded below 'A-' and 'F1').

ESG Considerations

ESG Relevance Scores Recap

		ANZ	CBA	NAB	WBC
Environmental (E)	GHG emissions & air quality	1	1	1	1
	Energy management	1	1	1	1
	Water & wastewater management	1	1	1	1
	Waste & hazardous materials management; ecological impacts	2	2	2	2
	Exposure to environmental impacts	2	2	2	2
Social (S)	Human rights, community relations, access & affordability	2	2	2	2
	Customer welfare – fair messaging, privacy & data security	3	3	3	3
	Labour relations & practices	1	1	1	1
	Employee wellbeing	1	1	1	1
	Exposure to social impacts	3	3	3	3
Governance (G)	Rule of law, institutional and regulatory quality	3	3	3	3
	Transaction & collateral structure	3	3	3	3
	Transaction parties & operational risk	3	3	3	3
	Data transparency & privacy	3	3	3	3

Source: Fitch Ratings

Credit-Relevant ESG Scale - Definitions

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant; a key transaction or programme rating driver that has a significant impact on an individual basis
4	Relevant to transaction or programme ratings; not a key rating driver but has an impact on the ratings in combination with other factors
3	Minimally relevant to ratings; either very low impact or actively mitigated in a way that results in no impact on the transaction or programme ratings
2	Irrelevant to the transaction or programme ratings; relevant to the sector
1	Irrelevant to the transaction or programme ratings; irrelevant to the sector

Source: Fitch Ratings

ESG Considerations

For each of the programmes considered in the report, Fitch assigned a maximum ESG relevance score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the programme, either due to their nature or the way in which they are being managed by the issuer/programme.

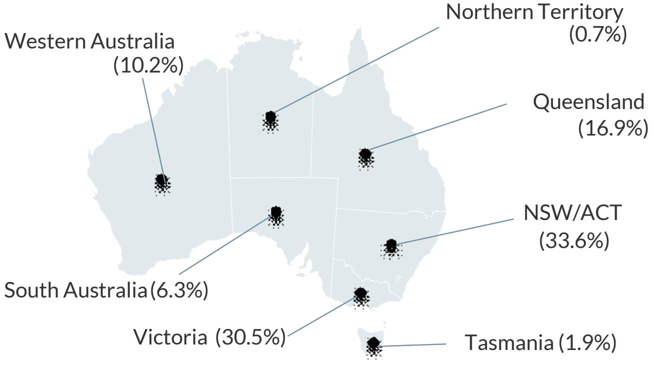
For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Appendix 1A – Focus on ANZ

Programme Structure

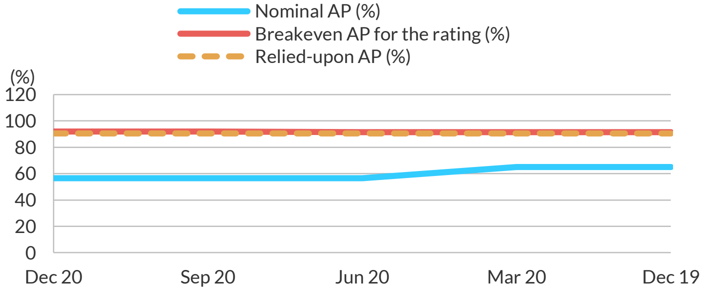
- ANZ can issue covered bonds of up to USD30 billion under its programme. The bonds are guaranteed by the covered bond guarantor (CBG) and secured by a dynamic pool of Australian residential mortgages, substitute assets and authorised investments. The covered bonds rank pari passu among themselves and the issuer's direct, unconditional, unsecured and unsubordinated obligations. Covered bond holders benefit from their dual recourse against the guarantor, secured by the cover assets, and an unsecured, unsubordinated recourse against ANZ.
- ANZ has issued both soft-bullet and hard-bullet covered bonds. ANZ's PCU was revised to six notches from three in July 2020 following an update to the PMT breach mechanism on ANZ's hard bullet bonds. The change provides a greater time period of up to 12 months for the CBG to sell cover assets when the recourse switches to the cover pool, which Fitch believes enhances the liquidity protection on the outstanding hard bullet bonds (15.6% as of end-December 2020).
- Both the 12-month maturity extension and the 12-month PMT are considered by Fitch to be an effective liquidity protection for principal payments. Protection for timely interest payment is provided by the three-month rolling liquidity reserve on upcoming interest payments and one-quarter of annual senior expenses, which was funded after ANZ's Short-Term IDR was downgraded to 'F1' from 'F1+' in April 2020.
- Fitch does not give credit to excess OC in the programme, as it is secured by a demand loan whose repayment ranks in priority to covered bond holders upon issuer insolvency. As a result, Fitch relies upon the 90.5% contractual AP used in the ACT.

Geographical distribution: (% of residential assets)



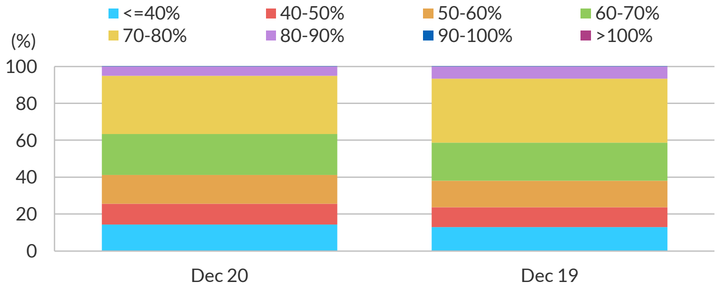
Source: Fitch Ratings, ANZ

OC Breakdown



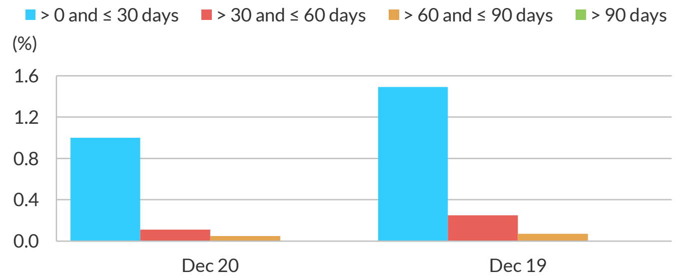
Source: Fitch Ratings, ANZ

Consolidated Current LTV (% Residential Pool)



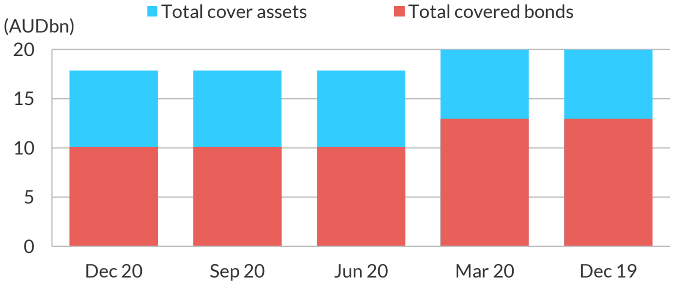
Source: Fitch Ratings, ANZ

Arrears Breakdown (% of the Pool)



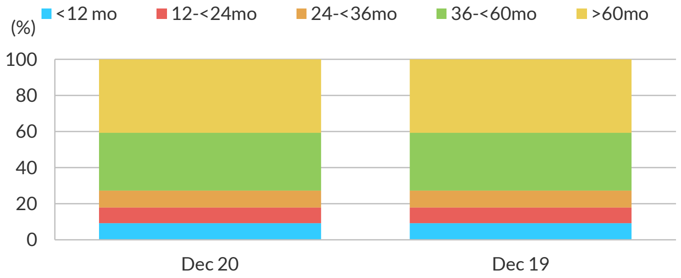
Source: Fitch Ratings, ANZ

Assets and Liabilities



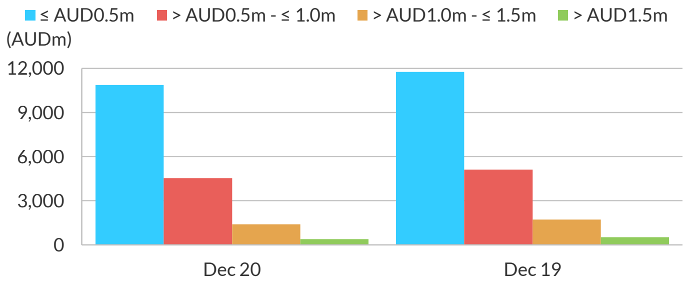
Source: Fitch Ratings, ANZ

Loan Seasoning (% Residential Pool)



Source: Fitch Ratings, ANZ

Consolidated Loan Size Breakdown



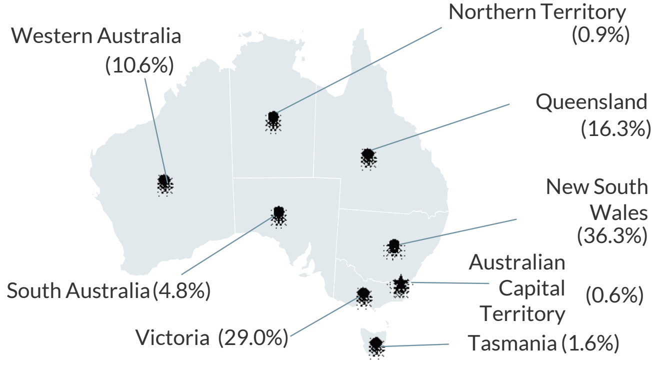
Source: Fitch Ratings, ANZ

Appendix 1B – Focus on CBA

Programme Structure

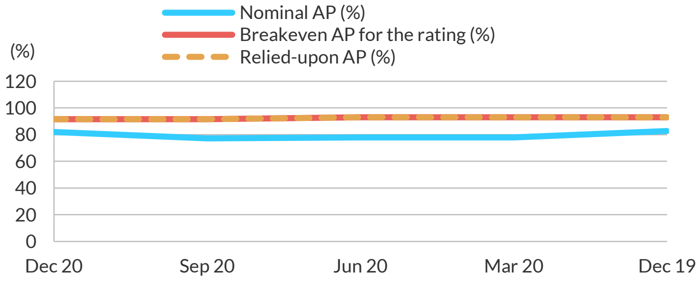
- CBA can issue covered bonds of up to USD30 billion under its programme. The bonds are guaranteed by the CBG and secured by a dynamic pool of Australian residential mortgages, substitute assets and authorised investments. The covered bonds rank pari passu among themselves and the issuer's direct, unconditional, unsecured and unsubordinated obligations. Covered bond holders benefit from their dual recourse against the guarantor, secured by the cover assets, and an unsecured, unsubordinated recourse against CBA.
- CBA has issued both soft-bullet and hard-bullet covered bonds. The programme's 12-month PMT has a cure period of six months, which provides for less liquidity protection than peers' liquidity protection of up to twelve months. However, the likelihood of it causing a cross default of the soft bullet bonds is not considered high by Fitch, due to the size (5.7% of outstanding) and distribution of the remaining hard bullet bonds. The 12-month maturity extension drives the PCU assessment and is considered by Fitch to be an effective liquidity protection for principal payments. Protection for timely interest payment is provided by the three-month rolling liquidity reserve on upcoming interest payments and one-quarter of annual senior expenses, which was funded after CBA's Short-Term IDR was downgraded to 'F1' from 'F1+' in April 2020.
- Fitch does not give credit to excess OC in the programme, as it is secured by a demand loan whose repayment ranks in priority to covered bond holders upon issuer insolvency. As a result, Fitch relies upon the 91.5% contractual AP used in the ACT.

Geographical distribution: (% of residential assets)



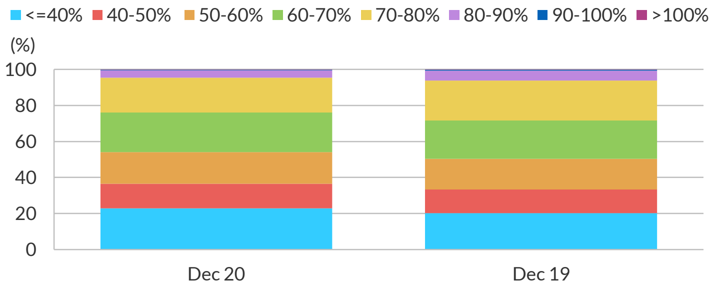
Source: Fitch Ratings, CBA

OC Breakdown



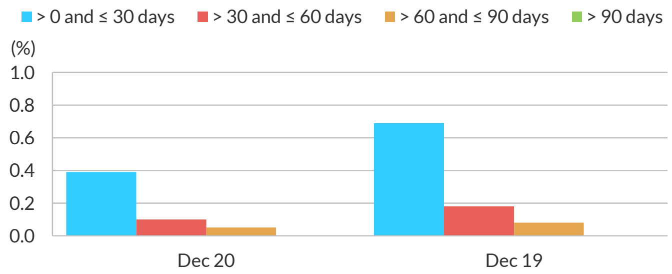
Source: Fitch Ratings, CBA

Current LTV (% Residential Pool)



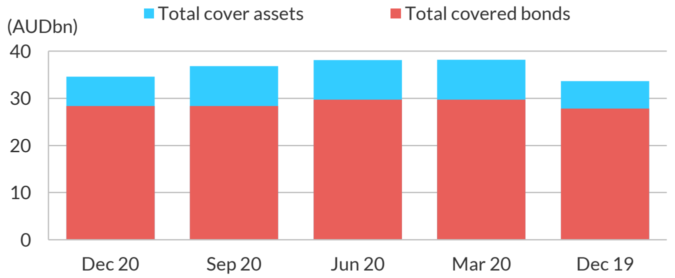
Source: Fitch Ratings, CBA

Arrears Breakdown (% of the Pool)



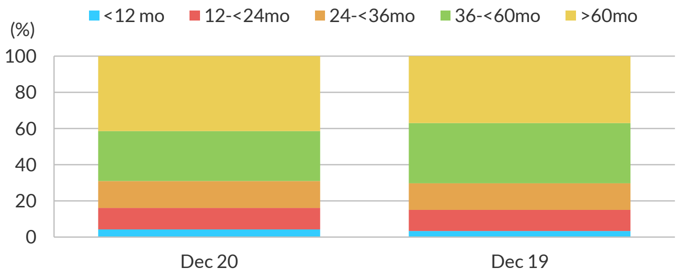
Source: Fitch Ratings, CBA

Assets and Liabilities



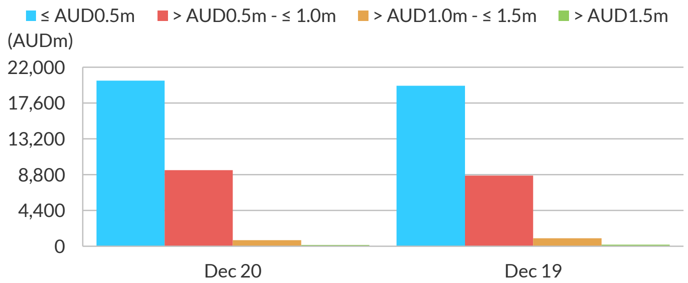
Source: Fitch Ratings, CBA

Loan Seasoning (% Residential Pool)



Source: Fitch Ratings, CBA

Consolidated Loan Size Breakdown



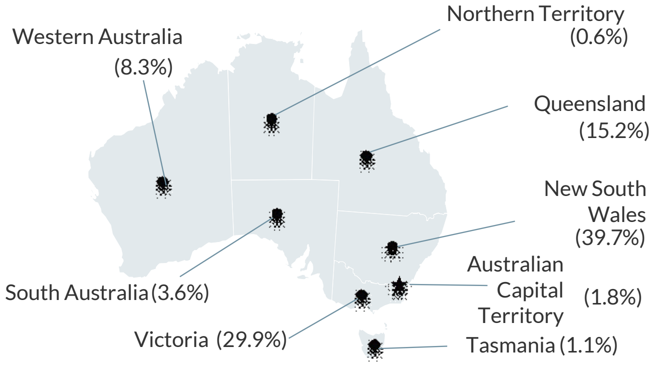
Source: Fitch Ratings, CBA

Appendix 1C – Focus on NAB

Programme Structure

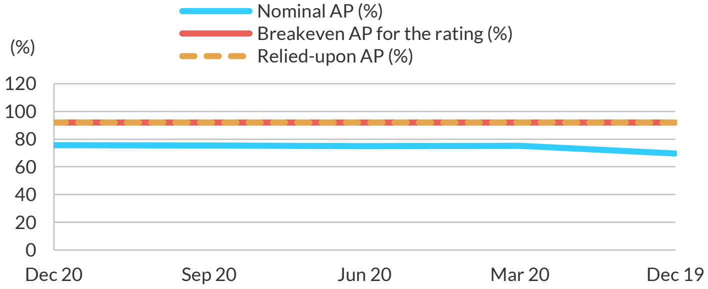
- NAB can issue covered bonds of up to USD30 billion under its programme. The bonds are guaranteed by the CBG and secured by a dynamic pool of Australian residential mortgages, substitute assets and authorised investments. The covered bonds rank pari passu among themselves and the issuer's direct, unconditional, unsecured and unsubordinated obligations. Covered bond holders benefit from their dual recourse against the guarantor, secured by the cover assets, and an unsecured, unsubordinated recourse against NAB.
- NAB's has issued both soft-bullet and hard-bullet covered bonds. The programme's 12-month PMT has a cure period of 10 days, effectively providing principal liquidity protection of up to twelve months. Hard bullet bonds represented 2.2% of outstanding bonds, as of end-December 2020.
- Fitch considers the 12-month maturity extension and the 12-month PMT as effective liquidity protection for principal payments. Protection for timely interest payment is provided by the three-month rolling liquidity reserve on upcoming interest payments and one-quarter of annual senior expenses, which was funded after NAB's Short-Term IDR was downgraded from 'F1+' to 'F1' in April 2020.
- Fitch does not give credit to excess OC in the programme, as it is secured by a demand loan whose repayment ranks in priority to covered bondholders upon issuer insolvency. As a result, Fitch relies upon the 92.0% contractual AP used in the ACT.

Geographical distribution: (% of residential assets)



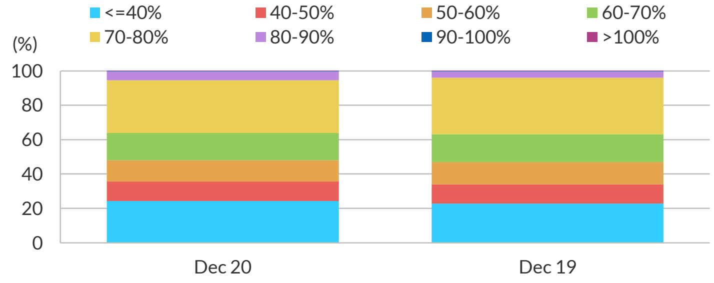
Source: Fitch Ratings, NAB

OC Breakdown



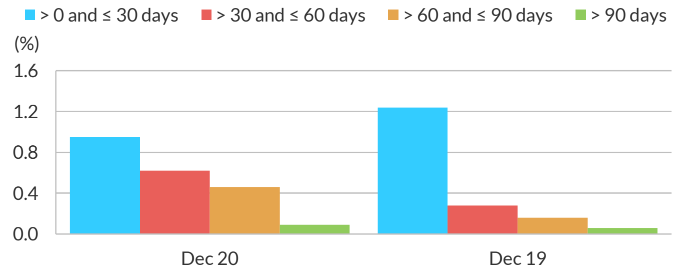
Source: Fitch Ratings, NAB

Current LTV (% Residential Pool)



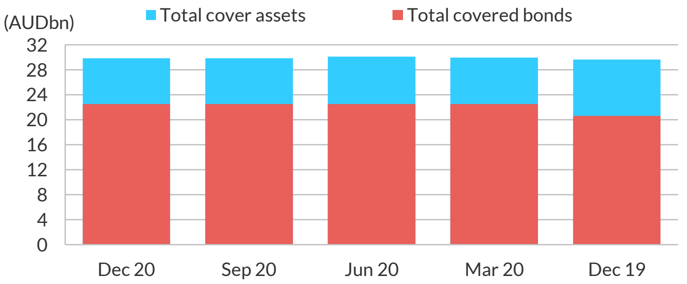
Source: Fitch Ratings, NAB

Arrears Breakdown (% of the Pool)



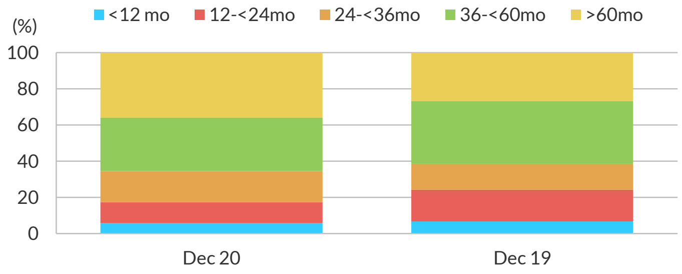
Source: Fitch Ratings, NAB

Assets and Liabilities



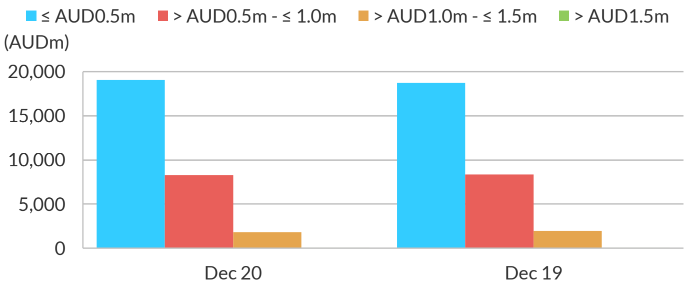
Source: Fitch Ratings, NAB

Loan Seasoning (% Residential Pool)



Source: Fitch Ratings, NAB

Consolidated Loan Size Breakdown



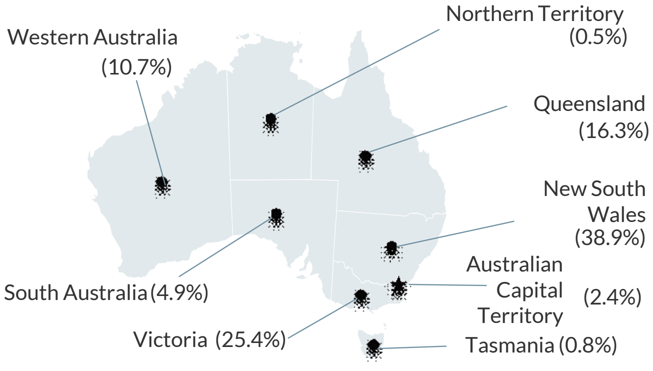
Source: Fitch Ratings, NAB

Appendix 1D– Focus on WBC

Programme Structure

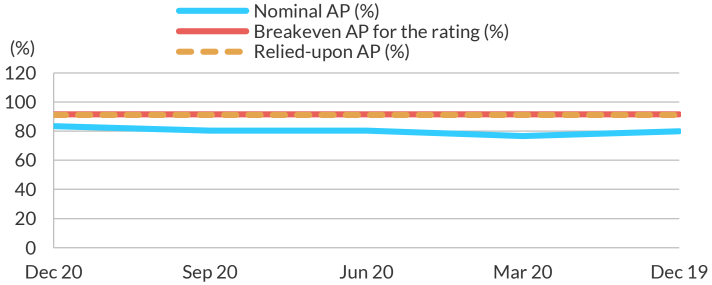
- WBC can issue covered bonds of up to USD40 billion under its programme. The bonds are guaranteed by the CBG and secured by a dynamic pool of Australian residential mortgages, substitute assets and authorised investments. The covered bonds rank pari passu among themselves and the issuer's direct, unconditional, unsecured and unsubordinated obligations. Covered bond holders benefit from their dual recourse against the guarantor, secured by the cover assets, and an unsecured, unsubordinated recourse against WBC.
- WBC has only soft-bullet covered bonds outstanding in its programme. The 12-month maturity extension is considered by Fitch to be an effective liquidity protection for principal payments. Protection for timely interest payment is provided by the three-month rolling liquidity reserve on upcoming interest payments and one-quarter of annual senior expenses, or other such amount notified. According to the programme documentation, the reserve fund will be funded when WBC's IDRs are downgraded below 'A-' and 'F1'. This is in line with Fitch's minimum direct counterparty ratings, supporting bonds with 'AA+' timely payment rating level.
- Fitch does not give credit to excess OC in the programme, as it is secured by a demand loan whose repayment ranks in priority to covered bond holders upon issuer insolvency. As a result, Fitch relies upon the 91.0% contractual AP used in the ACT.

Geographical distribution: (% of residential assets)



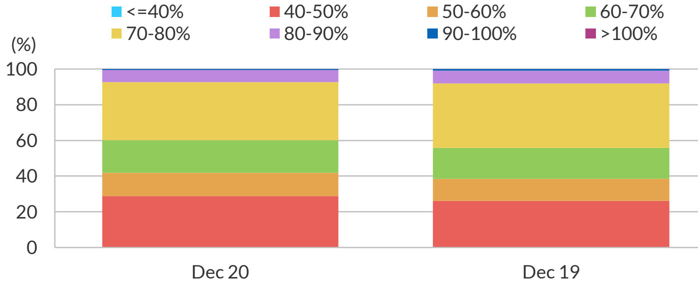
Source: Fitch Ratings, WBC

OC Breakdown



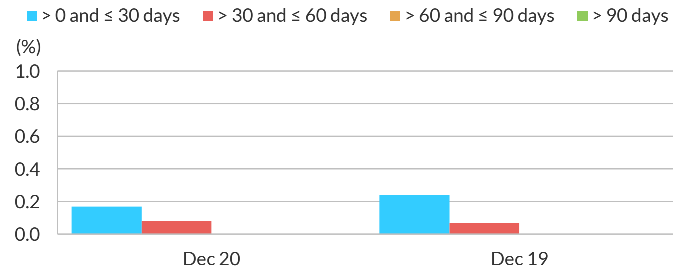
Source: Fitch Ratings, WBC

Current LTV (% Residential Pool)



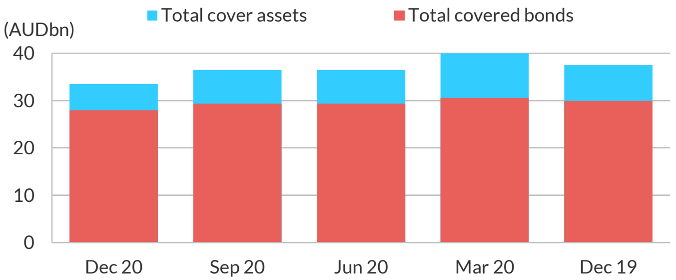
Source: Fitch Ratings, WBC

Arrears Breakdown (% of the Pool)



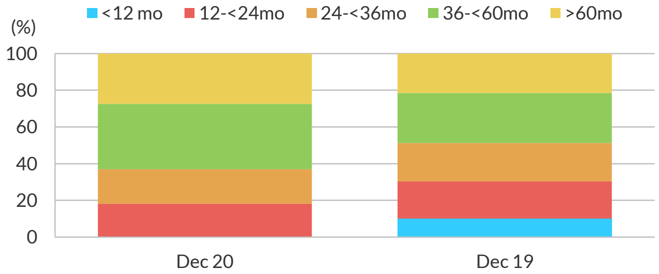
Source: Fitch Ratings, WBC

Assets and Liabilities



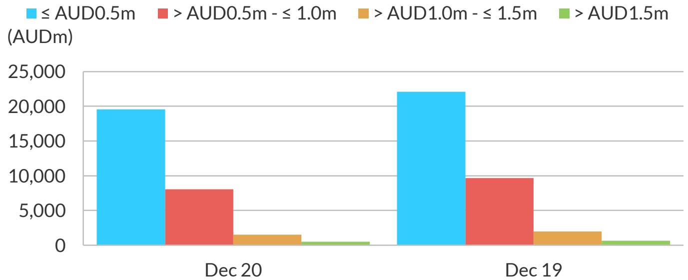
Source: Fitch Ratings, WBC

Loan Seasoning (% Residential Pool)



Source: Fitch Ratings, WBC

Consolidated Loan Size Breakdown



Source: Fitch Ratings, WBC

Appendix 2 – Summary of Applicable Covered Bonds Legislation

Items	Description
Basis of the framework	The Banking Act 1959, which was amended in October 2011, permitted the issuance of covered bonds, subject to the encumbrance limit of 8% of an issuer's resident assets in Australia.
Issuer type	Australia-based registered domestic bank or a subsidiary that is guaranteed by such bank. The issuer makes an inter-company loan to the cover pool SPV to enable the SPV to acquire the cover pool and therefore provide a guarantee over the issuer's obligation to bond holders. Upon title perfection, full legal title will be transferred.
Dual recourse	Covered bond holders have recourse to both the general estate of the issuing banks and the cover assets (exclusive right).
Segregation	• SPV model – contractually achieves asset segregation from the issuer's insolvency estate through the true sale of the mortgage assets to the SPV by way of equitable assignment to the CBG. Upon title perfection, full legal title will be transferred. • Asset pool is unavailable to any other creditor of the issuer until the claims of the preferred creditors are met. • Excess cover assets, defined under the legislation as assets not required to repay the covered bonds, will not be available to preferred creditors after issuer insolvency. • Preferred creditors to retain an unsecured claim against the issuer if claims are not fully satisfied from the pool.
Minimum OC	3% (equivalent to 97.1% AP).
Cover assets	• Loans secured by mortgages, charges or other security interest over residential properties in Australia and the associated LMI policies or other assets. Residential mortgages with LTV ratios of more than 80% can be included in the pool, but the value of the loan is reduced by the amount of excess (above 80% LTV) for the calculation of the 3% legal minimum OC. • Loans secured by mortgages, charges or other security interest over commercial properties in Australia and the associated LMI policies or other assets. Commercial mortgages with an LTV ratio of more than 60% can be included in the pool, but the value of the loan is reduced by the amount of excess (above 60% LTV) for the calculation of the 3% legal minimum OC. • Derivatives held to: (i) protect the value of another asset in the cover pool; (ii) hedge risks related to another asset in the pool; (iii) hedge risks related to covered bonds. • Substitute assets in the form of Australian-dollar deposits, bank bills and certificates of deposit with a maturity of less than 100 days that are not issued by the covered bond issuer are capped at 15% of the covered bonds issued. Bonds, notes or debentures issued by the Commonwealth, a State or a Territory of Australia are also eligible as substitute assets.
Maximum LTV limits for the cover test	80% LTV for residential loans.
Eligibility of loans with LTVs higher than the maximum thresholds	Yes, but if the mortgage exceeds 80% of the value of the property then the value of the loan is reduced by the amount of the excess.
Hedging	For all programmes under this report, a total return swap is in place to hedge the interest-rate mismatches on the cover pool. Covered bond swaps are in place to cover currency and interest-rate mismatches on the bonds until the extended due-for-payment date.
Cap on outstanding issuance	No more than 8% of the issuer's total assets in Australia by value can be secured as cover assets.
Supervision	APRA serves as the regulator under the covered bond framework as described in the Banking Act 1959 (amendment 2011). Responsibilities and authority include determining prudential standards in relation to covered bonds and monitoring that reporting requirements are met.
Cover pool administrator	No alternative or dedicated independent manager appointed upon issuer insolvency as an independent corporate service provider is appointed at inception of the administrative CBG. The CBG is obliged to select and sell assets with the assistance of a sales advisor to make repayments of the covered bonds. In the event of a CBG default, the security trustee will enforce the assets for the benefit of covered bondholders and has the power to appoint a receiver, whose duties are prescribed by the specific programme documents.
UCITS compliant	No.
CRD compliant	No.

Source: Fitch Ratings, programmes' documentation

Appendix 3 – Related Research & Definitions of Terms Used

Related Research

Details of the programme structures can be found in the following publications:

Australia and New Zealand Banking Group Limited - Mortgage Covered Bonds (September 2019)

Commonwealth Bank of Australia - Mortgage Covered Bonds (November 2019)

National Australia Bank Limited - Mortgage Covered Bonds (October 2019)

Westpac Banking Corporation - Mortgage Covered Bonds (July 2019)

Details of the latest rating action for the programmes and the applicable criteria can be found in the following publications:

Fitch Affirms ANZ's Mortgage Covered Bonds at 'AAA'/Stable (September 2020)

Fitch Affirms CBA's Mortgage Covered Bonds at 'AAA'/Stable (September 2020)

Fitch Affirms NAB's Mortgage Covered Bonds at 'AAA'/Stable (August 2020)

Fitch Affirms Westpac's Mortgage Covered Bonds at 'AAA'; Outlook Stable (July 2020)

Related Covered-Bonds Specific Research

APAC Covered Bonds Quarterly – 4Q20 (March 2021)

Covered Bonds Surveillance Snapshot (January 2021)

Covered Bonds Surveillance Snapshot – Excel File (January 2021)

Comfortable OC Cushion for Covered Bonds through the Coronavirus Crisis (January 2021)

Covered Bonds Protection Dashboard (Excel, January 2021)

Residential Mortgage CVB Ratings Unaffected by Additional Covid-19 Stress Assumptions (December 2020)

Cover Pool Loss Rates Resilient to Coronavirus Stress (November 2020)

Unique Features of Residential Mortgage Markets Compendium (September 2020)

Introducing ESG Relevance Scores for Structured Finance and Covered Bonds (October 2019)

Definitions of Terms Used

ACT	Asset Coverage Test
AP	Asset Percentage
APRA	Australian Prudential Regulation Authority
CBG	Covered Bond Guarantor
CLTV	Current Loan-to-value
CPT	Conditional Pass Through
CVB	Covered Bonds
DTI	Debt-to-Income
IDR	Issuer Default Rating
LTV	Loan-to-value
OC	Overcollateralisation
PCU	Payment Continuity Uplift
PD	Probability of Default
PMT	Pre-maturity Test
WA	Weighted Average
WAL	Weighted Average Life
ANZ	Australia and New Zealand Banking Group Limited
CBA	Commonwealth Bank of Australia
NAB	National Australia Bank Limited
WBC	Westpac Banking Corporation

Source: Fitch Ratings