

GlobalCapital

Australian Bank Issuers Roundtable

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Australian banks attract investors in uncertain times

While Australia is not immune to the geopolitical uncertainties caused by conflicts and trade tensions, the country’s strong services sector and natural resource base act as buffers against volatility. This puts Australia banks in an enviable position in terms of raising capital internationally. In June, *GlobalCapital* assembled a panel of treasury officials and DCM bankers to discuss the opportunities available to the sector.

Roundtable participants



Mitchell Cadman , director, global funding, group treasury, Westpac	Daniel Dela Cruz , head of debt capital markets Australia, Crédit Agricole CIB	Tim Blumke , head of funding, Bank of Queensland	Fergus Blackstock , head of funding, liquidity and collateral, Commonwealth Bank of Australia	Scott Gifford , head of group funding, ANZ	Michael Johnson , executive, funding and liquidity, National Australia Bank	Lindy Newton , general manager, investor relations, Commonwealth Bank of Australia	Friedrich Luithlen , head of debt capital markets and syndication, DZ Bank	Moderator: Toby Fildes , managing director, <i>GlobalCapital</i>
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GlobalCapital: Has the Australian economy moved beyond resilience into recovery? What are the general issues when we’re looking at the country’s economy right now?

Scott Gifford, ANZ: I’m not sure that resilience into recovery is the right narrative for Australia. Australia has continued to maintain strong momentum and remains resilient. But I’m not sure there’s been a lot to recover from.

When we were having this roundtable discussion last year, most of our economists would have thought unemployment would have been a little higher than it is in the low 4% area. We’re still seeing very little signs of credit distress in the

economy, although there are some pockets of concern that I’m sure we will get to and talk about.

A very strong differentiator for Australia is the relatively strong government position in the federal government, let’s call it a balanced budget.

So the fundamentals of the Australian economy since we last spoke continue to show signs of strong resilience. And rather than recovery, I guess the question is what’s the next phase? The big debate at this roundtable last year was whether inflation had been quelled. I think all of us have a much greater degree of confidence in the central bank embarking on an easing cycle. Those interest rate-sensitive sectors of the economy are likely

to recover from perhaps being held back by higher rates.

Mitchell Cadman, Westpac: The RBA’s (Reserve Bank of Australia) objective over the past few years has been to walk this ‘narrow path’ between preserving labour market gains and bringing inflation back to target.

From Westpac’s perspective, we’re definitely expecting the RBA to look at further easing as confidence has increased that we’re on that path. We’re expecting six cuts in the cycle, although we do expect the cycle to be more prolonged, which is currently a little bit different to others in the market. However, there are clearly risks that this could be brought forward. So to Scott’s point,



yes, the next phase for us, we're probably looking at how interest rate cuts stimulate private-sector demand, which has been weaker in the past few years, relative to public demand.

GlobalCapital: Are we saying that Australia is shielded from geopolitics and therefore you don't have to worry about what's going on elsewhere in the world? Have the last couple of months (i.e. tariffs, Israel-Iran) slightly dented confidence?

Fergus Blackstock, Commonwealth Bank of Australia: It would be disingenuous to say that we don't need to worry about what's happening geopolitically. But our view would be that there's no direct impact on Australia, although a likely indirect impact. We're not seeing the traditional increase in consumer confidence following the recent rate cuts coming through as quickly as we would have otherwise thought. And we attribute that to some uncertainty and geopolitical headlines that are making businesses perhaps hold off activities that they might otherwise undertake.

Tim Blumke, Bank of Queensland: We're impacted by the rest of the world, there's no doubt about that and being a smaller bank we're quite conservative with our views on things. There are some fundamentals that we are seeing that might take a bit of tilt towards a Queensland market, given that we are a Queensland-based bank. There's significant investment in Queensland at the moment, particularly leading into 2032 and the Olympic games. So while we see the geopolitical risk in the background, we do see some real positive fundamentals that help with the resilience of the economy.

Friedrich Luithlen, DZ Bank: The fundamental story is unchanged. Australia has a very strong services sector as well as ample raw materials. So there is a natural hedge against geopolitical volatility right there. That's always been supporting the Australian economy and credit positive. I'd also point to the low public indebtedness with elevated private indebtedness. That's fine, but it's still good to see that real wage growth is picking up in Australia. That improves affordability and supports consumption. So, from our point of view, the Australian economy has turned the page and is moving quite well.

Blackstock, CBA: Everyone talks about high private indebtedness in Australia. If you look at that net of the offset accounts, which have been growing in Australia, that indebtedness is actually coming down on a net basis. And if you factor in the superannuation and long-term savings position of Australian households, that looks very, very strong. So, while not incorrect, that gross number doesn't fully reflect the complete picture. When we look at it on the whole of the system, I actually think that looks pretty strong and to your point, takes pressure off the government finances.

Michael Johnson, National Australia Bank: I would add that we've got through the uncertainty of the political cycle with an election that's given a pretty clear mandate to government. GDP growth is still expected to be reasonably solid, although a little bit softer than we had forecast in recent times, and the government sees that and is very focused on productivity improvements across the economy. So that is something that we're watching closely because that is a big opportunity for Australia to continue to strengthen the already strong position we're in at the moment.

Gifford, ANZ: Just following on from MJ's point, in a global context, one of the features of the Australian electoral system is compulsory voting, so it tends to get largely centrist outcomes. And when any side is either too far left or right, voters let them know about it. So it tends to be largely centrist and so we don't get the same kind of polarisation that you see in other parts of the world. But it does mean that from a global sense, we tend to migrate towards rationality even if it takes some time, even perhaps through periods of weaker government. I think



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Scott Gifford, ANZ



that’s important to your point on elections, MJ, for global investors.

And then the Aussie dollar is a great shock absorber. So that continues to support the resources and services sectors. It would be remiss of us not to point out the opportunities for Australia in the global turmoil. We’re talking about the risk, but whether it’s from university students with an Aussie dollar of sub-70 cents or alternate commodity and agriculture exports under certain punitive tariff regimes, there are opportunities to partner with like-minded countries. And we’ve had some experience with punitive tariffs with China from 2018/2019. So the Australian economy has done a lot to diversify its export base as well. So there are opportunities as well as risk. But broadly it’s a good story to be able to tell as we go offshore and talk about the current state of the Australian economy.

Luithlen, DZ Bank: We see the Aussie dollar finishing the year around 69 cents to the US dollar.

Daniel Dela Cruz, Crédit Agricole CIB: But this has been validated by investor demand, it’s been voracious this year across financial institutions and corporates. There’s been an undersupply of Australian credits in the market. In euros, you’re only like around 3% total issuance.

Gifford, ANZ: We talked about some of the difficulties in the covered bond market last year. Certainly, for all of us in this room, we would have said at the time it was a very important strategic market that we all look at to access programmatically and maintain regular dialogue with. The start of the year, the covered bond market really healed and to this day it’s

functioning very well. I think we’ve all in this room done covered bonds this year.

Blumke, Bank of Queensland: Yes, we’ve issued a few weeks ago.

Dela Cruz, Crédit Agricole CIB: And euro covered bond primary supply is still down over 5%, year on year.

Luithlen, DZ Bank: But remember just two months ago we were down 30% in covered supply. We’ve seen a big recovery. Currently, the overarching topics are the flows — actual or anticipated — associated with a rebalancing of books away from the US dollar. What happens when \$7tr of US Treasuries are held abroad and just a proportion of that, a small proportion of that is looking for a new home? The anticipation drives a lot of the books, it drives both euro vs dollar as well as Aussie vs US dollar.

Within US dollar there is also a shift away from US treasuries to other dollar-denominated SSA or AAA-rated issuers. So it’s not just dollars to euros or for Asian OIs from dollars to renminbi or Aussie dollar.

Mitchell Cadman, Westpac: One point that’s coming through more clearly in the current environment is we regularly talk about diversification from an issuers’ perspective, but we are increasingly hearing this from investors as well. From an Australian perspective as we talked about before, a stable political setting, strong risk management across all the banks and a conservative regulator, are some of these characteristics that are really being recognised by investors globally and being valued, particularly in a more uncertain environment.

Blumke, Bank of Queensland: Mitch, to that point I completely agree. We were up in Asia at the start of this year and then we obviously did our covered bond, we went and saw our European investors. And there’s overwhelming positivity about Australia, particularly around the stability aspect of it. They are starting to really appreciate that. They see us a little bit of a safe haven to a certain extent.

GlobalCapital: What about the Australian banking sector? How are funding teams reacting to or assessing the potential for renewed volatility? While markets are in incredible shape, despite the geopolitical flashpoints and uncertainty emanating from the White House, it does feel almost too good to be true.

Johnson, National Australia Bank: There’s probably two aspects of it really. One is the tariff announcements and then the second one is the conflict in the Middle East. I think the most important aspect of the whole thing is that the Australian banks go into these kind of events in a very strong position. We’re well set up to manage these kind of risks, given we consistently access offshore funding markets. We rely on those markets through the cycle to support our balance sheets, so we entered that period in a very strong position.

It’s also been very important for us to engage with our investors through this. I think almost all of us have been offshore in the last month or so, across North America, Asia or Europe, providing investors with visibility on the implications for Australia from tariffs — which importantly isn’t as significant as it may appear at face value. Net exports to the US are relatively low versus a large number of other countries. So engaging with investors and giving them comfort around that has been important.

With the geopolitical risk, that’s just something that we have to set ourselves up for with a strong balance sheet. These things happen from time to time — you have to navigate through that period and be able to stay out of markets or adjust your strategy around periods of volatility. Probably the most obvious thing is that credit has pretty much done a

full round trip since tariffs and the conflicts that have broken out. It blew out in early April and we're now right back to where we started, which as you say could be too good to be true. But it also just highlights the amount of liquidity out there and the relative strength of the Australian bank issuers.

Dela Cruz, Crédit Agricole CIB: Another theme out of the US is regulatory recalibration. It feels like we're hitting peak regulation — is that going to filter through to other markets and regulators?

Gifford, ANZ: APRA [Australian Prudential Regulation Authority] is still very clear with its agenda. It's still ongoing with its agenda. If we look at the move offshore from most major jurisdictions to look at recalibrating regulation after the GFC [global financial crisis] period, so let's call it 15 years of one-way direction, we note that with interest. But it's fair to say that APRA's agenda is still pretty clear and they continue to do what they do. To Mitch's point, many investors view APRA's strength in regulation as a positive and they are an important part of the offshore story regarding the strength of the Australian banking system as well.

Blackstock, CBA: On the balance sheet point, since Covid we'd say that we're taking a conservative position for a range of different economic outcomes. The cause of the uncertainty keeps changing, but throughout it all, the Australian bank balance sheets have remained strong and well positioned. So we haven't felt the need to change any of our settings as a result of the current geopolitical situation because we've been strong throughout this whole period.

Gifford, ANZ: In terms of the sector, we're all losing one to three basis points, which is very minimal credit loss, extremely low at the moment. So capital levels are strong. Most of us have still got some capital management activities to undertake. Liquidity levels are high across the sector. Funding we have touched on, but we're largely well progressed, many of us have been ahead of the run rate, given the known things to navigate this year. Starting with the presidential election in November last year,

we've had to navigate a series of events and it's meant most of us running ahead of the run rate.

So yes, to your question on the banking system, it's in a very strong spot I think, it's a great starting point.

GlobalCapital: Mitch, you said you're funded now, is that right?

Cadman, Westpac: Yes we are. We talked about some of the uncertainty in the Australian consumer, what we've seen in response is really strong deposit growth in Australia. From a Westpac perspective, we hit a record high on our deposit-to-loan ratio back in March, which was pleasing.

That's meant a long-term funding task this year that's below our typical range of A\$30bn (\$19.8bn) to A\$40bn. So yes, at this moment, we've completed our FY25 [financial year 2025] task. However, as we talked about earlier, we're looking to consistently maintain the conservative liquidity and capital settings as we navigate this period, so we'll continue to monitor the market for opportunities to get started on next year's task, which we're expecting to be back in our historical range.

Blumke, Bank of Queensland: Just to add to Fergus's point on the conservative nature, being a regional mid-tier bank, we generally look at our major bank peers as the benchmark. And we often have more conservative settings than them. One of the things that's happened over the last few years if you look back is the RBA ended the liquidity facilities, which we had to fund. We then had the term funding facility, which we had to fund as well. From a Bank of Queensland perspective, we were very conservative over that period.

Geopolitical risks come up at our committee meetings so it's

front and centre. The nature of what you were speaking about Fergus is definitely still front and centre with us. To Mitch's point, we're actually well funded as well — we're ahead of our funding plan for this year, we've essentially finished our funding plan for our financial year.

Gifford, ANZ: So our formal guidance remains around A\$35bn. We've completed approximately A\$30bn of that, so we're well on our way. That's through to September 30. And on our tier two guidance, of the A\$6bn-A\$7bn, we've done A\$6bn — so largely completed in terms of this year. We're running well ahead of run rate.

Luithlen, DZ Bank: A simple question on interest margins. How are they holding up in the Australian market? Is that an issue?

Gifford, ANZ: There's still competition in the retail space, the mortgage space. But if you look back at coming out of Covid, there was 400bp of increases from the RBA and not all of those were passed on to mortgage holders. So it was quite a competitive period then. But there are still some challenges there.

Again, for the kind of audience here, in terms of comparing the Australian banking system to the Canadian or the German or the European banking system, interest margins still look fairly attractive. Profitability remains above the cost of capital, which for many banking systems has been difficult.

So the system generates organic capital via that net interest margin, which for credit investors actually is really important. We all pick up a notch in our credit rating for the stability of our earnings stability. The profitability point is an important one for credit investors.





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Building of the DZ BANK in Berlin by Frank O. Gehry

Blackstock, CBA: The fact that we can reprice both sides of the balance sheet is a big advantage for the Australian banking system. We've got variable rate mortgages and assets. The variable nature of deposits means that it's predominantly competition that might have an impact on the level of NIM [net-interest margin] rather than the outright level of interest rates.

GlobalCapital: Fritz talked about maybe people moving out of US Treasuries, investor flows moving elsewhere, or a portion of investor flows moving away from dollars. There are other markets available of course but is the euro perhaps one of the biggest potential beneficiaries? Do you think you'll be doing more in euros over the next 12 months? Is the whole concept of the European capital market more interesting to you now?

Luithlen, DZ Bank: What we are seeing globally is that some Japanese investors play this game out of dollars into euros more in the credit space. In the rates space we see Asian central banks doing two things. They move into renminbi, which kind of makes sense. But they also move into euros. And then the Latin American central banks have also reopened their euro portfolios.

It's still happening at the margin at the moment. I'm not sure how that development substantially drives books, but the anticipation of that happening more and more and becoming a real trend is certainly supporting demand from everybody else in those euro credit and euro rates markets. That's the background noise to the current strong markets across the board, even though we have Israel, Iran and all these other crises that would normally disrupt markets.

Johnson, National Australia Bank: If we're talking about the euro market, firstly it's always been an important market for the Australian banks. It has been undersupplied a little in the last five years given through the Covid period we had central bank facilities, which meant we didn't have the need for large volumes of funding — beyond tier two — at the time. And since then it's gradually picked up again.

"The cause of the uncertainty keeps changing, but throughout it all, the Australian bank balance sheets have remained strong and well positioned"

Fergus Blackstock, Commonwealth Bank of Australia



It is still a function of the other opportunities we have. We've seen liquidity in the Australian dollar market grow significantly, which has meant that the need for offshore funding on a relative volume basis has declined a little. And then it can come down to pricing for us as well, but it remains a really important part of the mix across all products — covered, senior and tier two.

Talking to investors over there, they would like to see a lot more tier two from the Australian banks. A bit of spread on the Australian tier two product helps. We do trade pretty tight on the senior relative to some of the banks over there. I don't think there is a significant change in how we're thinking about that market, it's still a core market for us as an issuer and will continue to be.

Gifford, ANZ: The question and the discussion is around portfolio allocations and portfolio flows. We're generally in the business of putting bonds in the hands of people who want them, so we'll follow the money and if the money does go, then conceptually that changes cross-currency basis as well.

It's important to say that we are long-term committed to the euro market. But equally the dollar market we'd all recognise is still the largest of our offshore markets and will remain incredibly important.

The final thing I would share is it's the same dynamic for the Aussie dollar. Certainly, all of us are more regularly meeting with our Asian investor base. For example, at ANZ it was only a few years ago we used to do an 'Asian Roadshow'. However, that is not possible in a week and we now conduct separate North Asian and South Asian roadshows. You will see allocation flows in Asia include more into Aussie dollars. The de-dollarisation point is not only favourable

potentially for euros but also for Aussie dollars.

Blackstock, CBA: Ironically, given the strength of the Australian market, which continues to be structurally sound, we've actually done one of our lowest percentages in the domestic market in this financial year. The reason for that is the opportunities offshore, including into euros, have been really good and so that's allowed us to diversify. So I completely support the comments around the core nature of the euro market.

Just on Scott's comments, anecdotally the feedback we got from Asian investors was they're not taking money away from the US, but the marginal dollar has a greater propensity to go into non-US assets, whether that's in US dollars or Aussie dollars or local currency. We're definitely hearing that for the marginal dollar.

GlobalCapital: Mitch — you just did a dollar deal so it can't be too bad.

Cadman, Westpac: It certainly was a strong reception on our US dollar trade. Australian banks' US dollar trades attract global demand, across Asia, Europe and the US, so we were very pleased with the response and the liquidity available in the market. We had the opportunity to print more volume, but given our more limited funding task this year, for the reasons mentioned earlier, we chose to stay more disciplined on size.

On the euro market, I would also add that looking backward across covered, senior and tier two, the euro market has had a very sustained period of competitiveness for at least the past 12 months. And when you look at the events and volatility that we've been through, the resilience of



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Mitchell Cadman, Westpac

the euro market is a testament to the increasing depth and the broadening of the investor base. The recent announcements on trade and tariffs should only strengthen this.

And then secondly, the response that we’ve seen to trades from Australian issuers, not just the major banks, but across regional banks, corporates and more recently semi-governments has been very strong. One thing that really stood out to me was the corporate trade that reopened the euro market after the Liberation Day tariffs — it was Transurban, an Australian infrastructure corporate, reopening a global market.

Luithlen, DZ Bank: I would like to add just one additional aspect that we tend to overlook. Arbitrage funding opportunities in the private placement market in euros are coming back as well. Finally, we have a certain steepness and bouts of rates volatility in the curve again that allow investors to create a 50bp-70bp pick-up by selling a call. It of course depends on how you play the curve specifically, where you put the calls. This reward tends then to lure some investors back into the market for illiquid products. This is more prevalent at the longer end of the curve, which may in turn not always be the ALM [asset liability management] sweet spot for the Australian bank issuers. That said, it is time to get back into this game. It is a nice development to see.

GlobalCapital: Tim — you did a euro covered last week...

Blumke, Bank of Queensland: Yes, we did. It is a real strategic market for us. So we don’t have the global issuance requirements that major banks have, being a regional bank with a much smaller balance sheet.

We don’t have a 144A programme although we do have a Reg S programme. But for us, issuing particularly covered bonds in euros is really our way of getting some cost-effective duration and a bit of tenor in our book as well.

We started our programme as a conditional pass-through programme in 2017, which I think, Fergus, you were on that. We’ve issued a number of times since then, but given the investor feedback and how much of a priority it is over there, we changed it to a soft bullet programme last year. We’ve now issued twice under the soft bullet programme.

To your point Fergus as well, we issued a domestic senior unsecured bond in April last year and since then we’ve issued two euro covered bonds. Which goes to show we’ve actually been targeting European investors, given the feedback from them as well that they want to see us come more regularly with the establishment of the soft bullet covered bond as well. That said, domestic investors are very important to us, but we really see it as a strategic market over there.

Dela Cruz, Crédit Agricole CIB: Let’s not forget that it’s not only covered. There’s huge demand for euro tier two. Sub debt issuance is up 20% year on year and the Aussies have only issued €1bn in tier two this year.

Blumke, Bank of Queensland: It’s interesting as well because we all have investor feedback about doing more in euros, particularly around senior unsecured and tier two.

The international investor base is very comfortable with the major banks. Following the work we have done on roadshows, discussing how a regional bank compares

with the major banks, as well as the resilience of the Australian economy and the banking sector, they have become pretty comfortable with us as well. They’re really asking for more from us.

Gifford, ANZ: To your point on strategic importance, we all invest our time in attending European conferences as well as senior and tier two roadshows. So all of us are going over regularly and updating, we’re committed to those long-term and very valuable relationships and we are always available for a Teams/Zoom call as required as well.

Blackstock, CBA: The euro covered bond market has been core for a long time and we’re expecting it to remain a core part of our annual funding task. Whether we do more or less each year depends on a range of different scenarios and relative pricing, but absolutely it’s a core part.

Dela Cruz, Crédit Agricole CIB: Did the UK Prudential Regulatory Authority’s (PRA) U-turn on cutting non-UK covered bond LCR [liquidity coverage ratio] eligibility give you pause for sterling covered?

Luithlen, DZ Bank: That was a bit of a shock for everybody. Also, the fact that the PRA not quite within a week but very quickly tried to take that statement back. It didn’t really help because people are fundamentally uncertain about future regulation on the subject.

What I found remarkable was that the European Commission apparently did not care. It seems that the Europeans are not worried about reciprocity.

The impression that we get is that the Commission will orchestrate their technocratic decisions based on an assessment independent of what the other jurisdictions are doing — which would be a good thing in this instance.

The European Banking Authority is coming out with their assessment soon. Then nothing will happen for quite a while because an equivalence regime for third country covered bond treatment is not very high on the Commission’s agenda.

The bigger story this year concerns the treatment of third country covered bond investments under the Advanced IRB [advanced internal ratings-based approach]. The 42% loss-given default is

now applicable also to Australian covers in most European treasury books. This roughly translates, at say five years, to 3bp-4bp in terms of additional costs from a euro treasury's perspective. But given the overall bullishness of the market, that's not going to be a strategic obstacle to issuing euro covers in the market. And it hasn't been throughout the year.

GlobalCapital: We've touched a bit on capital already but obviously a big change at the end of last year was the Australian Prudential Regulation Authority's decision to phase out the use of additional tier one (AT1) capital instruments. As a group, how have you reacted to that, what has been some of the noticeable knock-on effects and how has your approach to tier two changed?

Johnson, National Australia Bank: It's now very well understood by investors and I'd say we haven't, in our most recent investor engagement, had the same number of questions that we had when it first came out. There's an acknowledgement that there will be a little bit more tier two, but it's not a massive increase compared to where we've been.

And what we've certainly seen in the last four or five years as we've got to the TLAC [total loss-absorbing capacity] requirement is there is significant depth of investor demand for tier two product domestically and offshore. As we've said, investors are proactively looking for tier two product from Australian banks, particularly across Europe and to some extent the US as well.

So while it's still a long way to play out and there was some uncertainty particularly in relation to some of the ratings impact — helpfully Standard & Poor's came out recently to clarify its stance, which I think was important for stability in the ratings — it's probably 'carry on from here'. We have increased our CET1 [common equity tier one] target to greater than 11.25%, which we announced with our most recent results — this is consistent with the increase in the minimum requirement from APRA.

Blackstock, CBA: We're comfortably above the revised

CET1 minimum requirement. On AT1, we're at 1.9% of AT1, which we will need to replace with 1.25% of tier two. So we don't need to replace it all. We have seen some evidence in the order books of some migration from what might have been previous AT1 investors into tier two through the growth in ETFs [exchange-traded funds] and other passive managers.

Gifford, ANZ: There's been both a substantial uptick in tier two ETF money domestically, as well as an uptick from the aggregator channel (like private banking channel in Australia). So there's been a response. There was a roughly A\$43bn stock of AT1 outstanding. The first redemption calls have now been post the APRA announcement, we've called one AT1 and CBA has called one AT1. So that's A\$40bn-odd of AT1 looking for a home domestically over the coming years. We saw some of the domestic activity in the first and second quarter when ourselves and CBA called AT1s. And then you've seen here in the Aussie dollar domestic market, particularly in the last six or seven weeks, a real flurry of subordinated paper and the market digested that better than I would have thought historically for that volume of tier two in the domestic market as the cash from those redeemed AT1s was looking for a new home.

Dela Cruz, Crédit Agricole CIB: There's also huge support from Asian investors for Aussie dollar tier two paper.

Blumke, Bank of Queensland: We saw this last year. Being a regional bank, we have to replace the AT1 directly with tier two. So we have no CET1 uplift requirements. We had three AT1s outstanding, we called one last year. So we only have two remaining to refinance.

We issued a tier two domestic in October last year and it was our most oversubscribed book that we've ever had — it was out of control to be honest. A lot of the demand was coming from Asian investors, to your point Daniel.

So we see our task as very manageable and the flows that you're seeing into the tier two market are making it easier to refinance from our perspective. To the point I made before, we are getting offshore investors asking for us to do some offshore tier two. Obviously, it's something that we will consider, but we have only ever issued tier two domestically.

Luithlen, DZ Bank: How is your campaign of moving Australian banks' tier two into the senior non-preferred bracket with international investors unfolding?

Scott Gifford, ANZ: Very good. We were in the US in May and we know many investors view our tier two in comparison to tier two capital from other jurisdictions such as senior non-preferred or senior Holdco with similar credit ratings to our tier two. Effectively comparing TLAC to TLAC.

Just to pick up on the tier two topic. One thing that has changed a little over time is the need for a modest amount of additional duration going to meet 7.75%. We're probably a bit more asked to target those longer duration international investors to manage the tier two maturity stacks.

Cadman, Westpac: To put some additional context around the tier two requirement from our perspective. If APRA maintained that 6.5% requirement, we would have expected to see our tier two task dropping off from next year. So with the incremental 1.25% tier two requirement we will need to keep doing what we've been doing over



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the last six years for a longer period of time. So rather than a drop-off in supply, we're just maintaining. We view it as very manageable. We spoke about capacity in euros as being under-utilised and equally there is an opportunity in the Aussie dollar market from A\$40bn of AT1 rolling off. It certainly feels like there's plenty of pathways for the manageable requirement.

GlobalCapital: There's talk of Australian investors wanting foreign banks to come in and issue tier one.

Gifford, ANZ: It wouldn't surprise me if we see more of that. I was just going to say on the discussion, what's coming across and particularly on the geopolitical side, you do need to target your windows with tier two. And we also have things like disclosure, we all have internal disclosure windows when we can and can't issue tier two. So we're all pretty thoughtful around which windows we're going to access and when we're going to do it for tier two.

So just to say there's a lot of thought that goes into it, I don't want this to come across as saying it's all easy. We manage it pretty closely and there's a lot of thought that goes into where we're going to sequence and which markets we're going to access and when.

Blackstock, CBA: One thing that now sets Australian banks apart is we have a very simple capital structure. We've got CET1, we've got tier two, which is our TLAC mechanism, and we've got non-bail-inable senior debt and then we've got our covered and RMBS [residential mortgage-backed securities]. For investors, that's incredibly simple.

Gifford, ANZ: I agree, it really resonates, Fergus, particularly with

offshore. If you want to buy bail-in it's in tier two. Really crystal clear. And you get paid a tier two spread for bail-in risk.

GlobalCapital: Moving on to labelled issuance, there has been, in certain parts of the world, a slowdown in the environmental side of ESG — green labelled. What is Australia's reaction? Are you still as committed to ESG bond issuance as you were and are you as committed to the 'E' element? Or can we expect to see a bit more of a balance with sustainable and social?

Johnson, National Australia Bank: We've got a couple of green bonds outstanding. We've focused our efforts on green with a green bond framework as opposed to a broader framework that covers social, sustainable or other labels. We decided to do that three, four, five years ago, not necessarily seeing where things were headed but just really to simplify the focus to what we were doing strategically as a bank.

There is a bit of a confluence of events where the reality is investors and rating agencies assess the whole bank now on ESG credentials. So a green bond in and of itself potentially won't generate the same level of value or interest from dark green investors as it used to, given the whole bank has moved a certain way or the whole industry has moved in a certain way.

So we've got green bonds outstanding, we've still got a framework in place, we will continue to look at labelled issuance, but it won't be any different to what we have been doing, which is continuing down the green path. There is still a large cohort of investors out there that want that product. Perhaps the execution

benefits and pricing benefits may have decreased a little, but we still see the value there.

Gifford, ANZ: We're committed to our sustainable development goal or SDG Bonds. We updated our framework in December 2024, so we are still very committed to it. And ANZ is still a member of the Net Zero Banking Alliance, no change there. And our internal targets, our A\$100bn sustainable financing target hasn't changed.

We notice the changes offshore, without a doubt, but no change with our internal objectives. As part of that framework update, we did add in some new asset classes, things like social housing, things tied to the government's Housing Future Fund. So to your question, there's a few more broader assets in the pool. But we remain very committed to it.

We had a really good reception in January earlier this year with our SDG tier two in euros and we were really, really happy with how that went. It's a really interesting observation directly after the US bombing in Iran the euro market opens with two transactions with labels — the Commerzbank labelled tier two and RBC with a labelled six non-call five.

We've talked previously around giving execution confidence almost as a covered bond-like defensiveness through the additional diversification of a labelled issue. We talk about greeniums or pricing but actually in a more volatile market there's a defensiveness as well.

The other thing I'd say and it's what MJ touched on, we're in the business of maximising diversification and going where the capital is. It would be remiss to ignore certain capital pools. So the labelled issuance allows us to access the maximum degree of diversification in euros. And from that standpoint, take away any ESG lens, it's just good old-fashioned diversification benefits there as well.

Blackstock, CBA: I do think that Australian energy transition is still an important goal for the government. Recently we've seen the development of the Australian taxonomy and that is helpful in how we develop green or ESG products going forward.

Luithlen, DZ Bank: In Europe, security has assumed political

“There's huge demand for euro tier two. Sub debt issuance is up 20% year on year and the Aussies have only issued €1bn in tier two this year”

Daniel Dela Cruz, Crédit Agricole CIB



supremacy over a green transition of the economy right now.

GlobalCapital: Which is a shift.

Luithlen, DZ Bank: Oh yes. Investors, as you are all well aware, are still very much interested in buying the good old labelled transactions. For treasuries issuing thematic bonds it is more a risk mitigation tool than a pricing optimisation tool these days. But ESG investors in Europe are increasingly concerned with, again at the issuer level, how to treat banks that fund defence assets. So, also here the discussion has markedly shifted. And there is no outcome yet, this is ongoing. We actively engage investors to navigate this turn of the tide.

Dela Cruz, Crédit Agricole CIB: One thing I'd say with regards to the pullback in the US from banks and asset managers, what we have found is a lot of them have maintained their ESG tracking and their internal KPIs. So even though publicly they have retracted because of the administration, they've actually maintained their green focus.

Luithlen, DZ Bank: When banks pulled out of the Net Zero Banking Alliance, some public-sector issuers excluded such dealer institutions from their green bond panels. Other than that, I agree, we have not seen much impact from the US policy shift on European markets.

Lindy Newton, Commonwealth Bank of Australia: It will be interesting to watch if there's less supply of green issuance out of the US and what that does for opportunities for issuers globally. We've got a couple of green bonds outstanding, we've got the capacity to issue more, we've not thought about changing our strategy or anything. But it has occurred to me that there might be less supply coming out of US issuers in the green format. Someone might need to help satisfy the euro demand for green issuance.

Cadman, Westpac: Westpac maintains a green bond programme and we're conservative in the way that we manage our asset pool and focus on what we consider dark green assets. We definitely still have



“...it has occurred to me that there might be less supply coming out of US issuers in the green format. Someone might need to help satisfy the euro demand for green issuance”

Lindy Newton, Commonwealth Bank of Australia

green bonds outstanding, including in euros, and remain committed to that as part of our overall funding strategy, as well as ESG being deeply embedded in Westpac's overall business strategy.

Blumke, Bank of Queensland: We haven't issued a publicly labelled bond before. From our perspective, what we've been focusing on, and Scott mentioned it before, is more the whole bank uplift and talking to investors about ESG around the bank in general. We've had a fairly large increase in our sustainability team internally. It's really uplifting measurement for reporting on ESG.

The second stage for us then is whether we go down the path of a labelled bond issuance. From our perspective, we wouldn't be looking at it from a pricing perspective, it's really a diversification play. And we probably see it similar to how we see our covered bond programme, our euro covered bond programme, in that it taps a pool of investors that we don't see at the moment. But also potentially a defensive issuance, like you mentioned Scott. That's played into our discussions as well.

GlobalCapital: This shift, Fritz, going back to your point, it is amazing how quickly it's taken place in Europe at least. Is it the same here?

Luithlen, DZ Bank: It is very interesting to speak to people from different parts of the world about how they look at their national security. The Europeans are very, very sensitive at the moment because we have a war right at our doorstep. And when you speak to people in Japan, they still seem more prone to

the feeling that they can rely on US security support and thus enjoy a peace dividend.

The Europeans really have had a 180-degree change in their outlook on the idea of the world progressing naturally to a better state. We realise painfully that the notion of dialectical improvement is just silly.

GlobalCapital: We talked about labelled issuance but what about digital?

Blackstock, CBA: We'd probably characterise it best to say we'll watch with interest and be able to follow up in that market. Where we're investing in digital, it's more around the customer experience than around bond markets. But if it feels like ultimately the bond market will go that way, we will keep abreast of international developments and make sure we don't fall behind.

Luithlen, DZ Bank: We're doing a smart bond. Hence, we're moving beyond the basic DLT [distributed ledger technology] based constitution of a bond on a blockchain as opposed to a global note. In the new format the bond itself will administer all payments automatically. Connect that with a trigger solution at the central bank and we enter a 'no touch' bond world. We've already tested the trigger solution together with KfW. The payment leg works very, very nicely. The next step is to test the potential of a smart contract-based bond. There is a lot of potential.

Blackstock, CBA: I don't think we discount the potential but certainly on our part, we're not going to be a leader. GC



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