

GlobalCapital

Australian Bank Issuers Roundtable

JULY 2024

Sponsored by:





building SUCCESS together

Credit Agricole Corporate and Investment Bank is authorised by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and supervised by the European Central Bank (ECB), the APFR, and the Autorité des Marchés Financiers (AMF) in France and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Credit Agricole Corporate and Investment Bank London branch on request. Credit Agricole Corporate and Investment Bank is incorporated in France with limited liability and registered in England & Wales. Registered number: F0308194, Branch No. BR 1973. Registered Office: Broadwalk House, 5 Appold Street, London, EC2A 2DA.

JULY 2024

 **NATIONAL AUSTRALIA BANK**

USD 500,000,000
Senior Unsecured
Formosa Bond
Due 2029

Joint Bookrunner

MAY 2024

 **WESTPAC**

USD 750,000,000
FRN Senior Unsecured
Due 2026

USD 750,000,000
5.200% Senior Unsecured
Due 2026

USD 750,000,000
FRN Senior Unsecured
Due 2029

USD 750,000,000
5.050% Senior Unsecured
Due 2029

Co-Lead

APRIL 2024


 **SYDNEY AIRPORT**

EUR 500,000,000
3.750% Senior Secured
Due 2032

EUR 500,000,000
4.125% Senior Secured
Due 2036

Joint Bookrunner

MARCH 2024


 **TRANSURBAN FINANCE**

EUR 500,000,000
3.713% Senior Secured
Due 2032

EUR 500,000,000
3.974% Senior Secured
Due 2036

Co-Lead

NOVEMBER 2023

 **MACQUARIE GROUP**

EUR 750,000,000
4.7471% Senior Unsecured
Due 2030

Joint Bookrunner

AUGUST 2023

 **COMMONWEALTH BANK OF AUSTRALIA**

EUR 1,500,000,000
3.768% Covered Bond
Due 2027

Co-Lead

www.ca-cib.com



CRÉDIT AGRICOLE
CORPORATE & INVESTMENT BANK

Resilient Australia has reasons to be cheerful

Australia's economy has shown resilience through rate rises, while the country's banks report a return to more normal market conditions post-Covid and say they are in a good place to serve their customers. Are there good grounds for optimism? *GlobalCapital* gathered a group of bankers together in Sydney in late June to discuss the latest market trends, developments and concerns.



GlobalCapital: After some uncertainty in recent times, has Australia's economy turned the corner and is now on the path of consistent growth? Do we have good reasons to be cheerful?

David Goode, ANZ: Australia has been remarkably resilient. The fact that we haven't seen unemployment pick up materially is really all about balance sheet metrics, asset quality. The Australian economy is benefiting from a few key themes

that we highlight to investors — things like the terms of trade, which is maintaining historic highs, the public sector investment spend, which in the past few years both federally and state has also cushioned growth. Obviously the domestic side has been a bit weaker but again that has been cushioned by some pretty strong immigration into the economy. So those macro factors have offset the weakness in the consumer sector.

Clearly, with rates having risen significantly, not as much as

elsewhere but still pretty high, that's obviously slowed down a lot of pockets of domestic demand. But, overall, the economy has muddled through and while growth rates are low, we think they will pick up over the next year or two. Going from low growth to low to moderate growth — so only in the 2%-2.5% range — is a reasonable outcome.

To your point as to whether it's past the turning point, we're not going to see rate cuts this year — the consensus is that that's pushed into next year. Perhaps once we

Roundtable participants



Daniel Dela Cruz, head of debt capital markets Australia, Crédit Agricole CIB	Alexander Bischoff, managing director, balance sheet, liquidity and funding, Westpac	David Goode, head of debt investor relations, ANZ	Michael Johnson, executive, funding and liquidity, National Australia Bank	Fergus Blackstock, head of funding, liquidity and collateral, Commonwealth Bank of Australia	Lindy Newton, general manager, investor relations, Commonwealth Bank of Australia	Friedrich Luithlen, head of debt capital markets and syndication, DZ Bank	Toby Fildes, managing director, <i>GlobalCapital</i> (moderator)	Scott Gifford, head of group funding, ANZ
--	---	--	---	---	--	--	---	--

start seeing rate cuts we'll start seeing domestic demand pick up a bit more but for the time being the economy is performing OK.

Scott Gifford, ANZ: I would describe it as very resilient, rather than turning the corner. We certainly have reasons to be cheerful.

Lindy Newton, Commonwealth Bank of Australia: We've probably all been surprised at how resilient the economy has been. It's probably not what we would have predicted a year ago but it's the cumulative impact if rates stay at this level that's going to start causing some problems I suspect. That's what we're all positioning for.

Alexander Bischoff, Westpac: The general consensus is for a soft landing. When you've had a rapid increase in rates in a very short period of time, there's certainly going to be some pockets of your balance sheet, particularly on the consumer side, that are feeling that pressure. But the reality is, as we've seen, a large majority of customers are actually doing quite well. And then when you look at the forward-looking forecasts, we still have a positive GDP growth forecast in FY25. We have unemployment

peaking below 5% — this is Westpac's house view but I suspect we'll be consistent with our peers. This is predicated on a rate cut in November, with a pretty balanced Reserve Bank of Australia (RBA) outlook. Depending on the next CPI data print, it could go either way.

That's a pretty good reason to be constructive when you've had a record pace of cash rate increases over the course of the last 18 months to see how resilient both the balance sheet and the customers are. But we do need, as always, to acknowledge that there are some pockets that are going to feel the impact more than others. But the banks are in a really good place equally to support those customers as well.

Friedrich Luithlen, DZ Bank: Where do you see deposit growth going?

Bischoff, Westpac: From our perspective deposit growth is not going to ever replicate what happened during the Covid period given the fiscal and monetary support that went into the system then — that was an anomaly. But we're still seeing pretty strong underlying deposit growth more in the low to mid-single digits

forecast in the outlying years and probably a little bit stronger in some segments like business.

It feels like we're returning to a more normal Australian market where total deposit growth at these levels is probably slightly below credit growth and we'll see the funding gaps in the Australian banks start to expand as we go forward, though perhaps not at the same rapid pace that we saw historically. But again, the balance sheet is in a really good position, we all just got rating upgrades so it feels like we're well positioned to deal into a slightly more active funding environment as well.

Daniel Dela Cruz, CA-CIB: It's really worth highlighting the three rating agencies' actions early this year. The major agencies' upgrades have brought the banks' senior ratings into line at double-A equivalent.

Gifford, ANZ: When you look at the global opportunities facing international investors, Australia remains a pretty attractive and stable regime for investment and offers diversification. And we're happy to fulfil that role for investors globally in their investment allocations. They don't have too much to worry about and the rating

agency upgrades reflect that. With Australian major bank senior debt rated in the double-A band by all three rating agencies they are highly sought after investments by global fund managers. And with tier two now rated in the single-A band by all three rating agencies, that has seen a material uptick in interest from global fund managers. But certainly I agree with Daniel, the rating agency upgrades reflect the role that Australia can offer in terms of strength and diversification.

Fergus Blackstock, Commonwealth Bank of Australia: On the subject of deposits, in contrast to some jurisdictions, we haven't seen the significant build-up of deposits in the Australian system paying down as quickly as in some other jurisdictions. So a significant portion of that still remains in the system and has been remarkably and consistently sticky.

Gifford, ANZ: It's a good point and one we all talk about, investing across different jurisdictions. The fundamental nature of the Australian market is a little bit different from the US where you have money market funds and so deposits move in and out of the money market fund industry. But to Alex's point, what we expect is deposit growth to slow. We haven't seen it go backwards.

Luithlen, DZ: Is part of the reason that people invest less in real estate? That's what's happening in Europe.

Goode, ANZ: As Scott was saying, it's certainly a function of the system that even if you invest in real estate, the deposit comes back to the bank in a different format. To what Alex was saying, we're probably seeing business deposits growing a bit quicker than household. And that's probably a function of the way the economy is evolving. We've had strong lending growth and strong deposit growth but we tend to agree that it's difficult for deposit growth to consistently outstrip lending growth without the central bank stimulus that we have seen in recent years injecting a lot of cash into the system. That stimulus is now being sucked out.

Bischoff, Westpac: The big difference between us and the rest

of the world is the 12% defined contribution to superannuation. So the savings are occurring at probably a higher multiple than in a lot of jurisdictions but typically come to the bank as a wholesale instrument as opposed to a deposit — equally, a significant proportion of the superannuation money is going into offshore equities as well.

It's a circle — we're bringing that capital back when we're raising offshore funding. It's just capital that's being exported externally by the large superfunds in particular to invest in global equities as part of their balanced portfolio approach because there just aren't enough assets available.

Gifford, ANZ: There's about A\$3.8tr (\$2.56tr) in the Australian super system effectively sitting outside the banking system. And to Alex's point, we reintermediate that back into the banking system to fund the lending growth.

GlobalCapital: It's a different discussion but are the supers switching a bit more to fixed income now?

Blackstock, CBA: We hear anecdotally there's been a switch. But with the size of the funds under management, it doesn't actually take a large move of the dial for them to have a meaningful impact in the domestic market.

GlobalCapital: Let's move on to Australia's banks and their approach to international debt

markets. How has the approach evolved since Covid?

Michael Johnson, National Australia Bank: There are a few factors. We were talking earlier about the Australian system and how a larger portion of our funding is coming from the domestic market and the flow-on effect of that in terms of how we think about global markets. Recently, we have probably not accessed euros, particularly euro senior, less than in the past which has been driven by an increase in the capacity of the domestic market rather than a change in overall approach. Ultimately the markets have changed with almost half of our funding coming in Aussie dollars this year, which is significantly higher than it has been over the last decade.

GlobalCapital: Is that because that investor base has expanded?

Johnson, NAB: There are a few factors, but the size of the pie is growing. We've also seen growth in some of the middle market and high net worth segments as well across certain products, particularly tier two where we have seen a material increase in appetite.

Asia has also been an important part of that Aussie dollar bid which has been impacted by the relatively low supply of Asian US dollar credit over the past 18 months. Given that lack of supply, Aussie banks are obviously very attractive for Asia investors.

“Deposit growth is not going to ever replicate what happened during the Covid period given the fiscal and monetary support that went into the system then — that was an anomaly”

Alexander Bischoff, Westpac





“It’s really worth highlighting the three rating agencies’ actions early this year. The major agencies’ upgrades have brought the banks’ senior ratings into line at double-A equivalent”

Daniel Dela Cruz, Crédit Agricole CIB

The other aspect that we would probably observe is doing fewer transactions in larger size — so fewer visits, generally in US dollars or Aussie dollars with multi-tranche approach preferred. There’s still a fair bit of funding to do but probably fewer transactions overall.

Blackstock, CBA: I don’t think there’s been a fundamental change in our approach to international markets. We’ve just come through our largest ever refinancing year with repayments of the Term Funding Facility which all of the banks have managed incredibly well. International debt markets have had a major part to play in helping us with that refinancing.

But that wouldn’t be different to the pre-Covid years where we sought to be diversified. The US and Europe are just as important to us as the domestic market.

Gifford, ANZ: Following on from that as well, we’ve all got fairly long-term commitments to international debt markets. Between the four of us as a sector we are amongst the most frequent, consistent and programmatic issuers, with a history of roadshows and investor engagement. It’s a very, very long-term ongoing commitment.

We’ve all raised the point that the domestic market has been really strong, which is fantastic, and senior markets have been really strong so for us at ANZ we’ve stepped back a little bit from covered bonds, for example.

But if you look around the table here, we’ve issued across all the products into euros, CBA have just done a tier two, We did a senior floater, and Westpac and NAB have done covered bonds into Europe. So Europe remains an incredibly important part of the Australian offshore investor base, a key component for all of us and we will continue to engage deeply with European investors.

Newton, CBA: Thankfully the format of engagement has normalised as well. So once a year visiting investors in person seems to be the norm and is highly valued. We all experimented with videos and virtual engagement, which was sub-optimal. So we’re back to in-person again.

GlobalCapital: Has the approach to IR changed this side of Covid? Is it different to what you did before?

Newton, CBA: We tested moving to a hybrid model where we would perhaps reduce the physical going to Europe and do every second roadshow as hybrid or virtual. But there is an appetite to get on a plane and go and meet people in person. And you recognise that, for the relationship, it is better.

Blackstock, CBA: The appetite from investors is that they do want to see you on a regular basis. But that can be supplemented by calls. I think we’re all comfortable with doing the video engagement.

Certainly it’s valuable for the investors to see us at least once a year face-to-face.

Goode, ANZ: The feedback is certainly that investors want to see you on the ground. But between the four banks, the fact that investors know you’re coming regularly, there’s not a lot of need for them to reach out because they know every half they’ll see a bank giving an update. But certainly virtual calls are a very poor cousin to in-person meetings — the quality of the meetings, the two-way flow of information. When we did virtual meetings it was much more one-way, us telling them something whereas in real life you get a much better discussion going.

Luithlen, DZ: In the physical formats that we arrange, it tends to be hybrid anyway. So, you’re on the road and then you’ll take a virtual meeting on the side in a meeting room. Very often those roadshows are timed around specific corporate events so there is a good reason to engage investors at the specific time.

Blackstock, CBA: It is a bit harder post-Covid though. Fridays are more challenging, Mondays can be more challenging. So you have to think about the logistics a bit more than pre-Covid.

Luithlen, DZ: Can I pick up on one point around marketing Australia to European and global investors? I think, Scott, you made the point about diversification and that’s something that is worth stressing again. Investors in Europe are caught between a US dollar world which is full of ambiguity and a European world which is full of political uncertainty. Speaking to European investors ahead of this trip, they made two additional points worth mentioning, why they are really interested in engaging currently. One point is the political stability. You have your share of drama here but it is comparably stable.

Gifford, ANZ: It’s a relative game for sure!

Luithlen, DZ: And then another point that is worth highlighting also in connection with your superannuation fund is the growing working population in

Australia that's both absolute and relative. You went from 48% of the population in work to over 51%. People recognise that. It finally plays significantly into portfolio diversification.

GlobalCapital: I don't want to put words into Fritz's mouth but he is perhaps describing here a flight to quality in Australia versus other, shall we say, regional opportunities.

Bischoff, Westpac: When we look at some of the different global books from deals that we've done, certainly we've seen a benefit from regions like Asia where we've made a long-term investment starting with the IR teams and the work they've done over the last decade to promote the Australian story and support that we are a dynamic, diverse economy.

But equally, some of the more recent pieces like the ratings upgrades, and the inclusion in the JACI [JP Morgan Asia Credit] index have enhanced that view. And when you look at the credit outcomes — and fixed income investors start with credit when they look at the banks to get comfort around the types of investments that they're making — certainly the credit is very well understood.

So we're not necessarily having to re-educate investors in those regions anymore. I think as a cohort we've done a great job of making people understand the dynamic of the Australian economy, as well as how sound our underwriting standards are on mortgages, what the loss rates are, the longer-term trends, what it would take to stress the book. And it doesn't feel like you have to convince people of that anymore, which is very different to where we were in 2012 where you really had to convince people.

Newton, CBA: We are often complimented on our disclosures. Australian banks are well known for their thorough and detailed presentations, which investors value.

Blackstock, CBA: Australia has shown stability, where there's been instability in other jurisdictions. You have a highly capitalised and regulated banking system with strong earnings that ticks a lot of boxes for investors.

GlobalCapital: How do you feel about the euro market? Are you happy with your spreads versus dollars or sterling? Is there more work to be done?

Blackstock, CBA: We were able to access the euro market for tier two debt last month. And you know, it was really good to see the euro market deliver competitive pricing compared to both the US dollar and our domestic market, and offer good diversity at a really competitive level. The euro has been a core market for us for decades and we love the fact that we can access it in different formats.

Gifford, ANZ: We issued a three year senior floater a few weeks before CBA's tier two transaction and the outcome was also really encouraging for us. At the time, the euro was on par if not slightly inside the US dollar, and even more rarely, also a handful of basis points inside our domestic curve. Europe is a core part of our investor base and one that we've invested a lot of time in, so it's pleasing when we can offer a range of options from capital through to covered bonds at globally competitive spreads.

Johnson, NAB: The Aussie or US markets don't necessarily have the same flexibility as euros, where we were able to raise duration in covered format earlier this year. It's important to manage your maturity profile when you have a relatively large funding programme across all products.

Bischoff, Westpac: The confidence around how much volume you can take has increased substantially. The same applies to sterling, which 10 years ago was a £250m market, and now it's a £1bn one. And the euro is the same — five or 10 years ago an Australian bank could print €500m-€750m in senior format, but now we're looking at executing €1bn.

I wouldn't say the covered market has changed dramatically, but market rates have increased the amount of duration we've been able to issue. This year has been like a return to normal as we see investors go out into sevens, 10s or even 15 years.

It's a capacity question. Everywhere we look, the capacities have got bigger. Banks are doing fewer trades because when we do issue it's bigger than what we thought was possible. And so, while it feels like we're less frequent [in euros], that's not necessarily the case.

GlobalCapital: Has the emergence of the EU as a major borrower in euros had an impact? Do you have to compete a little bit more?

Luithlen, DZ: EU issuance in euros acts as a glass ceiling for covered bond spreads. When the EU is issuing at something like 50bp versus swaps at 15 years, then of course, that's going to provide a reference point for the rest of the market. And we see investors switch back and forth between the liquidity they get from SSAs and



“When you look at the global opportunities facing international investors, Australia remains a pretty attractive and stable regime for investment and offers diversification”

Scott Gifford, ANZ

“I don’t think there’s been a fundamental change in our approach to international markets”

Fergus Blackstock, Commonwealth Bank of Australia



the additional spread they want from covered bonds. It’s a game that’s quite frequently played.

GlobalCapital: And what about arbitrage?

Bischoff, Westpac: It depends on the product. We’re in an environment where banks are competing heavily and must be conscious of higher funding costs. Covered bonds have traditionally been competitive [in cost] from five years onwards relative to other markets, whereas senior has been less competitive than both dollars and Aussie dollars over the last few years. Of course, the point was just made by Scott, when it aligns, we’re willing to look at the diversity. That’s probably why you’ve seen a little less senior product [overseas] from us because the market is not always competitive.

Blackstock, CBA: Clearly, we’re going to be commercial in our decision making. But it doesn’t have to be the best price because there’s also the strategic diversity element that we value. There doesn’t always need to be arbitrage.

Dela Cruz, CA-CIB: Very often banks find themselves making a tactical decision in the moment.

Gifford, ANZ: That’s right — swap spreads are moving and most of us hedge everything back to Aussie dollars. There are a whole bunch of moving pieces that we’re looking at any point in time.

Luithlen, DZ: For example, last week, if you thought euros offered slightly better pricing than sterling, the execution certainty in sterling was still higher. In euros, we’re discussing again whether a German Pfandbrief should start with a new issue premium of 8bp just because there’s this added overlay of uncertainty.

Dela Cruz, CA-CIB: I don’t think the dearth of senior paper is that unique to Australia. Year on year, senior preferred is down 36%. And even covered is down 15%-16%.

Johnson, NAB: It is also about timing. Even if it’s competitive, we may not be in a position to issue. We’ve only done one euro senior trade post-Covid, and at the time that wasn’t the cheapest trade we could have done, but it was in the ballpark and we value the diversity. There are a few more stars you have to rely on aligning for a euro senior trade and we continue to expect that there will be execution windows in the future.

GlobalCapital: How has the Australian Prudential Regulation Authority’s bail-in legislation affected your cost of funding in the international capital markets? And how have investors responded to the need to issue tier two for bail-in needs?

Blackstock, CBA: The fact that we’re doing more tier two proportionately compared to senior debt is certainly increasing our average cost of funding. But this

is offset by a very simple funding stack that’s easy for investors to understand: we have tier two as our bail-in instrument, then non-bailable senior debt and, lastly, secured debt. There’s no doubt that this is a more expensive mechanism to reach [our Total Loss-Absorbing Capacity (TLAC) target]. But it has the benefits of simplicity.

Bischoff, Westpac: From day one, the market expected a much higher premium. Although, the Aussie market has expanded significantly to create much deeper demand and we’re all close to where we need our regulatory requirements to be in January 2026, we are still paying a higher premium compared to our senior debt relative to other jurisdictions. I would hope this compresses further.

But now we’re starting to see a slightly more moderate run rate of tier two debt based on maturities and risk-weighted asset growth. I think a lot of investors have seen the opportunity to really pick up a lot of tier two has passed and it’s now a bit more business as usual for the banks.

Gifford, ANZ: It’s been an incredible challenge for us to develop Aussie tier two as a global asset class. Now as we mature that stack and move into rolling it over, the investor discussions should become more nuanced. Does it look like tier two? Or does it look like senior non-preferred or other TLAC? The recent rating upgrades to single-A further validate that view. We’re having more genuine two-way discussions rather than investors kindly escorting us out the room when we suggest they should look at it more like a senior non-preferred or other TLAC instrument rather than a traditional tier two instrument.

Johnson, NAB: Following on from what you’ve said Scott, we’ve seen a change in tone from investors globally, they understand it now. They had expected a lot of supply, but with the strength of the Aussie market, that offshore supply hasn’t been there to the extent a lot of investors had thought and that limited supply has helped the whole market rally.

GlobalCapital: Will international supply increase in the second half of the year?

Gifford, ANZ: At ANZ we're probably raising about 50% of our A\$35bn guidance domestically. But that's still a meaningful amount that we need to raise offshore. But we are telling offshore investors that because the domestic market has been so strong they should expect a little less supply. But things can change — it's all about relative value.

Blackstock, CBA: We haven't changed our approach. There has been a structural shift over the last two or three years thanks to the strong Australian market. But we still expect to be active in international markets. Having gone through a year of TFF refinancing, we very much view the 2025 financial year as back to business as usual.

Bischoff, Westpac: While we all look at our financial years, the reality is we're always looking forward. If we're all funding between A\$30bn-A\$40bn, give or take, per annum, it's a very consistent cycle of accessing markets.

The biggest factors that will influence the quantum of funding are annual balance sheet growth and what happens in the system. If the Aussie market moves back to supplying 40% of our funding, that'll be the biggest factor in how much we raise offshore. But again, the [domestic] share used to be 30%, so there's a lot of under-utilisation of offshore markets that's occurring right now from all of us. I do think this has been a net positive for spreads, and it certainly doesn't concern me if we saw some shifts in the Aussie market [supply] to the lower side. The biggest risk for offshore supply is if it goes the other way and the Aussie share increases to 60% — then how do you try and stay relevant in your core markets? Having said that, I do think this is less likely, to be fair.

Johnson, NAB: As we said earlier, it's a function of timing. There's a lot of political noise expected in the back end of this calendar year that's probably driven behaviour around what's been funded already.

GlobalCapital: In mid-June, a lot of people were feeling a little bit antsy as they hadn't had any deals for a couple weeks

— but really, markets have had the most amazing five months. Five Januarys if you like. I think a lot of this is down to people not wanting to be stuck funding in October, November or December around the US election. Is that shaping your funding plans?

Bischoff, Westpac: Last time we had an election with this level of focus in the US and it went the way of the Republicans, we had a pretty dramatic 24 hours [in the markets]. We need to be conscious of election outcomes as risk managers, but equally, markets can digest information in very different ways. Just look at what we've seen after the recent French [parliamentary election] announcement.

GlobalCapital: Some might disagree, but I think markets were genuinely shocked about what happened in France.

Bischoff, Westpac: But at the same time, markets have been extraordinarily strong. Just compare what's happened in France to other conflicts and challenges that we've experienced over the last five or 10 years that caused a lot more volatility. I think, once we get through these elections, there is the propensity for markets to digest that information very efficiently.

Now, again, as a conservative risk manager, we'll fund appropriately around that. But equally, we've been surprised at how efficiently markets have kind

dealt with different situations this year. The demand for our sterling covered deal [on June 24] was substantially more than what our lead managers had anticipated would have come through a week earlier.

Gifford, ANZ: On that point, that it might play out differently with the US election — we were just out there on our regular investor update in May. As Alex said, we're all conservative risk managers. A lot of the funding teams at global national champion banks have got ahead in their US dollar funding programmes this year. They've observed there's a US election coming, so let's bring our plans forward and avoid it. As a result, a lot of US investors are worried about supply dropping off compared to net redemptions. And so, it might play out differently. Just to say there is not a one-way consensus in the global market.

Blackstock, CBA: There are the obvious things in the calendar you can see — the thing that worries us is the leftfield event that the market's not prepared for. The market has been incredibly resilient over the last 12-24 months. But there may be something we haven't anticipated. And therefore, when markets are good, we want to try and take advantage.

GlobalCapital: Do you think markets have recovered since the European election and the France shock, shall we call



“The feedback is certainly that investors want to see you on the ground”

David Goode, ANZ

“We are often complimented on our disclosures. Australian banks are well known for their thorough and detailed presentations, which investors value”

Lindy Newton, Commonwealth Bank of Australia



it [the calling on June 9 of a parliamentary election]?

Johnson, NAB: Supply has returned, but not to the same extent. Spreads were tight when that happened. We did a US dollar trade just before that, and you certainly got the sense you were getting very close to the tights. Investors were getting selective. So perhaps the market was looking for a release valve.

Spreads have moved out, but they're still inside where they were at the start of the year — the costs look pretty good for issuers. But there is heightened sensitivity around the next couple of weeks, particularly in Europe, and around French banks — their spreads have moved out. But Australia's a long way from everywhere, which helps.

Luthlen, DZ: From January onwards books were driven in Europe by trading-oriented investors, less the buy and hold types. That bid has recently reduced albeit not completely vanished. Recent transactions signify a pathway to normalisation. We're not overly worried. Just don't expect four to five times oversubscriptions — maybe that's healthy.

GlobalCapital: On third party equivalence for euro covered bonds — how are Australian bank covered bonds treated by European investors? And what could change?

Bischoff, Westpac: When we established the covered bond programmes they were in line with the European Ucits requirements. And more recently, our covered bond programmes are all part of the European Covered Bond Council label, again highlighting adherence to the European regs.

Ideally, we'd like equivalence in treatment between Australia and Europe. And as a base case stay at that level Liquidity Coverage Ratio 2A eligibility.

Through the Australian Securitization Forum there's a lot of advocacy going on in collaboration with the ECBC to us. The European Commission has entrusted the European Banking Authority with the task of analysing the covered bond market, both within and outside Europe, with a detailed report to be produced by July 25.

We also see the benefits for investors in Europe in having access to strong-rated jurisdictions which are highly regulated with a quality mortgage product.

Blackstock, CBA: Absolutely. I'm not sure that anything has to change. We're working very closely with ECBC on third country equivalence, doing everything requested of us. It helps that we're issuing pure play residential mortgage covered bonds, as there have been concerns over commercial real estate. That's been playing very well to the European and UK investors. Certainly in the

roadshows we see, the demand for Australian covered bonds is expressed to remain very high.

Luthlen, DZ: There is a modicum of frustration about the timeline. It could be quicker. It's a shame that, for good reasons, there is a risk some jurisdictions may not make the mark, and then lose that bit of regulatory benefit they now enjoy in Europe, over not being qualified as equivalent.

We don't see that happening for Australia. But it certainly explains why the Japanese are waiting with their legislation.

If anybody from the EBA or the Commission reads this — and we'll send it to you — everybody wins if we achieve a sensible global equivalence regime in covereds.

It's good for European issuers. It's good for the global issuers who come to Europe — and you mentioned that the Aussie dollar market is expanding, well it's not just expanding for you. It's expanding for European issuers too. So, for regulators or the Commission to think we are giving something away [by granting equivalence] would be certainly the wrong outlook.

Johnson, NAB: Investors benefit from the pick-up of Aussies at the moment over European and Canadian issuers. That's something you'd have to keep in mind if equivalence comes through, relative to other jurisdictions as well: contrary to the cost of it, there is a benefit of being a jurisdiction with higher spreads that brings investors into our books.

GlobalCapital: More roadshows!

Johnson, NAB: They're pretty exciting, covered bond roadshows... [Laughter]. We don't do covered bond roadshows, rather European investor roadshows.

GlobalCapital: What sort of investor diversification does the euro market offer Australian banks?

Gifford, ANZ: Definitely it brings genuine diversification. There are very discrete pockets of liquidity and investor mandates driven by the currency. So it's extremely valuable, and more broadly, the triple-A covered bond product is

highly developed in Europe and is its own diversification. It has a very high value during times of dislocation. So I think Australia's introduction into covered bonds in 2011 was one of the very positive reforms that came out of the [2008] global financial crisis for the Australian banking sector.

Blackstock, CBA: Quite simply, the euro market is the second biggest credit market in the world, with genuine, high quality investors and we naturally treat it seriously as a core market.

Luithlen, DZ: Can we touch on the ESG element? I'd like to advertise social or green covereds. But what's your experience?

Blackstock, CBA: We issued in green before the recent market disruption. The European investor base has been on this journey for E, S and G for longer than Australia and we have been. The market has evolved and developed in that time, but it's still very important, so we get questions around ESG. Over the last four or five years, we've spent a lot of time investing internally and making sure we've got the right products, policies and approach.

But the investor demand was strong. We definitely saw a pricing advantage by using the green label and good penetration into green investors. For Europe, it's been important, we're very pleased with the outcome. I think we could have got a very good transaction away without the green label. But we were also conscious that we hadn't issued outside Australia in that format, and we had plenty of capacity to do so. And we felt on the night that it did make a positive difference to the pricing and the engagement.

Gifford, ANZ: We've had a longstanding engagement, with our first [UN Sustainable Development Goals] TLAC in euros issued back in 2019. Subject to APRA's approval, we're approaching the call date that bond later in the year, so it'll be full circle on our Sustainable Development Goal Tier two.

All four of the Australian major banks are Net Zero Banking Alliance signatories and have released glidepaths to meeting those targets. In our liaison with

European investors, for our detailed disclosure we tend to be held up in the top 15% of ESG banks globally. It's been a step change for all of us.

The feedback we get is European investors have embraced our journey. We also note the flow of funds to Article 8 and Article 9 funds [under the EU Sustainable Finance Disclosure Regulation] so it's something we engage with to remain relevant to those pools of capital and stay in that top 15%.

Dela Cruz, CA-CIB: Is it a function of the lack of green assets that you'd rather use them for tier two deals rather than covered bonds?

Gifford, ANZ: There's a big data challenge in the green covered market around building standards and green mortgages. Whereas the labelled bonds' collateral tends to be based on larger, institutional loans.

In our SDG pool, we've got about A\$9bn, but the number of loans is only in the hundreds. To have them audited and assured is manageable, whereas if you're doing a covered mortgage deal, you need securitization-style, actuarial technology and the data isn't yet in a position for this on ESG.

NAB have done a green RMBS here in Australia, so there's some familiarity with it, but at ANZ we're observing that before moving into the mortgage side of things.

Johnson, NAB: The development of the Taxonomy is important,

to make [classifying green assets] much easier, but it clearly requires a lot of data and sophistication around accessing and verifying it, across a very large pool of assets. Currently, banks don't necessarily collect sufficient data for where the Taxonomy's headed.

Gifford, ANZ: What you generally see from the four of us is belts and braces — high quality, robust structures meeting best practice is what you'll tend to see in ESG from the Australian major banks.

GlobalCapital: Do you get a greenium now?

Blackstock, CBA: We issued two weeks ago. We're calling it 5bp on that transaction. I don't think it's always been 5bp, it's fluctuated. On green covered bonds there's a huge argument over whether you can do a use of proceeds labelled covered bond that doesn't need green mortgages in the cover pool. But I think the question is: where's your best use of the collateral? Is it through covered bond issuance or unsecured? That's still an open question.

GlobalCapital: There's the greenium, but there's also the secondary performance of the green transaction. Does it tend to be more stable in times of stress?

Gifford, ANZ: Even in the bookbuild for a green deal, investors tend to be a little less



"It's important to manage your maturity profile when you have a relatively large funding programme across all products"

Michael Johnson, National Australia Bank



“ESG has come more into the mainstream. A larger proportion of issuance is now labelled in some way. Hence, it is only logical that greeniums are diminishing”

Friedrich Luithlen, DZ Bank

price-sensitive. They are more willing to come on the tightening journey with you and there is a sense of not wanting to miss that deal.

GlobalCapital: *In the US we’ve seen a stepping back from that rush for ESG. But in Europe do you find it’s still fairly full on?*

Luithlen, DZ: ESG has come more into the mainstream. A larger proportion of issuance is now labelled in some way. Hence, it is only logical that greeniums are diminishing. We see that especially in the supranational, sovereign and agency space, where the prime example is German Bunds. And what are we talking about as a greenium? Half a basis point, or 1bp. In the tier two space, there were greeniums of 20bp to be had a couple of years ago. Now, you calculated 5bp. Is that going to be the big mover in your cost of liabilities? No, it is not. But that’s just a sign of a maturing market. And that’s OK.

The European investors are still engaged. There have also been in Europe discussions around greenwashing for some fund managers, but apart from that, Europe is still very well anchored on that path.

Bischoff, Westpac: If I compare the amount of questions we got on ESG in the last roadshow in Europe in May, versus what we would receive in previous years, it was barely a handful.

But I don’t think that’s because people are disengaged, it’s because the market’s matured. Whether you’re issuing a labelled or conventional bond, a lot of investors run their own internal process around ESG, or use a third party provider like MSCI. That’s a gate opener to them buying the credit.

It doesn’t surprise me, I thought naturally the market would evolve to have less labelled issuance from banks. Ultimately, an ESG score for the organisation feels like where we’re moving to.

On greenwashing, we’ve seen examples where people haven’t set up the right infrastructure. We want to be really clear on the asset types we’re putting into our pools, so that we can report the impact of investments correctly and consistently.

Because impact reporting in a lot of segments is still not defined. So it is more challenging if you start including lots of different asset types. So whilst we’re all doing a lot of ESG lending through our businesses, that doesn’t necessarily translate into a significant amount of lending you can put into your pools.

Luithlen, DZ: The greenwashing discussion was more felt in the sustainability-linked than the use of proceeds space. On the corporate side that had a real impact, there was less sustainability-linked issuance. Use of proceeds is still fine — but I get your point: let’s be as clean as we can.

Bischoff, Westpac: It’s a good evolution of the market where banks are being assessed in completeness, and that is informing investors’ decisions on buying a senior or tier two, whether it’s labelled or not. The banks here provide significant ESG disclosure across a range of activities. Certainly we are keen to lend and issue into the green space. But I’m not surprised we haven’t continued to see the same explosion of labelled issuance and new types of products, because the market has matured beyond that.

GlobalCapital: *Has it ever crossed your minds that you might do sustainability-linked bonds? It hasn’t really taken off in the financial sector.*

Gifford, ANZ: Well it has challenges for the financial sector that are well known — what’s an appropriate target? What’s the appropriate timeframe? I’m principally issuing three year bonds, so where are you going to put that target — halfway through? What are we going to do in one and a half years? For longer dated bonds, particularly in the corporate space, say you’re a cement company and you go on a 10 or 15 year sustainability journey, that makes more sense.

Luithlen, DZ: The whole KPI-linked world is for transition. But transition is a process, not a product. Banks deal in products, with assets on the balance sheet. So, for banks and multilateral development banks it makes more sense to use the use of proceeds approach.

GlobalCapital: *Or issue a use of proceeds bond based on ESG-linked loans?*

Gifford, ANZ: Yes, the Nordea structure — we’ll see if that gathers any traction but I think that was a useful development.

Dela Cruz, CA-CIB: I’d echo what Alex said: I think investors are becoming more sophisticated and looking at the institution more holistically, they look at the overall DNA.

Gifford, ANZ: It’s definitely a dual recourse, yes, which is healthy. That’s the natural evolution. **CC**