RMBS Performance Watch

Australia Part 1 – Market Overview

At September 30, 2018

S&P Global
Ratings

Commentary

Performance Trends: The Big Picture

Table 1: Key Performance Indicators

	Q3 2018 (%)	Q2 2018 (%)	Year-on-year* movement (%)	Peak (%)§
30+ Days Arrears (%)				
Prime	1.33	1.38	0.25	1.69
Nonconforming	3.01	3.44	(1.41)	17.09
Investment†	1.19	1.19	0.26	1.36
Owner-occupied†	1.52	1.58	0.23	1.58
Prepayment Rates (%)				
Australian prime	19.96	20.52	0.16	31.15
Australian nonconforming	27.47	25.17	(1.89)	62.18
Cumulative Gross Loss (CGL) (Please refer to charts 3A and 3B for breakdown across vintages)				
Australian prime	Highest CGL is for 2010 vintage at 0.155%			
Australian nonconforming	Highest CGL is for 2010 vintage at 1.057%			

Source: S&P Global Ratings. Data as of Sept. 30, 2018. *Year-on-year movement shows the increase (or decrease) in arrears for the current quarter compared to the corresponding quarter of the previous year. §Peak is derived from the highest figure recorded for total balances over A$1 billion. †Investment and owner-occupier arrears include prime and nonconforming loans

Table 2: S&P Global Ratings Economic Outlook – Baseline effect on collateral credit quality

	Outlook for 2018F	Outlook for 2019F	Effect on collateral
Real GDP (%)	3.1	2.9	Neutral. Forecast improvement in real GDP is positively correlated with credit quality because the general health of the economy affects households' repayment capacity.
CPI inflation (%)	2.0	2.1	Favorable. If wage growth improves, this is credit positive because it strengthens debt repayment capacity.
Unemployment rate (%)	5.2	5.1	Favorable. Stable employment conditions are favorable because loss of income is a key cause of default.
Policy rate (%)	1.50	1.59	Unfavorable. Rising interest rates are closely correlated with increasing arrears because a majority of mortgages are variable rate.

Note: F--Forecast. Source: Credit Conditions Asia-Pacific, Nov. 29, 2018

Key Takeaways

Arrears Are Holding Steady, For Now

- Loans more than 30 days in arrears totaled 1.33% in September and have averaged 1.36% over the course of 2018. Arrears are more elevated than they were 12 months ago, but remain below their historical high of 1.69%.
- Loans more than 90 days in arrears are on the rise, and now comprise around 55% of total arrears, which is well above their 10-year average of 43% of total arrears.
- With future interest-rate movements likely to be up rather than down, we expect arrears to remain elevated in 2019, but we are not expecting a material rise in defaults.
- While property prices are declining, employment conditions are generally positive and wage growth, though still low, is looking more optimistic. This is important for arrears because borrowers' ability to continue to meet their mortgage repayments and avoid default is directly tied to labor market conditions.
- Increases in interest rates will create debt-serviceability pressures for some borrowers, but the general tightening in lending standards in recent years, including the incorporation of interest-rate buffers and floors in debt-serviceability calculations, should ensure most borrowers are better placed to absorb a certain level of interest-rate increases.

Arrears levels in the nonconforming sector have continued to fall, though this trend should be analyzed in the context of increasing outstanding loan balances and a reduction in seasoning. The weighted-average seasoning of the nonconforming sector was 26 months as of Sept. 30, 2018, compared with 67 months for the prime sector. While there have been a number of prime residential mortgage-backed securities (RMBS) transactions issued in 2018 with noticeably lower seasoning levels than in previous vintages, the current loan balances underlying 2018 transactions make up around 10% of total loans outstanding in the prime sector. In the nonconforming sector, this proportion is around 50%. Based on historical observations, we expect most defaults to have occurred within 60 months of loan origination, particularly in prime portfolios. In the nonconforming sector, our base case assumes that most defaults will have occurred within 48 months of loan origination due to borrowers' lower credit quality. As loans season, a borrower builds up a track record of repayment, which positively reinforces the borrower's credit profile. A less-seasoned portfolio of loans therefore is more likely to experience an increase in arrears and defaults than a well-seasoned portfolio, all else being equal.

Prepayment Rates Have Slowed But Not Stalled

- Prime prepayment rates slowed from June 2016 to March 2018, when they reached a low of 17.71%. They have since gained some momentum to reach 19.96% in Q3 2018, up 0.16 percentage point from a year earlier. The nonconforming prepayment rate declined to 27.47% in Q3 2018 from 29.36% in Q3 2017.
- Prepayment rates historically have averaged around 21.2% in the prime sector and 27.13% in the nonconforming sector.
- Prepayment rates calculated by S&P Global Ratings consist of voluntary prepayments and involuntary prepayments. Voluntary prepayments include those that are partial, due to borrowers making additional payments on their home loans, and full, due to refinancing. Involuntary prepayments are due to default.
- The slowing of the prime prepayment rates reflects the general tightening in lending conditions, which will have affected some borrowers' refinancing opportunities. It also partly reflects the reduced capacity of some households to make additional mortgage repayments in a rising interest-rate environment.
- While we expect prime prepayment rates to stay below 20% in 2019, we do not expect them to fall materially below current levels. Refinancing conditions have tightened, but there is still strong competition for borrowers

of a sound credit quality. The collateral quality metrics are relatively strong in the prime RMBS sector, as evidenced by modest loan-to-value (LTV) ratios, high seasoning, and mostly amortizing repayment structures. These types of borrowers are still being courted by many lenders.

- Under our cash-flow modeling stresses, we apply a fast, medium, and slow prepayment-rate assumption. Under the slow prepayment-rate scenario, we model a flat prepayment rate of 5%.

Falling Property Prices And Borrower Behaviour

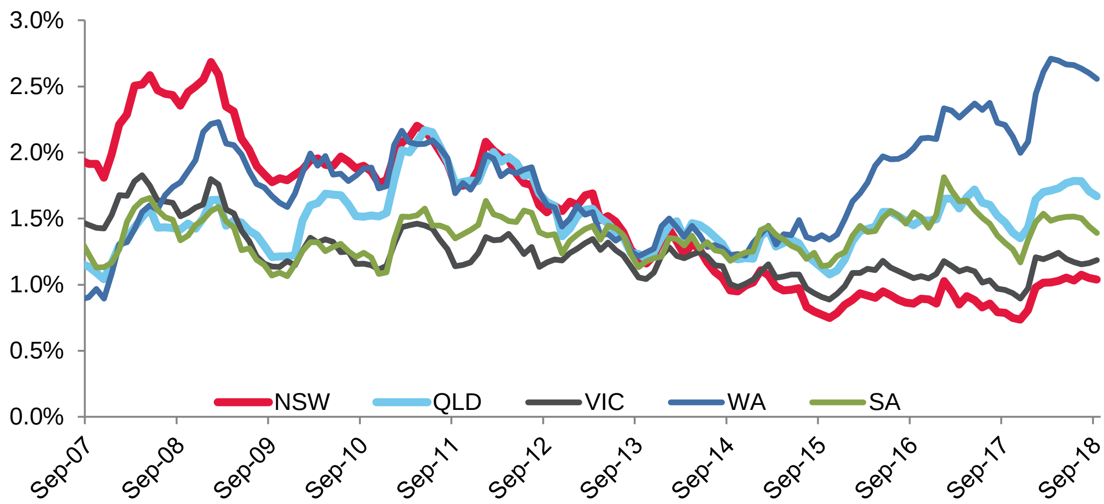
- Property price declines exacerbate losses in the event of borrower foreclosure. However, repayment behaviour is more closely correlated with employment conditions. Falling house prices are likely to influence consumption decisions and saving rates.
- Property price declines have eroded borrowers' equity in their home loans. This is less of a risk for well-seasoned loans, given the recent falls follow several years of strong, uninterrupted growth, particularly in Sydney and Melbourne.
- Property price declines pose more of a risk for loans with a lower seasoning, such as those underwritten in the past 12 months, and highly leveraged borrowers (loans with an LTV ratio in excess of 80% comprise around 13% of Australian RMBS portfolios). This is because they have less equity built up and potentially more diminished refinancing prospects in the current lending environment.
- Lower-rated tranches of recent vintages are more exposed to this risk, given tranche sizes at this position in the capital structure are quite thin.

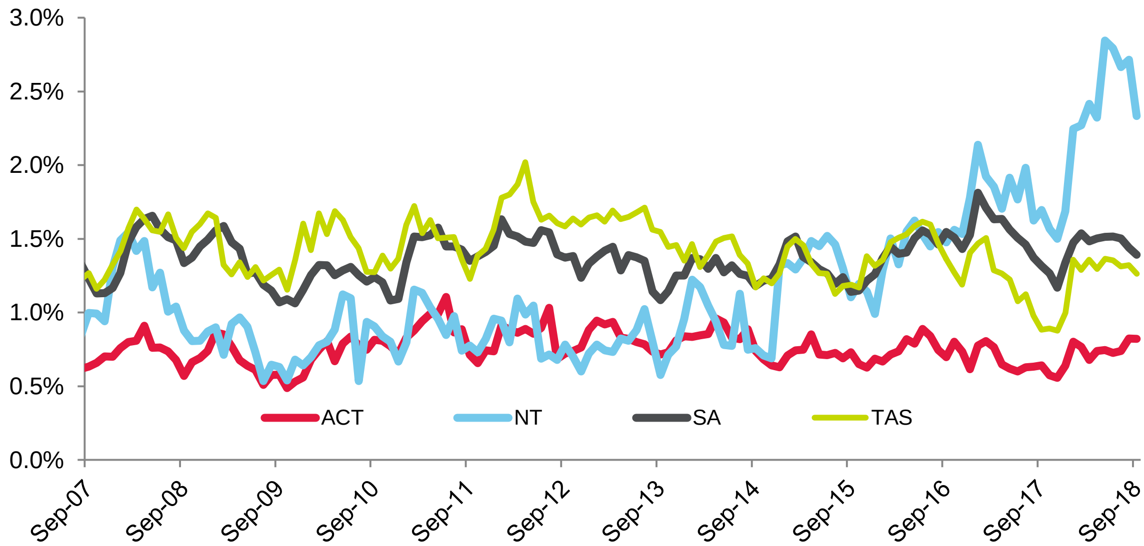
While borrower behaviour and the decision to default can be influenced by the equity position in a security, we believe that the credit culture and full-recourse nature of Australian housing loans results in borrower behaviour being predominantly motivated by affordability considerations. Over the longer term, defaults in Australia tend to be largely influenced by triggers such as unemployment, divorce, and health-related issues. It uncommon in the Australian context for a borrower, particularly an owner-occupier, to default primarily on the outstanding mortgage debt being greater than the market value of the property.

State Of Play

The Australian Capital Territory (ACT) in the third quarter (Q3) of 2018 again had the lowest arrears of all the states and territories, at 0.82%. Western Australia resumed the top spot in Q3 for the nation’s highest arrears, at 2.56%, followed by the Northern Territory, at 2.33%. Arrears performance is more volatile in the Northern Territory, where the exposure to underlying loans is small, at 1% total RMBS loans outstanding. Year-on-year arrears have increased across the country, with the largest increases recorded in Western Australia, Northern Territory, and Tasmania. This is against a backdrop of generally falling unemployment rates in most parts of the country, illustrating borrowers' more heightened sensitivity to interest-rate rises in an environment of low wage growth and high household debt.

Chart 1A and 1B: State Arrears Levels





Source: S&P Global Ratings

Table 3: State Arrears Trends

	Q3 2018	Q2 2018	Annual Increase (Decrease) (%)	Peak (%)	U.R. (%)
30+ Days Arrears (%)					
NSW	1.04	1.03	0.25	2.69	4.4

VIC	1.18	1.17	0.22	1.86	4.5
QLD	1.67	1.78	0.20	2.17	6.3
WA	2.56	2.66	0.35	2.71	5.7
SA	1.39	1.52	0.08	1.75	5.4
TAS	1.26	1.35	0.38	2.02	5.3
NT	2.33	2.79	0.64	3.50	4.6
ACT	0.82	0.73	0.18	1.11	3.7
AUSTRALIA	1.33	1.38		1.69	5.3

Source: S&P Global Ratings, ABS. U.R.--Unemployment rate, seasonally adjusted, as of Oct. 2018. Note: Annual increase (decrease) in arrears represents the difference in arrears (e.g., Arrears % Now – Arrears % same time last year).

Nine of the 10 worst-performing postcodes in Q3 2018 are in Queensland and Western Australia (again); this was consistent with Q2 2018, Q1 2018, and Q4 2017.

Table 4: 10 Worst-Performing Postcodes

State	Suburb	Postcode	Loans in Arrears (%)	Loan Count
WA	BUTLER	6036	7.17%	389
WA	BLYTHEWOOD	6208	6.63%	259
QLD	BUNGIL	4455	6.56%	296
WA	BYFORD	6122	5.29%	430
WA	WILLIAMSTOWN	6430	5.24%	589
NSW	BALMORAL	2571	4.95%	294
WA	CLARKSON	6030	4.88%	1142
WA	MADDINGTON	6109	4.62%	314
QLD	ARMSTRONG BEACH	4737	4.42%	314
WA	BALDIVIS	6171	4.38%	749

Source: S&P Global Ratings. Data as of Sept. 30, 2018. For a full list of suburbs/localities attached to these postcodes, please refer to the Australia Post website.

Losses Remain Low

Cumulative losses for most Australian RMBS vintages are relatively low for prime and nonconforming transactions (charts 2A and 2B). Low levels of losses reflect a prolonged period of benign economic conditions, characterized by stable employment conditions, low interest rates, and, until recently, strong property price growth. We forecast employment conditions to remain stable and jobs growth to remain positive, and we do not expect losses to increase much above current levels, provided employment conditions remain stable.

Chart 2A: Prime Cumulative Goss Losses

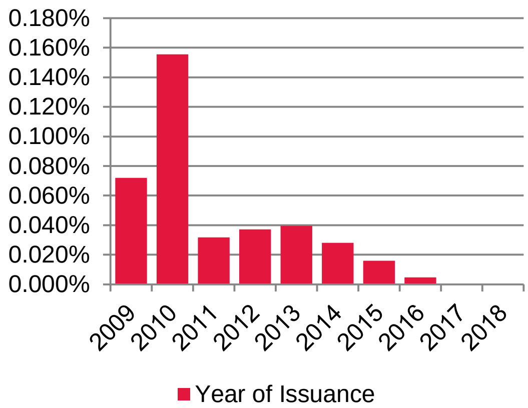
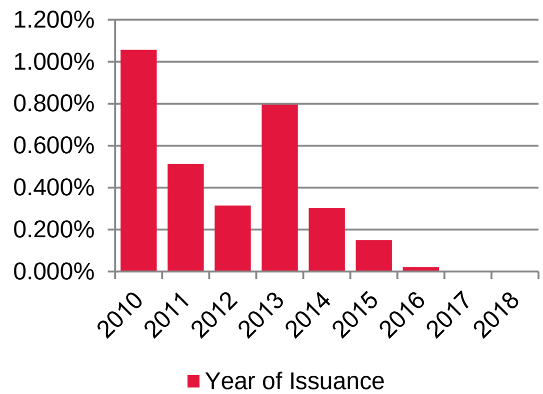


Chart 2B: Nonconforming Cumulative Gross Losses



Source: S&P Global Ratings. Data as of Sept. 30, 2018. Cumulative gross losses as a percentage of initial issuance. For prime 2010 vintage, more than 60% of losses are attributable to one transaction.

In the case of the 2010 prime vintage (charts 2A and 2B), the higher losses are primarily due to one transaction that has a high proportion of low-documentation loans and high LTV ratio loans. This transaction has since paid off.

All gross losses to date in prime and nonconforming Australian RMBS transactions have been covered by lenders' mortgage insurance (LMI) claims paid and excess spread.

Adjustment to LMI claims (claims-adjustment rates) is low in the Australian RMBS sector, ranging from 1% to 17%, depending on originator type. This partly reflects the close alignment between LMI guidelines and lenders' underwriting standards. It also reflects the generally low level of claims submissions in the sector, given the strong collateral performance, underpinned by a long period of benign economic conditions and strong property price appreciation. We expect this trend to continue in the short to medium term, given the tightening in lending standards since 2014 and the increased regulatory scrutiny of the mortgage sector.

Key Risks, Old And New

We are monitoring the following key risks in the Australian RMBS sector:

Magnitude and duration of property price declines: Property prices affect the level of net losses in the event of borrower default. Loans originated in the past 12 months are more susceptible to market value declines, particularly those with higher LTV ratios. This risk could translate to rating pressures on lower-rated tranches of transactions with less-seasoned loans in the next 12 to 18 months, depending on the LTV profile of the respective transactions and how arrears and foreclosures track. Most loans in the prime Australian RMBS sector benefit from high levels of seasoning, however. Many of these loans, particularly those located in Sydney and Melbourne, have benefited from several years of strong property price appreciation and have built up a reasonable degree of equity, as evidenced by the weighted-average LTV ratio across the sector of 60%. This provides a buffer against a moderate property price decline. Around 13% of total RMBS loans have LTV ratios of more than 80%. Seasoning levels in the nonconforming sector are much lower, at around 26 months. This reflects the strong issuance in this sector in the past two years and higher prepayment rates, which are characteristic of this sector. Subordinated tranches of transactions in this sector are more exposed to the risk of property market value declines in the event of borrower foreclosure, given their more diminished refinancing prospects. Refinancing is a common way for borrowers to manage their way out of financial difficulty. Nonconforming borrowers are more likely to face tougher refinancing conditions, given the general tightening across the lending sector. This could create tail risk in some transactions.

Interest-only transition risk: Around 50% of the interest-only loans in Australian RMBS transactions will reach their interest-only maturity date by the end of 2019. While the ongoing transition of interest-only loans to amortizing loans has put pressure on arrears, it has not resulted in a material increase in arrears. Anecdotal observations suggest that many lenders have been working with interest-only borrowers to better prepare them for approaching interest-only maturity dates to minimize the risk of repayment shock by offering more targeted communication.

Rising interest rates: Household indebtedness is high in Australia. This does not provide much headroom if the economic situation deteriorates or when interest rates rise. Low interest rates and improving employment conditions are keeping mortgage arrears low in the Australian mortgage sector, but Australian borrowers have become more sensitive to rate rises. A rapid ratcheting up of interest rates, as occurred between September 2009 and October 2011, when rates rose by around 2 percentage points, would see arrears go beyond their previous peaks, given household indebtedness has continued to increase during the past five years. A mitigating factor to this risk is the general tightening in debt-serviceability standards in recent years with the inclusion of interest-rate buffers and floors now de rigueur at most lenders.

Refinancing risk: Debt-serviceability issues are exacerbated in more subdued economic climates when refinancing opportunities are limited, particularly for borrowers of a higher credit risk, because lenders invariably tighten their lending criteria. In this scenario, some borrowers will find it harder to manage their way out of their financial situation, leading to higher arrears and potential losses. In our opinion, self-employed borrowers, nonconforming borrowers, and borrowers with high LTV loans are more likely to face greater refinancing difficulties in more subdued economic climates. Prepayment rates are normally a good indicator of refinancing conditions. Across the prime sector, prepayment rates have generally slowed during the past 18 months, reflecting a general tightening in lending conditions.

Current Outlook

Declining property prices, rising interest rates for some borrowers and loan products, and a general tightening in lending conditions will put pressure on arrears, but this is unlikely to translate into material increases in defaults or negative ratings migrations. Improving employment conditions will continue to underpin the sound collateral performance of Australian RMBS and is fundamental to our stable outlook for this sector, but risks are more elevated than they were 12 months ago.

The credit enhancement available to most 'AAA (sf)' rated tranches of Australian RMBS transactions provides a buffer to withstand a moderate deterioration in collateral performance, in our opinion. Subordinated tranches, particularly those with no hard note subordination available to them, are more reliant on the sufficiency of excess spread to maintain their ratings in the face of any collateral deterioration. Lower tranches of more recent transactions with less seasoning may be more susceptible to ratings pressure, depending on the LTV profile of the transaction. Earlier vintages of transactions benefit from higher levels of excess spread and, based on first impressions, are likely to have a greater buffer to absorb any deterioration in collateral quality.

New Zealand: Risks Facing the Financial System Have Stabilized

Table 5: S&P Global Ratings Economic Outlook – Baseline Effect On Collateral Credit Quality

	Outlook for 2018f	Outlook for 2019f	Effect on collateral
Real GDP (%)	2.7	2.7	Relatively stable. Stable GDP growth will support credit quality because the general health of the economy affects household's repayment capacity.
CPI inflation (%)	1.7	2.1	Favourable. An increase in wage growth strengthens debt repayment capacity.
Unemployment rate (%)	4.4	4.4	Neutral to favourable. Stable employment conditions are credit positive as loss of income is a key cause of default.
Policy rate (%)	1.75	1.75	Neutral. Half of the transactions are variable rate, leaving them more exposed to rising interest rates. The other half have mostly fixed-rate portfolios and are less exposed.

Note: F--Forecast. Source: Credit Conditions Asia-Pacific, Nov. 29, 2018

As outlined in our recently published "Banking Industry Country Risk Assessment: New Zealand," we consider that the risks facing New Zealand's financial system have stabilized, reflecting the slowdown of rapidly increasing residential house prices and private-sector credit, and the maturing of the credit cycle. Tighter bank lending standards and macro prudential tools implemented by the Reserve Bank of New Zealand (RBNZ) are the key drivers in the slowdown in house prices and credit growth.

That said, the risk of a sharp correction in property prices remains elevated because of the historical build-up. If a fall were to occur, the impact on financial institutions would be amplified by the New Zealand economy's external weaknesses, particularly its persistent current account deficits, which we expect to be in line with historical levels of about 3% of GDP. Another external weakness is the high level of external debt--at about 185% of current account receipts--relative to other banking systems (see "Banking Industry Country Risk Assessment: New Zealand," published Nov. 25, 2018).

The high seasoning (54 months), modest LTV ratio profile, and high prepayment rate (25%) of New Zealand RMBS portfolios enhance their resilience to any deterioration in economic conditions. Losses to date in New Zealand RMBS transactions have been minimal and have been fully covered by LMI.

The low exposure to high LTV loans--5.0% of loans have an LTV ratio above 80%--also provides a good buffer to absorb a softening in property prices.

Most New Zealand RMBS are well seasoned and have had minimal losses to date. LMI cover and structural supports can help rated notes to weather temporary adverse events, subject to adequate insurance being in place and operational requirements being met. For well-seasoned loans, strong appreciation in property prices has increased borrowers' equity, which helps to minimize the level of losses in the event of borrower default. Conversely, for loans underwritten in strong property markets at higher LTV ratios, borrower equity could be eroded if property prices fall, potentially causing losses incurred in the event of borrower default.

The key performance trends for the New Zealand RMBS sector during Q3 include the following:

- The Standard & Poor's Performance Index (SPIN) for New Zealand prime mortgages decreased to 0.70% in Q3 from 0.93% in Q2 2018.
- Prepayment levels for New Zealand prime mortgages increased to 24.78% in Q3 2018 from 23.18% in Q2 2018.

- Cumulative gross loss levels are low for prime RMBS, with the highest vintage (2010) recording a cumulative gross loss of 0.682%. All other prime vintages have reported no cumulative gross losses to date.
- The current weighted-average LTV ratio across RMBS portfolios is 60.4%.
- The current weighted-average seasoning across RMBS portfolios is 54 months.

All gross losses to date in prime New Zealand RMBS transactions have been covered by LMI claims paid and excess spread. There are no longer any outstanding nonconforming New Zealand RMBS transactions.

The performance of New Zealand RMBS has been stable, and we expect this trend to continue in 2019.

Market Overview

Recent Issues

The following transactions have issued RMBS in the past three months, hence there may be insufficient history available to create the graphs titled "Loan Pool Arrears Performance vs. SPIN" and "Loan Pool Repayment Rate & Outstanding Security Balances".

Deal Name	Asset Sub Class	Sponsor	Closing Date
Triton Trust No.8 Bond Series 2018-1	Prime	Columbus Capital Pty Ltd.	24-Jul-18
Pepper Residential Securities Trust No. 21	Non-Conforming	Pepper HomeLoans Pty Ltd.	30-Jul-18
RESIMAC Bastille Trust - RESIMAC Series 2018-1NC	Non-Conforming	RESIMAC Ltd.	16-Aug-18
SMHL Series Securitisation Fund 2018-2	Prime	Members Equity Bank Pty Ltd (SMHL)	16-Aug-18
MTG PCU Trust Repo Series No. 1	Prime	Police Credit Union Ltd	25-Sep-18

RMBS Outstandings as at Sep. 30, 2018

	No. Deals	Mil. A$	%
Prime	217	122,138.55	94.83
Non-Conforming	19	6,659.48	5.17
Total	**236**	**128,798.03**	**100.00**
Domestic	205	118,314.10	91.86
Euro	3	169.17	0.13
Global	28	10,314.76	8.01
Total	**236**	**128,798.03**	**100.00**
Major Banks	30	48,774.04	37.87
Non-Bank Financial Institutions	18	4,638.42	3.60
Non-Bank Originators	83	23,840.09	18.51
Other Banks	72	35,156.71	27.30
Regional Banks	33	16,388.77	12.72
Total	**236**	**128,798.03**	**100.00**

	No. Classes	Mil. A$	%
AUD	1076	125,730.92	97.62
EUR	8	161.91	0.13
GBP	3	34.30	0.03
USD	27	2,870.90	2.23
Total	**1114**	**128,798.03**	**100.00**

Top 10 Sponsors by New RMBS Issues

Yr Ending Sep. 30, 2018 (Mil. A$) incl. Other*

1	Commonwealth Bank of Australia	3,802.25
2	Pepper HomeLoans Pty Ltd.	3,094.66
3	RESIMAC Ltd.	2,856.02
4	Suncorp-Metway Ltd.	2,281.32
5	FirstMac Ltd.	1,915.48
6	AMP Bank Ltd.	1,768.18
7	Members Equity Bank Pty Ltd (SMHL)	1,330.31
8	Citigroup Pty Ltd.	1,262.71
9	Columbus Capital Pty Ltd.	1,040.31
10	Bank of Queensland Ltd.	942.26

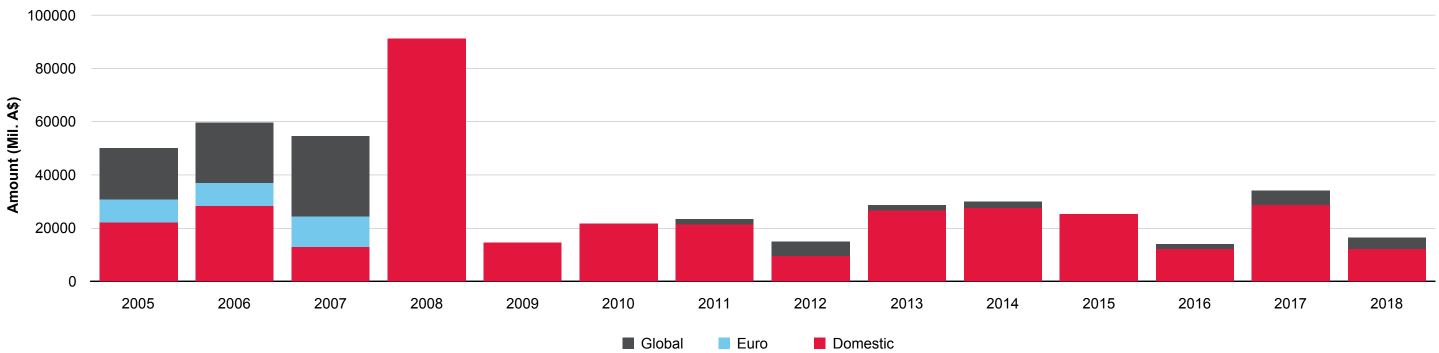
Top 10 Sponsors by RMBS Outstandings

at Sep. 30, 2018 (Mil. A$) incl. Other*

1	National Australia Bank Ltd.	28,938.92
2	Commonwealth Bank of Australia	14,348.87
3	Suncorp-Metway Ltd.	10,748.24
4	ING Bank (Australia) Ltd.	9,377.47
5	Members Equity Bank Pty Ltd (SMHL)	7,428.47
6	FirstMac Ltd.	7,425.82
7	AMP Bank Ltd.	7,026.03
8	RESIMAC Ltd.	5,511.80
9	Westpac Banking Corp.	5,161.35
10	Pepper HomeLoans Pty Ltd.	4,995.69

Market Overview

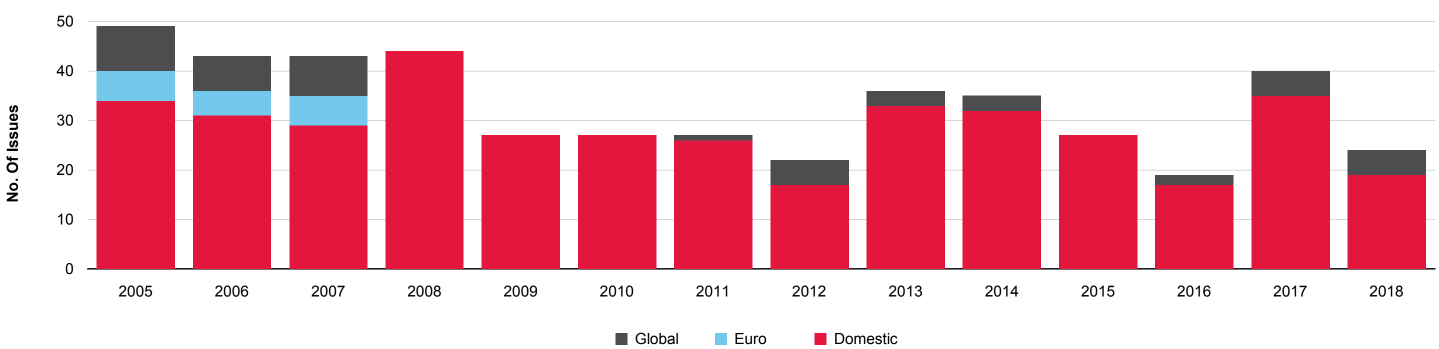
S&P Global Ratings Rated New Issuance
Domestic / Euro /Global (Mil. A$)



Amount (Mil. A$)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Domestic	22,120.35	28,438.90	13,028.96	91,167.47	14,660.83	21,749.04	21,552.86	9,650.82	26,682.22	27,657.72	25,358.38	12,206.98	28,826.37	12,226.80
Sub-Total Domestic	22,120.35	28,438.90	13,028.96	91,167.47	14,660.83	21,749.04	21,552.86	9,650.82	26,682.22	27,657.72	25,358.38	12,206.98	28,826.37	12,226.80
Euro	8,748.29	8,600.91	11,511.48	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Global	19,351.07	22,709.28	30,152.37	0.00	0.00	0.00	1,881.21	5,316.51	1,912.89	2,425.35	0.00	1,859.24	5,264.88	4,287.01
Sub-Total Offshore	28,099.36	31,310.19	41,663.85	0.00	0.00	0.00	1,881.21	5,316.51	1,912.89	2,425.35	0.00	1,859.24	5,264.88	4,287.01
Total	**50,219.71**	**59,749.09**	**54,692.81**	**91,167.47**	**14,660.83**	**21,749.04**	**23,434.07**	**14,967.33**	**28,595.11**	**30,083.07**	**25,358.38**	**14,066.21**	**34,091.26**	**16,513.81**

%	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Domestic	44.05	47.60	23.82	100.00	100.00	100.00	91.97	64.48	93.31	91.94	100.00	86.78	84.56	74.04
Sub-Total Domestic	44.05	47.60	23.82	100.00	100.00	100.00	91.97	64.48	93.31	91.94	100.00	86.78	84.56	74.04
Euro	17.42	14.40	21.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Global	38.53	38.01	55.13	0.00	0.00	0.00	8.03	35.52	6.69	8.06	0.00	13.22	15.44	25.96
Sub-Total Offshore	55.95	52.40	76.18	0.00	0.00	0.00	8.03	35.52	6.69	8.06	0.00	13.22	15.44	25.96
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

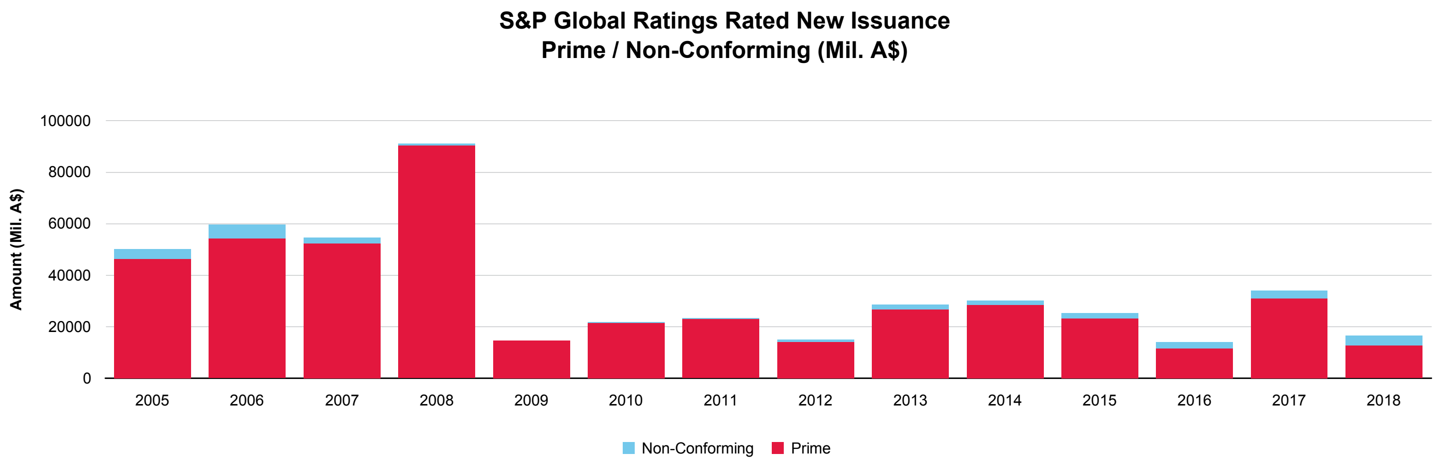
S&P Global Ratings Rated New Issuance
Domestic / Euro /Global (No. of Issues)



No. of Deals	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Domestic	34	31	29	44	27	27	26	17	33	32	27	17	35	19
Sub-Total Domestic	34	31	29	44	27	27	26	17	33	32	27	17	35	19
Euro	6	5	6	0	0	0	0	0	0	0	0	0	0	0
Global	9	7	8	0	0	0	1	5	3	3	0	2	5	5
Sub-Total Offshore	15	12	14	0	0	0	1	5	3	3	0	2	5	5
Total	**49**	**43**	**43**	**44**	**27**	**27**	**27**	**22**	**36**	**35**	**27**	**19**	**40**	**24**

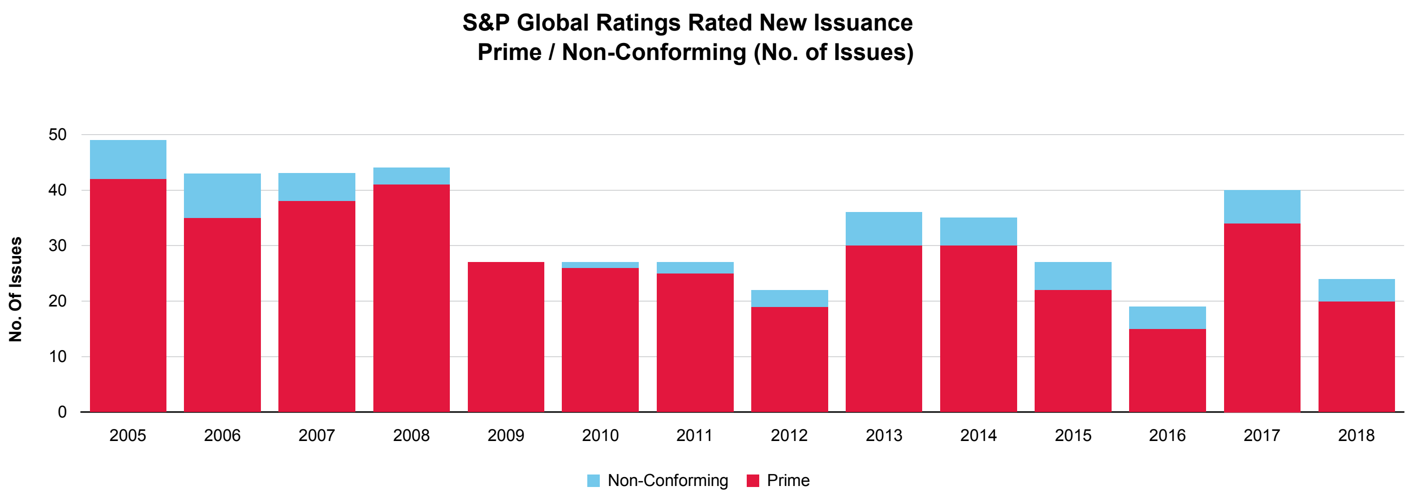
%	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Domestic	69.39	72.09	67.44	100.00	100.00	100.00	96.30	77.27	91.67	91.43	100.00	89.47	87.50	79.17
Sub-Total Domestic	69.39	72.09	67.44	100.00	100.00	100.00	96.30	77.27	91.67	91.43	100.00	89.47	87.50	79.17
Euro	12.24	11.63	13.95	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Global	18.37	16.28	18.60	0.00	0.00	0.00	3.70	22.73	8.33	8.57	0.00	10.53	12.50	20.83
Sub-Total Offshore	30.61	27.91	32.56	0.00	0.00	0.00	3.70	22.73	8.33	8.57	0.00	10.53	12.50	20.83
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Market Overview



Amount (Mil. A$)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prime	46,333.59	54,384.23	52,422.81	90,532.27	14,660.83	21,547.54	23,104.07	14,078.25	26,773.94	28,486.96	23,268.93	11,776.10	30,994.75	12,826.80
Non-Conforming	3,886.12	5,364.86	2,270.00	635.20	0.00	201.50	330.00	889.08	1,821.17	1,596.11	2,089.45	2,290.11	3,096.51	3,687.01
Total	**50,219.71**	**59,749.09**	**54,692.81**	**91,167.47**	**14,660.83**	**21,749.04**	**23,434.07**	**14,967.33**	**28,595.11**	**30,083.07**	**25,358.38**	**14,066.21**	**34,091.26**	**16,513.81**

%	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prime	92.26	91.02	95.85	99.30	100.00	99.07	98.59	94.06	93.63	94.69	91.76	83.72	90.92	77.67
Non-Conforming	7.74	8.98	4.15	0.70	0.00	0.93	1.41	5.94	6.37	5.31	8.24	16.28	9.08	22.33
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**



No. of Deals	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prime	42	35	38	41	27	26	25	19	30	30	22	15	34	20
Non-Conforming	7	8	5	3	0	1	2	3	6	5	5	4	6	4
Total	**49**	**43**	**43**	**44**	**27**	**27**	**27**	**22**	**36**	**35**	**27**	**19**	**40**	**24**

%	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prime	85.71	81.40	88.37	93.18	100.00	96.30	92.59	86.36	83.33	85.71	81.48	78.95	85.00	83.33
Non-Conforming	14.29	18.60	11.63	6.82	0.00	3.70	7.41	13.64	16.67	14.29	18.52	21.05	15.00	16.67
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Sponsor Classifications

The classifications into major bank, regional bank, nonbank financial institution, other bank, and nonbank originator are based on the predominant source of origination within the securitization pools.

Following a review of Sponsor classifications, we have reclassified certain sponsors from September 2018.

Major Bank

Commonwealth Bank Of Australia Ltd.
National Australia Bank Ltd.
Westpac Banking Corp.

Regional Bank

Bank of Queensland Ltd.
Bendigo and Adelaide Bank Ltd.
Suncorp-Metway Ltd.
Bank of Western Australia Ltd.

Other Bank

AMP Bank Ltd.
Arab Bank Australia Ltd.
Auswide Bank Ltd.
Citigroup Pty Ltd.
Heritage Bank Ltd.
Hume Bank Ltd.
Police Financial Services Limited.
IMB Ltd.
ING Bank (Australia) Ltd.
Macquarie Securitisation Ltd.
Members Equity Bank Pty Ltd.
MyState Bank Ltd.
Police & Nurses Limited

Nonbank Financial Institution (NBFI)

Australian Central Credit Union
Community CPS Australia Ltd.
Credit Union Australia Ltd.
Gateway Bank Ltd.
Holiday Coast Credit Union Ltd.
Credit Union SA Ltd.
Police Credit Union Ltd.
Newcastle Permanent Building Society Ltd.
Queensland Country Credit Union Ltd.
QPCU Ltd.
Community Mutual Ltd.
Cuscal Ltd.
Bananacoast Community Credit Union Ltd.

Nonbank Originator

AIMS Home Loans Pty Ltd.
Challenger Mortgage Management Pty Ltd
Columbus Capital Pty Ltd.
RedZed Lending Solutions Pty Ltd.
Liberty Financial Pty Ltd.
Resimac Ltd.
AFG Securities Pty Ltd.
Challenger Non-Conforming Finance Pty Ltd.
FirstMac Ltd.
Homeloans Ltd.
Pepper HomeLoans Ltd.
RHG Home Loans Pty Ltd.
La Trobe Financial Services Pty Ltd.

Rankings

Structured Finance Rankings

	Ranking/Outlook
Residential Loan Servicer	
Bendigo and Adelaide Bank Ltd.	Strong/Stable
Bluestone Servicing Pty. Ltd.	Above Average/Stable
Bluestone Servicing NZ Ltd.	Above Average/Stable
FirstMac Ltd.	Strong/Stable
IMB Ltd.	Strong/Stable
Liberty Financial Pty Ltd.	Strong/Stable
Pepper Australia Pty Ltd.	Strong/Stable
Resimac Ltd.	Strong/Stable
Residential Non-Conforming Loan Servicer	
Bluestone Servicing Pty Ltd.	Above Average/Stable
Bluestone Servicing NZ Ltd.	Above Average/Stable
Liberty Financial Pty Ltd.	Strong/Stable
Pepper Australia Pty Ltd.	Strong/Stable
Resimac Ltd.	Strong/Stable

Rankings as of September 30, 2018 A ranking may change at any time, for current rankings please refer to www.capitaliq.com.

Descriptions

About this Publication

Australian RMBS Performance Watch is a quarterly review of the performance of residential mortgage pools that collateralize Australian term securities. If you or your colleagues would like to receive a copy of Australian RMBS Performance Watch, please visit www.sfsurveillance.com.au or contact S&P Global Ratings Client Services on (61) 1300-732-553 or by e-mail at: clientservices_pacific@spglobal.com.

Comparative Pool Characteristics

We have calculated comparative pool statistics using outstanding loan balances. All data are provided as of or as near as possible to March 31, 2018, unless otherwise stated.

Data Collection

To allow the timely delivery of information to the market, we do not include in the Australian RMBS Performance Watch statistics any data that are not received by the 15th day after the end of a quarter. Any late data will be included in updated statistics and subsequent publications.

Definitions

S&P Global Ratings has compiled the information in this publication using information received from the issuer, manager, or servicer of each program. S&P Global Ratings has endeavoured to provide data on a basis that is comparable among programs. However, users of the information in this publication should exercise caution because there may be inconsistencies in the way that each of the programs is reported to S&P Global Ratings. The descriptions below highlight how S&P Global Ratings interprets general terminology; they are not intended to be industry-standard definitions.

10 Worst-Performing Postcodes

For the purpose of this analysis, we have excluded postcodes with fewer than 250 loans. In line with our RMBS Rating Methodology and Assumptions, the archetypical pool, which underpins our credit analysis, is comprised of at least 250 consolidated Australian residential mortgage loans because our analysis suggests that a pool of this size is statistically valid. Our parameters for the 10 worst-performing postcodes therefore are consistent with this assumption.

Annualized Quarterly Prepayment Rate

We calculate the annualized QPR by compounding the rate using the following formula: $1-(1-QPR)^4$

Annualized Quarterly Repayment Rate

We calculate the annualized QRR by compounding the rate using the following formula: $1-(1-QRR)^4$

Australian Prime Full-Doc SPIN

The Australian prime full-doc SPIN is a measure of arrears on full-doc residential mortgage loans underlying Australian prime RMBS transactions, both publicly and privately rated by S&P Global Ratings.

Australian Prime Low-Doc SPIN

The Australian prime low-doc SPIN is a measure of arrears on low-doc residential mortgage loans underlying Australian prime RMBS transactions, both publicly and privately rated by S&P Global Ratings.

Australian Prime SPIN

The Australian prime SPIN is a measure of arrears on residential mortgage loans underlying Australian prime RMBS transactions, both publicly and privately rated by S&P Global Ratings.

Australian Prime SPPI
The Australian prime SPPI is a measure of prepayment rates on residential mortgage loans underlying Australian prime RMBS transactions, both publicly and privately rated by S&P Global Ratings.

Australian Subprime SPIN
The Australian subprime SPIN is a measure of arrears on residential mortgage loans underlying Australian subprime RMBS transactions, both publicly and privately rated by S&P Global Ratings.

Australian Subprime SPPI
The Australian subprime SPPI is a measure of prepayment rates on residential mortgage loans underlying Australian subprime RMBS transactions, both publicly and privately rated by S&P Global Ratings.

Cumulative Gross Losses
Cumulative gross losses refer to the aggregate amount of losses in a pool of mortgage loans after recognizing the proceeds from the sale of the underlying security properties, but before including other loss support, such as claims paid under lenders' mortgage insurance policies or the application of excess spread. The cumulative gross loss percentage is expressed as a percentage of Australian dollar equivalent note balance, including further issuances from the same transaction at a later date. Warehouses are excluded from this calculation.

Domestic, Global, And Euro
We determine the categorization of an RMBS transaction by market by the legislation under which the notes are offered and the stock exchanges on which the notes are listed. Transactions with a securities and exchange commission (SEC)-registered or 144A tranche are classified as “global.” Transactions that are not global, but which are Euroclear-and/or Clearstream-settled and have a tranche listed on a European exchange, are classified as “euro.” All other transactions generally will be classified as “domestic.”

Full–Documentation Loans
A full-doc loan is a loan for which the borrower's income has been fully verified by the lender through reference to relevant source documents, such as payslips or tax returns.

Lenders' Mortgage Insurance (LMI)
The lenders' mortgage insurers distribution graphs display only those mortgage insurers that provide mortgage insurance for 1% or more of the pool. For a more detailed breakdown of mortgage insurer distribution, refer to the Lenders' Mortgage Insurers Distribution table in part 2 of this publication. The mortgage insurer short-names used in the pie charts are as listed in the table below.

Mortgage Insurer Short-Names Used In Charts

LMI	Short Name	Public Rating
HLIC (guaranteed by Commonwealth of Australia)	HLIC	AAA/Negative
Genworth Financial Mortgage Insurance Pty Ltd.	GFM Ins.	A+/Negative
QBE Lenders Mortgage Insurance Ltd.*	QBE	A+/Stable
Westpac Lenders Mortgage Insurance Ltd. §	WLMI	AA-/Negative
Prime Insurance Group Ltd.	PIGL	NR**

*QBE Lenders Mortgage Insurance was formerly known as PMI Mortgage Insurance Ltd. **NR--Not rated. § Westpac Lenders Mortgage Insurance Ltd includes the former St George Insurance Australia Pty Ltd. Ratings at August , 2017. A rating may change at any time, for current ratings please refer to www.standardandpoors.com.au.

Low-Documentation Loans

A low-doc loan is a loan for which the borrower's income has not been fully verified by the lender. Low-doc loans are often referred to by a variety of terms, including self-certified and stated income loans.

Missed-Payments Basis

The measurement of arrears on a missed-payments basis means that a loan is in arrears when a scheduled payment is missed, despite the fact that the borrower may be ahead of the scheduled payment curve.

Mortgage Arrears Data

The mortgage arrears data depict the proportionate value of loans 31-60 days, 61-90 days, and 90+ days in arrears. We calculate the percentages using the outstanding balance of loans in arrears as a proportion of the aggregate outstanding balance of total loans at the end of each month. We note the reporting method used by issuers in reporting arrears (scheduled-balance basis or missed-payments basis) on the loan pool arrears performance graph for each transaction.

Non-Conforming Loans

Non-Conforming loans are residential mortgage loans that would not typically qualify for a loan from a traditional prime lender and are generally not eligible to be covered by lenders' mortgage insurance from a nonassociated mortgage insurer. Non-Conforming loans may include LoDoc loans and subprime loans.

Note Balances

All note balances are based on invested amounts. The term “note” refers to a note, bond, security, or any other instrument issued by the issuer.

Prime

Prime loans are residential mortgage loans that generally would be made by traditional residential-mortgage lenders in the Australian market and usually would be eligible to be covered by a primary lenders' mortgage insurance policy from a nonassociated and rated mortgage insurer. Prime loans are usually to borrowers with clean credit histories, though some pools may include a small percentage of loans of a minor nonconforming nature. Prime loans can include low-documentation (low-doc) loans.

Quarterly Prepayment Rate

We calculate the QPR using the following formula:

$$\frac{U - R - F}{O + \frac{(S+P)}{2} - I}$$

Where:
U = unscheduled principal repayments
R = redraws
F = further advances
O = mortgage pool balance at the beginning of the quarter
S = loans added during a substitution period
P = loans added during a prefunding period
I = capitalized interest

Quarterly Repayment Rate

We calculate the quarterly repayment rate (QRR) using the following formula:

$$\frac{(Sc+U) - R - F}{O + \frac{(S+P)}{2} - I}$$

Where:
Sc = scheduled principal repayments
U = unscheduled principal repayments
R = redraws
F = further advances
O = mortgage pool balance at the start of the quarter
S = loans added during a substitution period
P = loans added during a prefunding period
I = capitalized interest

Scheduled-Balance Basis

The measurement of arrears on a scheduled-balance basis means that a loan is in arrears when the current loan balance less the scheduled loan balance is a positive number.

Sponsor

The sponsor is the party that has the primary commercial or beneficial interest in the residential mortgage-backed securities (RMBS) transaction.

S&P Global Ratings Performance Index

S&P Global Ratings Performance Index (SPIN) is a measure of arrears on residential mortgage loans underlying RMBS transactions, both publicly and privately rated by S&P Global Ratings. We calculate the SPIN for Australian prime and subprime asset classes, as well as Australian prime low-doc and prime full-doc loans. It is the weighted-average balance of loans in arrears in each of the 31-60 days, 61-90 days, and 90+ day categories. We calculate the SPIN on a monthly basis from information provided to us for each transaction.

S&P Global Ratings Prepayment Index

S&P Global Ratings Prepayment Index (SPPI) is a measure of prepayment rates on residential mortgage loans underlying RMBS transactions, both publicly and privately rated by S&P Global Ratings. We calculate the SPPI for Australian prime and subprime loans. It is the weighted-average of the annualized quarterly prepayment rates (QPRs) across the asset subclass. We calculate the SPPI monthly from information provided to us for each transaction.

Subprime

Subprime loans are loans to borrowers with adverse credit histories.

Total Current Loan Balance

The total current loan balance (TCLB) is the outstanding dollar amount of the underlying loans as of the report date.

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This report and the ratings contained within it are based on published information as of September 30, 2018. Subsequent information may result in the assignment of ratings that differ from the ratings published here. Please call Standard & Poor's Client Services at (61) 1300-792-553 for the most recent rating assigned.

S&P Global Ratings 17g-7 Disclosure Report
SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.