S&P Global Ratings

Research

Presale:

Progress 2022-2 Trust

September 13, 2022

PRIMARY CREDIT ANALYST

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Preliminary Ratings

Class	Preliminary ratings	Preliminary amount (A$ mil.)	Credit support before credit is given to mortgage insurance (%)	Credit support after credit is given to mortgage insurance (%)	Credit support provided (%)
A1-S	AAA (sf)	75.00	4.44	3.89	8.00
A1-L	AAA (sf)	385.00	4.44	3.89	8.00
AB	AAA (sf)	19.90	4.44	3.89	4.02
B	AA (sf)	7.35	3.07	2.46	2.55
C	A (sf)	5.85	1.88	1.33	1.38
D	BBB (sf)	3.25	1.05	0.73	0.73
E	BB (sf)	1.80	0.55	0.37	0.37
F	NR	1.85	N/A	N/A	N/A

Note: This presale report is based on information as of Sept. 14, 2022. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. The A1-S and A1-L notes are collectively referred to as class A1 notes. N/A--Not applicable.NR--Not rated.

Profile

Expected closing date	September 2022
Final maturity date	The payment date in March 2053
Collateral	Fully amortizing, interest-only, and line-of-credit, converting to amortizing Australian-dollar loans to prime-quality borrowers, secured by first registered mortgages over Australian residential properties. The loans mature no later than 18 months before the final maturity of the notes.
Structure type	Prime residential mortgage-backed, pass-through securities
Issuer and trustee	Perpetual Trustee Co. Ltd. as trustee for Progress 2022-2 Trust
Loan originator	AMP Bank Ltd.
Servicer	AMP Bank Ltd.
Trust manager	Priority One Agency Services Pty Ltd.
Security trustee	P.T. Ltd.
Custodian	AMP Bank Ltd.

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Profile (cont.)

Primary credit enhancement	Note subordination, lenders' mortgage insurance on 24.6% of the portfolio, and excess spread, if any will be used to offset losses in priority to any distribution to the beneficiary and to build an excess reserve from the first call-option date onward to cover any yield shortfalls. Lenders' mortgage insurance covers 100% of the principal balance on the insured loans, plus accrued interest and reasonable costs of enforcement.

Supporting Ratings

Fixed-rate swap provider	BNP Paribas SA
Bank account providers	Westpac Banking Corp. and MUFG Bank Ltd.
Lenders' mortgage insurers	QBE Lenders' Mortgage Insurance Ltd. and Genworth Financial Mortgage Insurance Pty Ltd.

Loan Pool Statistics As Of July 31, 2022

Total number of consolidated loans	934
Total value of loans (A$)	489,726,031
Current maximum loan size (A$)	1,710,915
Average loan size (A$)	524,332
Maximum current loan-to-value (LTV) ratio (%)	87.6
Weighted-average current LTV ratio (%)	65.2
Weighted-average loan seasoning (months)	44.0

Note: All portfolio statistics are calculated on a consolidated basis.

Rationale

The preliminary ratings assigned to the prime floating-rate residential mortgage-backed securities (RMBS) to be issued by Perpetual Trustee Co. Ltd. as trustee for Progress 2022-2 Trust reflect the following factors.

The credit risk of the underlying collateral portfolio (discussed in more detail under "Credit Assessment") and the credit support provided to each class of notes are commensurate with the ratings assigned. Credit support is provided by subordination, lenders' mortgage insurance (LMI), and excess spread, if any. Our assessment of credit risk takes into account AMP Bank Ltd.'s underwriting standards and approval process, which are consistent with industrywide practices, the servicing quality of AMP Bank (discussed in more detail under "Origination And Servicing"), and the support provided by the LMI policies on 24.6% of the portfolio (see "Reliance On Lenders' Mortgage Insurance").

The rated notes can meet timely payment of interest and ultimate payment of principal under the rating stresses. Key rating factors are the level of subordination provided, the LMI cover, the interest-rate swap, the mechanism for trapping excess spread into an excess reserve, the provision of a liquidity reserve, and the provision of an income reserve--funded by AMP Bank at closing to cover extraordinary expenses--sized at a level consistent with the ratings. All rating stresses are made on the basis that the trust does not call the notes at or beyond the first call-option date, and that all rated notes must be fully redeemed via the principal waterfall mechanism under the transaction documents.

Our ratings also take into account the counterparty exposure to Westpac Banking Corp. and MUFG Bank Ltd. as bank account providers and to BNP Paribas SA as fixed-rate swap provider. The fixed-rate swap will be provided to hedge the fixed-rate mortgage loans and the floating-rate obligations on the notes (see "Interest-Rate Risk"). The transaction documents include downgrade remedies consistent with S&P Global Ratings' counterparty criteria.

We also have factored into our ratings the legal structure of the trust, which is established as a special-purpose entity and meets our criteria for insolvency remoteness.

Environmental, Social, And Governance (ESG)

Our rating analysis considers a transaction's potential exposure to ESG credit factors (see "ESG Industry Report Card: Residential Mortgage-Backed Securities," March 31, 2021).

We consider the transaction's exposure to environmental credit factors to be average. Physical climate risks such as floods, storms, or bushfires could severely damage properties and reduce their value. In our view, well-diversified portfolios reduce exposure to extreme weather events. We have factored the geographic diversity of the underlying portfolio into our credit analysis (see below).

For RMBS, social credit factors are generally considered above average because housing is viewed as one of the most basic human needs and conduct risk presents a direct social exposure for lenders and servicers. We review lenders' underwriting practices as part of our operational risk assessment and factor them into our credit analysis (see "Origination And Servicing" section below).

The transaction's exposure to governance credit factors is below average, in line with the sector benchmark. Given the nature of structured finance transactions, most have relatively strong governance frameworks that typically restrict what activities the special-purpose entity can undertake. We consider the risk-management and governance practices in place to be consistent with industry standards and our benchmark expectations.

Strengths And Weaknesses

Strengths

We have observed the following strengths in the transaction:

- For the class A1 notes, the subordination provided significantly exceeds the minimum credit support at the 'AAA (sf)' level. For each rated note, credit support is provided by the subordination of notes that rank below in seniority.
- The weighted-average loan-to-value (LTV) ratio at 65.2% is reasonably low, and 72.3% of the portfolio has an LTV ratio less than 75%. S&P Global Ratings considers loans with an LTV ratio less than 75% to be less likely to default.

Weaknesses

Weaknesses identified with respect to the transaction are:

- Yield could decrease in this transaction because the weighted-average coupon payable on the notes increases as the senior notes repay. In our cash-flow analysis, we assumed the servicer's ability to increase the asset margin is limited to a maximum of 50 basis points (bps) on the variable-rate mortgage loans. We also considered the impact on the cash flow of the swaps in place, and the availability of excess spread trapping into a reserve (excess reserve). In addition, there is a restriction on the use of principal and liquidity draws for the class B, class C, class D, and class E notes when there is a charge off to these notes.
- Approximately 15.6% of the portfolio comprises loans to self-employed borrowers. When AMP was unable to provide employment data, S&P Global Ratings has assumed such borrowers to be self-employed. Self-employed borrowers tend to be more susceptible to business risk as the economic environment deteriorates. We have increased the default frequency of these loans to reflect the additional risk associated with self-employed borrowers.
- Loans made for refinance with equity takeout or refinance for debt consolidation make up 47.4% of the portfolio. S&P Global Ratings views products in which a borrowing is against the build-up of equity in a property as being riskier and adjusts the default frequency of these loans accordingly.

Comparable Transactions

The closest comparable rated transaction is Progress 2022-1 Trust. The key differences between Progress 2022-2 Trust and Progress 2022-1 Trust are that for Progress 2022-2 Trust:

- The unrated class F notes' interest margin is split into a senior and subordinated component from the call-option date onward.
- The class A1-L notes will have a legal final maturity on the payment date in March 2053. However, they can be repaid in full with the issuance of new pass-through floating-rate class A-R notes on class A1-L refinancing date (the payment date in March 2027 or any payment date thereafter).

Notable Features

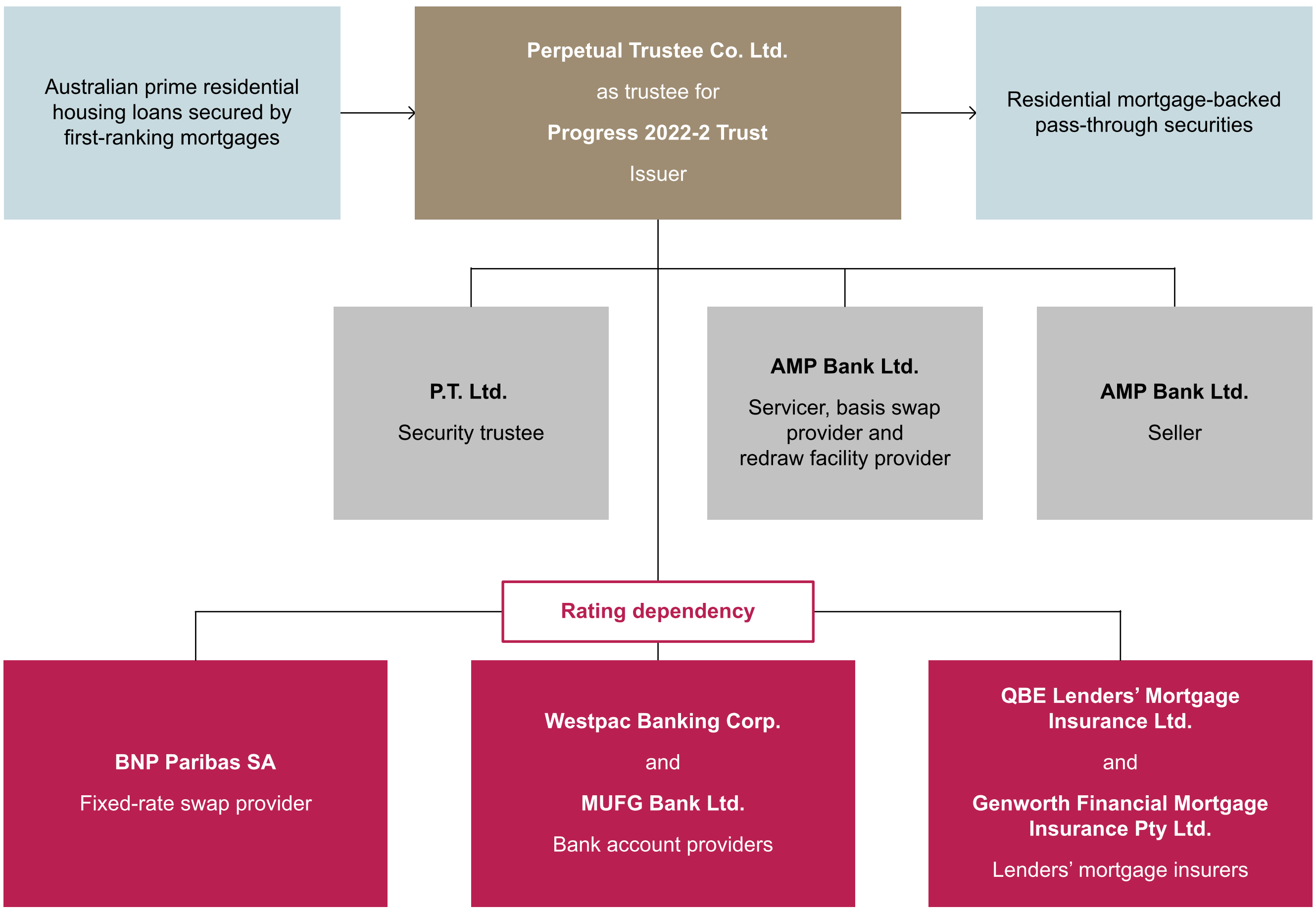
Class B, class C, class D, and class E notes

Although the transaction documents allow the class B, class C, class D, and class E notes' interest to be paid on the stated amount of the notes, our opinion, based on our cash flow analysis, is that at their respective assigned rating levels, the stated amount of each class of notes will always equal the notes' respective invested amounts. Our cash-flow analysis shows that the notes' interest can be paid in full on the invested amount, under stresses commensurate with the rating on that class of notes.

Transaction Structure

The structure of the transaction is shown in chart 1.

Progress 2022-2 Trust
Transaction structure



We understand that transaction counsel will lodge the relevant financing statements on the Personal Property Securities Register in connection with the security interest.

Note Terms And Conditions

Interest payments

All classes of notes are rated on a "timely interest and ultimate principal" basis.

All classes of notes are floating-rate, pass-through securities, paying a margin over the one-month bank-bill swap rate. Interest payments are made sequentially to each class of rated notes; however, payments of interest to the class A1-S and class A1-L notes rank pari passu. Interest on the class A1 and class AB notes will be payable based on the invested amount of the notes. However, the interest on the class B, class C, class D, and class E notes will be payable based on their stated amounts (see "Notable Features: Class B, class C, class D, and class E notes").

A step-up margin will apply to the class A1-L notes from the class A1-L refinancing date in March 2027.

The trustee can elect to call the notes in full at their invested amounts on any payment date on or after the first call-option date. The first call-option date is the payment date on which the outstanding mortgage loan balance is less than or equal to 10% of the initial balance. While most prime RMBS notes historically are called on the call-option date, this is not a requirement under the transaction documents. S&P Global Ratings' ratings do not address the likelihood of repayment of the notes on the call-option date.

Principal allocation

All classes of notes have a legal final maturity on the payment date on March 18, 2053. Principal collections--after application of principal draws, if available, to cover any income shortfalls or to fund redraws--will be passed through to noteholders on a sequential-payment basis.

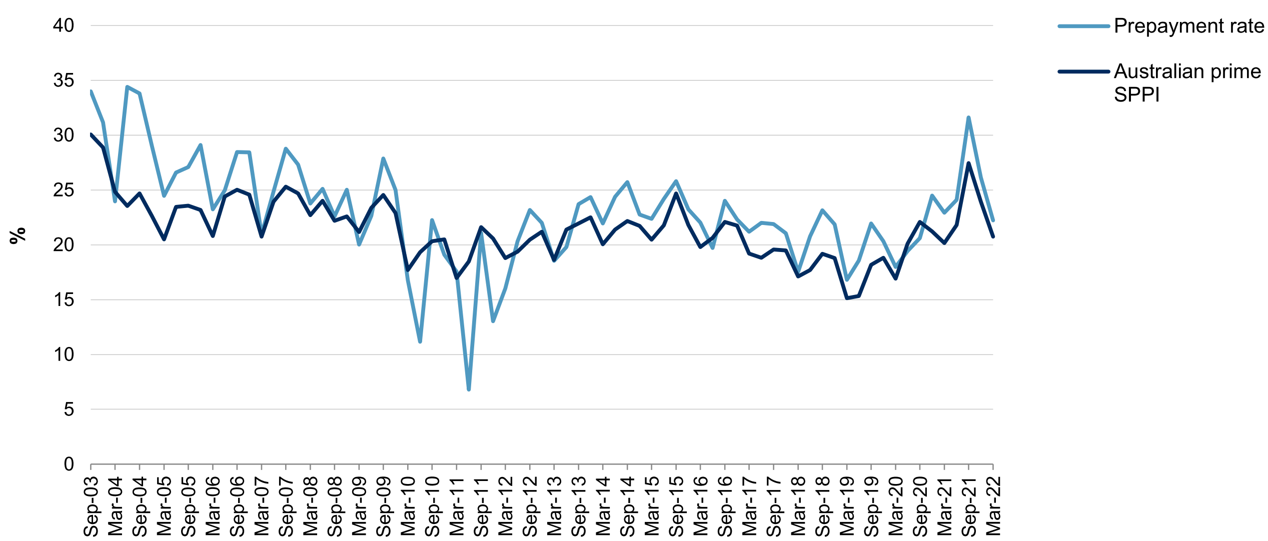
The transaction can convert to a pro-rata payment structure, in which principal would be passed through to all classes of notes (see "Pro-rata paydown triggers") if the step-down tests are met.

Given the pass-through nature of the notes, the actual date on which the principal amount of the notes will be fully repaid will be determined by the actual prepayment rate experience on the loan portfolio. As a result, the risk of mortgage prepayments is borne by the noteholders.

Chart 2 shows the annualized prepayment speeds of the loan portfolios securitized under the Progress program against Standard & Poor's Prepayment Index (SPPI), which is a measure of prepayment rates for Australian prime RMBS. The prepayment speeds encompass the unscheduled principal payments on the mortgage loans.

Chart 2

AMP Bank Ltd.
Average loan portfolio prepayment speeds



Source: S&P Global Ratings.

Loss allocation

Charge-offs will be first allocated to the class F notes until their outstanding balance is reduced to zero, followed by the class E notes, class D notes, class C notes, class B notes, class AB notes, then to the class A1 notes (or class A-R notes, if issued). Under the transaction structure, any charge-offs are to be reimbursed in the reverse order.

Pro-rata paydown triggers

The triggers to allow pro-rata paydown are:

- The class A1-S notes have been fully repaid.
- Payment is made at least two years after transaction close.
- Credit support provided to the class A1 notes (or class A-R notes, if issued) from the subordinated class AB, class B, class C, class D, class E, and class F notes is at least 16.0%.
- Arrears greater than 60 days must not exceed 4% of the average of the aggregate outstanding

loan amounts during the previous four months.

- There are no unreimbursed carryover charge offs in respect of any notes.
- The payment date is not on or after the first call-option date.

Reliance On Lenders' Mortgage Insurance

Loans comprising 24.6% of the portfolio are insured by a primary LMI policy provided by a rated mortgage insurer.

AMP Bank generally mortgage insures loans under a primary LMI policy when the LTV ratio is more than 80% with either QBE Lenders' Mortgage Insurance Ltd. (QBE) or Genworth Financial Mortgage Insurance Pty Ltd. (Genworth).

The LMI policies cover the outstanding mortgage loan principal, accrued interest, and any reasonable enforcement expenses on the defaulted mortgage loans. The rights under the primary LMI policies will be assigned to the trustee on the closing date.

The policies contain terms and conditions that allow the insurer to reduce or deny a claim in certain circumstances. If a claim is reduced and results in a loss to the trust, then the issuer might be able to offset that loss by applying excess spread to cover those losses before making any distribution to beneficiaries.

Under our "Methodology For Assessing Mortgage Insurance And Similar Guarantees And Supports In Structured And Public Sector Finance And Covered Bonds" criteria, published on Dec. 7, 2014, the overall amount of credit given to LMI is the product of the stated coverage of the LMI policy, the insurer's estimated capacity to pay for a given rating scenario, and the estimated claims payout ratio for a given issuer.

To adjust for the insurer's capacity to pay, S&P Global Ratings will look to the LMI provider's issuer credit rating. When sizing the credit support for the 'AAA (sf)' rated notes, S&P Global Ratings assumes that 55% of claims to 'A' rated LMI providers will not be paid.

In addition, the estimated claims payout ratio reflects the categorization of AMP Bank into CA1 due to a minimal level of claims adjustments, clearly documented servicing practices, and detailed procedures adhering to LMI policies and procedures. The claims adjustment rate for CA1 is 10% at a 'AAA' rating level.

Rating-Transition Analysis

Scenario analysis: Lenders' mortgage insurance

A key rating-transition risk in many Australian prime RMBS transactions is a lowering of the rating on one or more of the lenders' mortgage insurers. We consider the rating-transition risk to be remote for our 'AAA (sf)' rating on the class A1 notes. This is because the credit support from the subordinated notes is higher than the minimum credit support required before giving credit to LMI.

The ratings on the class AB, class B, class C, class D, and class E notes are unlikely to be affected by a one-notch downgrade on either of the insurers, all else remaining equal. However, these notes are likely to be affected if no credit is given to LMI, given the level of credit support provided to the class AB, class B, class C, class D, and class E notes from day one, and they are not independent from the ratings on the lenders' mortgage insurers.

If the step-down tests are not satisfied and principal repayments are made on a sequential basis, then as the collateral portfolio amortizes, the proportion of subordination relative to the senior notes increases, and the class AB, class B, class C, class D, and class E notes' reliance on the lenders' mortgage insurers will decrease.

Assuming that there is no deterioration in the portfolio credit quality and performance, table 1 details the level of subordination that would support the current rating on the class AB, class B, class C, class D, and class E notes if we were to lower our rating on Genworth or QBE by one notch to 'A-' at the current estimated claims payout ratio.

Table 1

Rating Sensitivity To Lowering Of Rating On Lenders' Mortgage Insurer

Lenders' mortgage insurers (and ratings) subject to hypothetical downgrades	Minimum credit support commensurate with a 'AAA (sf)' rating on class AB notes (%)	Likely rating transition of class AB notes if no additional support were provided
Genworth		
'A-'	4.01	AAA
QBE		
'A-'	3.90	AAA
Both Genworth and QBE		
'A-'	4.02	AAA
No credit to LMI	4.44	AA+
Lenders' mortgage insurers (and ratings) subject to hypothetical downgrades	**Minimum credit support commensurate with a 'AA (sf)' rating on class B notes (%)**	**Likely rating transition of class B notes if no additional support were provided**
Genworth		
'A-'	2.54	AA
QBE		
'A-'	2.47	AA
Both Genworth and QBE		
'A-'	2.55	AA

Table 1

Rating Sensitivity To Lowering Of Rating On Lenders' Mortgage Insurer (cont.)

No credit to LMI	3.07	A+
Lenders' mortgage insurers (and ratings) subject to hypothetical downgrades	**Minimum credit support commensurate with an 'A (sf)' rating on class C notes (%)**	**Likely rating transition of class C notes if no additional support were provided**
Genworth		
'A-'	1.38	A
QBE		
'A-'	1.33	A
Both Genworth and QBE		
'A-'	1.38	A
No credit to LMI	1.88	BBB+
Lenders' mortgage insurers (and ratings) subject to hypothetical downgrades	**Minimum credit support commensurate with an 'BBB (sf)' rating on class D notes (%)**	**Likely rating transition of class D notes if no additional support were provided**
Genworth		
'A-'	0.73	BBB
QBE		
'A-'	0.73	BBB
Both Genworth and QBE		
'A-'	0.73	BBB
No credit to LMI	1.05	BB+
Lenders' mortgage insurers (and ratings) subject to hypothetical downgrades	**Minimum credit support commensurate with an 'BB (sf)' rating on class E notes (%)**	**Likely rating transition of class E notes if no additional support were provided**
Genworth		
'A-'	0.37	BB
QBE		
'A-'	0.37	BB
Both Genworth and QBE		
'A-'	0.37	BB
No credit to LMI	0.55	B

A significant deterioration in asset portfolio performance is the other major factor that could drive negative rating changes in this transaction.

Scenario analysis: Property market value decline

S&P Global Ratings performed a scenario analysis to determine the potential impact on the ratings at transaction close if the values of every security property decreased by 10%. We applied a haircut of 10% to the original property values and increased the loan-to-value (LTV) ratios for this impact. Note that this scenario does not take into account potential increases or decreases in the security property value compared to its original value, nor does it consider cash flow analysis and, therefore, the potential use of excess spread to cover losses. The implied credit assessments are set out in table 2.

Table 2

Credit Support And Implied Credit Assessments Under The Scenario

Class	Minimum credit support for credit losses pre-LMI (%)	Implied credit assessment pre-LMI	Minimum credit support for credit losses post-LMI (%)	Implied credit assessment post-LMI
A1	7.30	aaa	6.28	aaa
AB	7.30	a+	6.28	aa
B	5.14	bbb+	3.99	a
C	3.21	bb+	2.15	bbb
D	1.87	b+	1.23	bb
E	1.04	b-	0.67	b

LMI--Lenders' mortgage insurance.

Origination And Servicing

We assess the quality of the origination, underwriting, and servicing of the loans as part of our credit analysis because it can affect the performance of the portfolio.

The residential mortgage loans to be purchased by the trust were originated by AMP Bank, AMP Finance Ltd. (formerly known as GIO Finance Ltd.), GIO Building Society Ltd., GIO General Ltd., GIO Personal Investment Services Ltd., and Priority One Financial Services Ltd. in the ordinary course of their business.

Mortgage loans have been originated via three main sources:

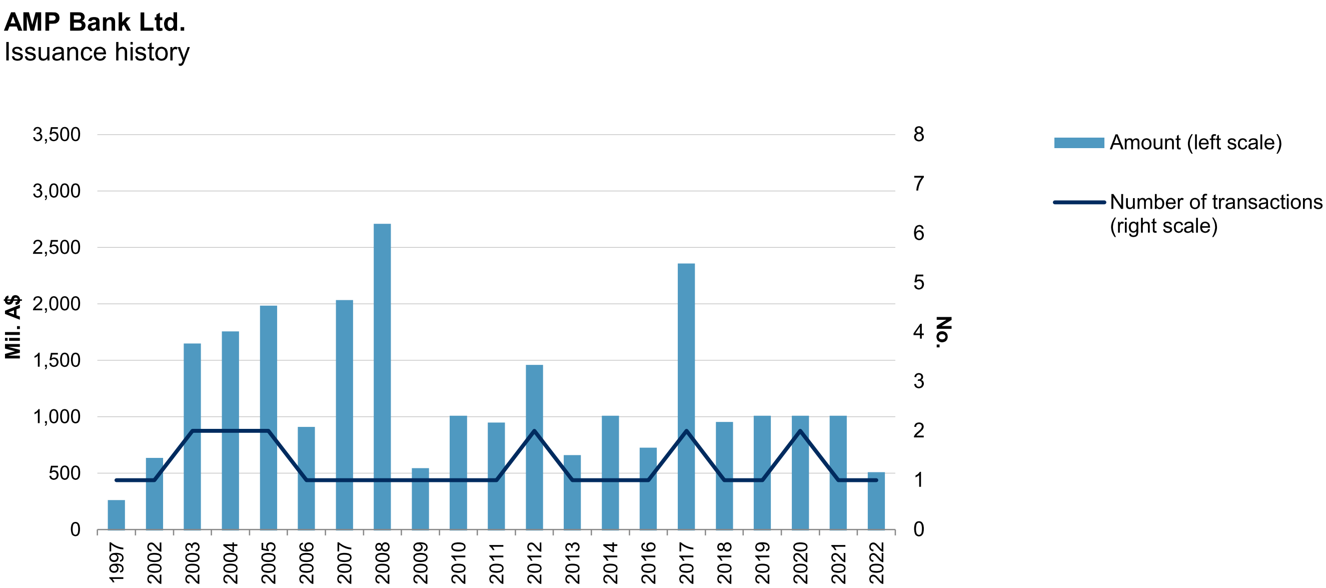
- AMP distribution channels, including its financial planner network;
- Mortgage brokers, all of which are Mortgage Industry Association of Australia (MIAA) approved; and
- Direct enquiry, including telephone enquiries, direct marketing arrangements, and affinity relationships.

Brokers and planners do not have any delegated lending authorities. All credit decisions are performed centrally at AMP Bank.

AMP Bank has invested considerable resources to develop and enhance its loan-processing and servicing systems to ensure that operational efficiencies are maximized and productivity is improved. The loan-processing system features many functions. It is based on process mapping and workflows and has significant data-capture capabilities.

The mortgage loans are directly owned by AMP Bank. On the closing date, the beneficial interest in the mortgage loans will be equitably assigned to the trustee of the Progress 2022-2 Trust. The mortgage loans will be serviced by AMP Bank in line with the bank's servicing procedures. Chart 3 shows AMP Bank's issuance history since 1997, as rated by S&P Global Ratings.

Chart 3



mil.--million. A$--Australian dollar. Source: S&P Global Ratings.

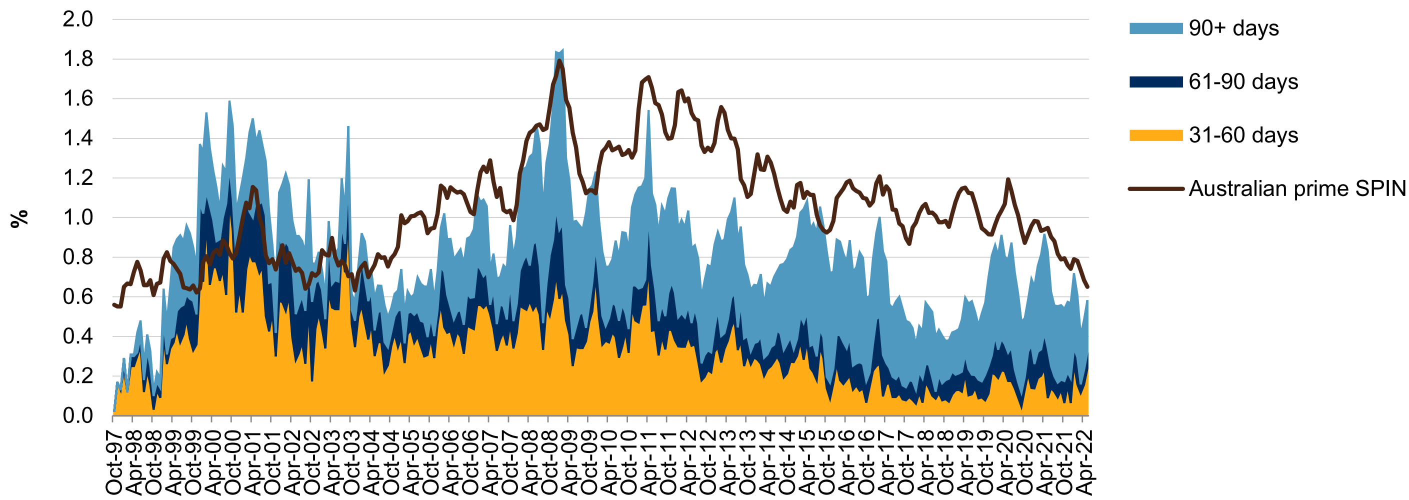
AMP Bank reports and manages arrears with reference to the scheduled balance of the loan. Under the scheduled balance, a mortgage is only deemed delinquent when the actual loan balance exceeds the scheduled balance. Although formal collections procedures are not typically initiated until the scheduled balance of the loan is exceeded, AMP Bank will contact the borrower even if the borrower is in advance of the scheduled balance but has missed a payment.

All loans in arrears for more than 90 days are reported in detail to the credit committee of AMP Bank and legal action is instigated.

Chart 4 shows the performance of Progress loans against Standard & Poor's Performance Index (SPIN), which is a weighted-average performance index of all Australian prime RMBS transactions rated by S&P Global Ratings that are in arrears by more than 30 days.

Chart 4

AMP Bank Ltd.
Performance of loans against the Australian SPIN



Source: S&P Global Ratings.

Credit Assessment

The portfolio consists entirely of full-documentation prime residential mortgage loans. This is a closed pool, which means no additional loans will be assigned to the trust after the closing date.

We have assessed the credit quality of the collateral to determine the minimum credit support levels for this transaction. In addition to the key collateral characteristics highlighted under "Strengths And Weaknesses," some of the characteristics that we have considered as strengths are the loan seasoning and loan term. Some of the weaknesses in the credit quality of the portfolio are the exposure to security properties in nonmetropolitan areas and the proportion of loans for investment purpose. Our credit support calculation takes into account that borrowers can redraw prepaid principal and request further advances under the mortgage loans.

In calculating the minimum credit support levels, we compare the characteristics of the portfolio with an archetypical pool and apply multiples as a way to increase or decrease credit support levels to reflect higher or lower credit risk compared with the characteristics of the archetypical pool. A summary of the default frequency and loss severity of the total portfolio of loans is shown in table 3. Table 4 lists the five main default frequency characteristics that have deviated from the archetypical pool.

Table 3

Summary Credit Analysis – Total Pool

	AAA (sf)	AA (sf)	A (sf)	BBB (sf)	BB (sf)
(a) Default frequency (%)	10.23	7.76	5.24	3.45	2.28
(b) Loss severity (%)	43.43	39.58	35.78	30.60	24.32
(c) Credit support required before credit to lenders' mortgage insurance (LMI) (a) x (b) (%)	4.44	3.07	1.88	1.05	0.55
(d) Credit to LMI (%)	0.55	0.61	0.55	0.32	0.18
(e) Credit support required after credit to LMI (c) – (d) (%)	3.89	2.46	1.33	0.73	0.37
Assumptions					
Market value decline (%)	45.0	43.0	41.0	38.0	34.0
Weighted-average recovery period (months)	16.0	16.0	16.0	16.0	16.0
Interest rate through recovery period (%)	10.10	9.60	9.10	8.60	8.10

Table 4

Rating Multiples

Criteria	Default frequency multiple (x)
Loan purpose	1.095
Location - nonmetropolitan	1.037
Employment	1.034
Seasoning	0.922
Loan-to-value ratio	0.848

Loan Pool Profile

The pool as of July 31, 2022, is summarized in table 5. All portfolio statistics are calculated on a consolidated loan basis.

Table 5

Loan Pool Characteristics

	Value of loans (%)
Current loan size distribution (A$)	
Less than or equal to 100,000	0.6
Greater than 100,000 and less than or equal to 200,000	1.9
Greater than 200,000 and less than or equal to 300,000	6.7
Greater than 300,000 and less than or equal to 400,000	11.3
Greater than 400,000 and less than or equal to 600,000	25.9
Greater than 600,000 and less than or equal to 800,000	19.0
Greater than 800,000 and less than or equal to 1,000,000	9.5
Greater than 1,000,000	25.0

Table 5

Loan Pool Characteristics (cont.)

	Value of loans (%)
Current loan-to-value ratio distribution (%)	
Less than or equal to 50	16.7
Greater than 50 and less than or equal to 60	12.2
Greater than 60 and less than or equal to 70	23.2
Greater than 70 and less than or equal to 80	38.1
Greater than 80 and less than or equal to 90	9.9
Greater than 90 and less than or equal to 95	0.0
Geographic distribution (by state)	
New South Wales and Australian Capital Territory	55.8
Victoria	18.9
Queensland	12.8
Western Australia	8.6
South Australia	2.7
Tasmania and Northern Territory	1.1
Geographic distribution (metro/nonmetro)	
Inner city	0.3
Metropolitan	82.3
Nonmetropolitan	17.4
Seasoning	
Less than or equal to six months	0.2
Six months – one year	4.7
1-2 years	35.0
2-3 years	16.3
3-4 years	8.8
4-5 years	10.4
Greater than five years	24.5
Principal amortization	
Fully amortizing	91.8
Interest-only, reverting to fully amortizing	6.5
Line of credit	1.7
Ownership type	
Owner-occupier	81.8
Investor	18.2
Loan purpose	
Purchase (new or existing)	51.2
Refinance	1.0

Table 5

Loan Pool Characteristics (cont.)

	Value of loans (%)
Refinance for equity takeout	47.4
Other	0.4
Borrower residency	
Australian resident	100.0
Nonresident	0.0
Loan documentation	
Full documentation	100.0
Mortgage insurers	
Genworth Financial Mortgage Insurance Pty Ltd.	21.4
QBE Lenders' Mortgage Insurance Ltd.	3.2
Uninsured	75.4

Cash-Flow Analysis

Our cash-flow analysis shows that the transaction has sufficient income to support timely payment of interest and ultimate repayment of principal to the rated notes under various stress scenarios commensurate with the ratings assigned.

Liquidity assessment

If there are insufficient interest collections, then liquidity support to meet senior fees, expenses, and interest on the notes, is first provided through the excess reserve (discussed in more detail under "Excess reserve"). In addition, an amortizing liquidity reserve funded by note issuance will be available if there is a further shortfall.

On closing, the liquidity reserve is set to equal to 1.00% of the aggregate invested amount of all notes. The liquidity reserve can amortize to a floor of A$500,000. The reserve will be invested in authorized short-term investments when not used for liquidity purposes.

The excess reserve, principal draw mechanism, and liquidity reserve draws will not be available to meet interest shortfalls on the class B, class C, class D, class E, and class F notes if at any time there is a charge off to these notes. Class F notes will also have no access to liquidity support after the call-option date.

Excess reserve

There will be a nonamortizing excess reserve that traps available excess spread, subject to meeting certain triggers. The excess reserve balance initially will be nil. We have assumed that the excess spread trapping mechanism traps excess spread from the first call-option date onward into the excess reserve and sized this amount at 70% of available excess spread to account for the tax distribution amount. This reserve will be available to cover senior expenses and interest shortfalls on the rated notes. Upon the invested amount of all class E notes being reduced to zero, the excess reserve will be released to the residual unit holder.

Extraordinary expense reserve

AMP Bank will deposit A$150,000 in the income reserve on the closing date of the transaction to cover any extraordinary expenses that might arise. This reserve will be maintained and topped up from excess spread up to A$150,000, where possible, through the life of the transaction.

Interest-rate risk

Interest-rate risk between any fixed-rate mortgage loans and the floating-rate obligations on the notes is hedged via interest-rate swaps provided by BNP Paribas SA. In addition, a basis swap will be provided by AMP Bank to hedge the basis risk associated with all variable-rate mortgage loans and the floating-rate obligations under the notes.

The interest-rate swap agreement includes downgrade language that requires the posting of collateral or the replacement of the standby swap counterparty or other remedy, consistent with S&P Global Ratings' "Counterparty Risk Framework: Methodology And Assumptions" criteria, published on March 8, 2019, should our rating on BNP Paribas SA fall below the applicable level.

S&P Global Ratings is satisfied that the income received under the interest-rate swaps, the use of the threshold-rate mechanism, and trapping of excess spread into the excess reserve will ensure that there is sufficient yield for the trust to meet its obligations should the basis swap fall away.

Cash-flow modeling assumptions

Based on our cash-flow analysis and stresses, the notes can make full interest and principal payment by the final legal maturity date. Our cash-flow analysis allows us to test the capacity of the transaction's cash flow to support the rated notes under various stress scenarios, repay principal on the notes by their respective legal final maturity dates, and to determine whether the liquidity support is sufficient. We have excluded principal draw from our cash-flow modeling because principal collections can be used to fund redraws during a monthly collection period without prior allowance for any anticipated principal draw.

The key rating stresses and assumptions modeled at each rating level are:

- Analyzing and modeling the structure of the transaction to include all note balances and margins, trust expenses, liquidity mechanisms within the structure, the priority of payments for income and principal, and loss mechanism, as described in the transaction documents.
- Default frequency and loss severity commensurate with the ratings on the notes.
- Timing of defaults. S&P Global Ratings assumes most defaults would likely occur within the first few years of the transaction. We have run three default curve assumptions: a front-end default curve whereby most of the expected losses occur earlier in the first few years of the transaction's life, a base-case default curve, and a back-end default curve whereby losses occur later within the first five years of the transaction's life (table 6).
- Time to recovery of sale proceeds from defaulted loans. A key driver in the cash-flow model is the time it takes to foreclose and recover monies from the defaulted borrower. We have assumed a recovery period of 16 months.
- Loan prepayment rates. S&P Global Ratings has considered various prepayment rates when

modeling the cash flows of the underlying mortgage loans to assess the impact on the ability of the trust to meet its obligations. S&P Global Ratings has modeled a low, constant, and high prepayment rate. The prepayment stresses assumed are shown in table 7. These rates include voluntary and involuntary (default) prepayments.

- Modeling the cash flows of the assets based on the characteristics of the underlying collateral pool, and the margin set on all loans.
- Interest rates, by varying the bank-bill swap rate curves at each rating level.
- An assumed servicer fee of 0.35%, should it be necessary for AMP Bank to be replaced as servicer.
- The sequential and pro-rata principal payment structure of the notes.
- The threshold-rate mechanism to allow the trustee to meet its payment obligations under the transaction documents. In cash-flow modeling, we recognize a step up in the threshold rate of a total of 50 bps, with 25 bps each on months 36 and 60.

Table 6

Assumed Default Curves

Month	Front-end default curve (%)	Back-end default curve (%)	Base-case default curve (%)
7	10	-	10
12	25	5	15
18	-	15	-
24	30	25	25
36	20	25	25
48	10	15	15
60	5	15	10

Table 7

Assumed Constant Prepayment Rates (CPR)

Transaction seasoning	Low CPR scenario (% per year)	Constant CPR scenario (% per year)	High CPR (% per year)
Up to month 12	5	20	20
Month 13 to month 18	5	20	25
Month 19 to month 36	5	20	35
After month 36	5	20	40

Note: Total CPR shown is inclusive of voluntary and involuntary (defaults) prepayments.

Legal And Counterparty Risks

In our view, the issuer has features consistent with our criteria on special-purpose entities, including the restriction on objects and powers, debt limitations, independence, and separateness.

The transaction will have counterparty exposure to BNP Paribas as the fixed-rate swap provider and Westpac Banking Corp. and MUFG Bank Ltd. as the bank account providers. The documentation of these roles requires replacement and/or posting of collateral if the rating of these entities falls below certain levels. These mechanisms are consistent with S&P Global Ratings' counterparty rating criteria.

Issuer Disclosure

The issuer has not informed S&P Global Ratings Australia Pty Ltd. whether the issuer is publicly disclosing all relevant information about the structured finance instruments that are subject to this rating report or whether relevant information remains nonpublic.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
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- Criteria | Structured Finance | RMBS: Methodology For Assessing Mortgage Insurance And Similar Guarantees And Supports In Structured And Public Sector Finance And Covered Bonds, Dec. 7, 2014
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- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
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- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Monetary Tightening To Test Australian RMBS, June 16, 2022
- 2022 Outlook Assumptions For The Australian RMBS Market, Jan. 7, 2022
- An Overview Of Australia's Housing Market And Residential Mortgage-Backed Securities, Nov. 17, 2021
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- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- RMBS Performance Watch: Australia, published quarterly
- RMBS Arrears Statistics: Australia, published monthly