APPENDIX 5 – ABIP PRICING ISSUES

This appendix outlines pricing issues relating to ABIP and some broad principles that the shareholders have agreed will guide pricing decisions.

Pricing of loans to ABIP borrowers and the related borrowings from its shareholders

ABIP will potentially provide loans to a variety of financially viable assets in the commercial property sector. Principles to guide the pricing of ABIP's loans to borrowers are that:

- ABIP's pricing should reflect its role as a lender of last recourse, with the intention that borrowers are encouraged to obtain financing from other financiers, other financiers are encouraged to provide financing wherever liquidity considerations permit and that banks have an incentive to compete against each other and away from ABIP.

- ABIP's pricing should not be so far above market as to make otherwise commercially viable assets uneconomic.

- ABIP should achieve a financially viable return to shareholders having regard to risk and recover all of its costs.

In particular, ABIP should price at the ***higher*** of:

- The market price, which should be determined by reference to recent similar transactions and, in the case of syndicates, to the return to other syndicate members (including all arranging / underwriting / other origination style fees pro rata to its share of the syndicate), plus a small premium (through an upfront fee) reflecting the lender of last recourse status; or

- ABIP's costs, incorporating a commercially viable return to shareholders, guarantee fee etc.

ABIP's costs comprise the following: its cost of funds, administration costs, cost of defaults (ie, provisions), return on shareholder equity and tax.

Shareholders will charge ABIP a commercial interest rate on debt finance they provide to ABIP (for ABIP to on-lend to property borrowers), largely reflecting a 'pass through' financing approach.

Pricing of the Government guarantee & return on subordinated debt

ABIP's financial structure and pricing ensures that returns to the Government and the four major banks properly reflect risks borne. As noted in the body of the submission, where ABIP raises funding from the market, this debt will be government guaranteed. Further, in certain circumstances, some of this debt may be subordinated to the debt funding provided by the shareholders.

ABIP will pay to the Commonwealth a fee for guaranteeing this debt. As set out in the Shareholders' Agreement, the fee will have regard to the risk and liquidity factors associated with the debt raised in the market by ABIP at the time. The maximum fee for non-subordinated (senior) debt will be 150 basis points per annum. In contrast, the fee for the subordinated debt will be equivalent to an appropriately substantial, equity-like return in relation to the commercial property market.