



# BNZ Covered Bonds Quarterly Investor Report

**Additional Information**

**November 2022**

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# Rating Triggers

Description	Trigger Party	Rating Trigger	Summary of Key Consequences
<b>Reserve Fund</b>	Issuer	Moody's: below P-1 Fitch: below F1+	The Covered Bond Guarantor is required to establish a reserve fund and credit the NZD equivalent amount equal to one quarter of the anticipated annual expenses and interest on the bonds to the Reserve Fund. A Reserve Fund has been maintained following the Issuer's short-term obligations being rated F1 by Fitch in April 2020.
<b>Swap Collateralisation</b>	Swap Provider	Moody's: below P-1 / A2 (or, if no short term rating, below A1) Fitch: below F1 / A	<p><b>Moody's:</b> BNZ must provide collateral in accordance with the Credit Support Annex (CSA).</p> <p><b>Fitch:</b> BNZ must:</p> <ul style="list-style-type: none"> <li>within 30 days replace itself as swap counterparty, procure an unconditional and unlimited guarantee from a suitably rated institution or take other action confirmed by Fitch; or</li> <li>provide collateral in accordance with the CSA within 14 days.</li> </ul>
<b>Swap Replacement or guarantee</b>	Swap Provider	Moody's: below P-2 / A3 (or, if no short term rating, below A3) Fitch: below F2 / BBB+	<p><b>Moody's:</b> BNZ must replace itself as swap counterparty or procure an unconditional and unlimited guarantee from a suitably rated institution.</p> <p><b>Fitch:</b> BNZ must:</p> <ul style="list-style-type: none"> <li>within 30 days replace itself as swap counterparty, procure an unconditional and unlimited guarantee from a suitably rated institution or take other action confirmed by Fitch; or</li> <li>provide collateral in accordance with the CSA within 14 days.</li> </ul>
<b>Trust Bank Account</b>	Account Bank	Moody's: below P-1 Fitch: below F1/A	Account bank ceases to be a Qualified Institution, then within 30 days BNZ must obtain an unconditional and unlimited guarantee from a suitably rated institution and receive confirmation from the Rating Agencies that the then current ratings of the covered bonds would not be reduced, qualified or withdrawn as a result of obtaining such guarantee.
<b>Cover Pool Monitor</b>	Calculation Manager	Moody's: below Baa2 Fitch: BBB- or below	Asset Monitor must test arithmetic accuracy of Calculation Manager's calculation of the Asset Coverage Test and Amortisation Test on every calculation date (prior to downgrade, test is only conducted annually).
<b>Servicer Termination Event</b>	Service	Moody's: below Baa3 Fitch: below BBB-	A Servicer Termination Event will be triggered entitling the Covered Bond Guarantor or Security Trustee to terminate BNZ as the Servicer and appoint a replacement.
<b>Title Perfection Event</b>	Seller	Moody's: below Baa2 Fitch: below BBB-	A Title Perfection Event will occur and the Covered Bond Guarantor will be required to perfect its legal title to the entire pool of mortgage loans by notifying borrowers that the mortgage loans have been sold to the Covered Bond Guarantor and by registering transfers of the real property mortgages with each relevant land titles office.
<b>Collections</b>	Servicer	Moody's: below P-1 Fitch: below F1/A	Servicer must credit collections to the GIC Account within two NZ business days of receipt.

# Other Triggers

Description	Trigger	Summary of Key Consequences
<b>Issuer Event of default</b>	See Condition 9(a)	<p>Include that:</p> <ul style="list-style-type: none"> <li>Bond Trustee may (or, if directed, must) serve an Issuer Acceleration Notice on the Issuer and a Notice to Pay on the Covered Bond Guarantor and transfer any Excess Proceeds to the Covered Bond Guarantor; and</li> <li>The Covered Bond Guarantor will be obliged to sell Selected Mortgage Loans and the Related Security to third party purchasers, subject to a right of pre-emption enjoyed by the Seller.</li> </ul>
<b>CB Guarantor Event of Default</b>	See Condition 9(b)	<p>Include that:</p> <ul style="list-style-type: none"> <li>the Bond Trustee may (or if directed, must) serve a Covered Bond Guarantor Acceleration Notice, making the covered bonds immediately due and payable; and</li> <li>enforcement action may be taken by the Security Trustee and/or the Bond Trustee.</li> </ul>
<b>Interest Rate Shortfall Test</b>	Insufficient Income for a Trust Payment Period	<ul style="list-style-type: none"> <li>Rates of variable interest rate mortgage loans in the cover pool must be increased to rectify the shortfall on the next succeeding calculation date;</li> <li>Mortgage loans in the cover pool may be sold to rectify the shortfall; and/or</li> <li>The Demand Loan Provider may be requested by the Covered Bond Guarantor to make available a Demand Loan Advance to rectify the shortfall.</li> </ul>
<b>Yield Shortfall Test</b>	Insufficient Income for a Trust Payment Period falling after Issuer Event of Default	<ul style="list-style-type: none"> <li>The Covered Bond Guarantor or the Security Trustee may notify the Servicer that it should increase variable interest rates and/or any discretionary rates or margins of home loans in the cover pool to rectify the shortfall on the next succeeding calculation date</li> </ul>
<b>Asset Coverage Test</b>	Adjusted Aggregate Mortgage Loan Amount is less than the NZD equivalent of the aggregate principal amount outstanding of the Covered Bonds on the calculation date	<ul style="list-style-type: none"> <li>First calculation date - Additional mortgage loans must be purchased to remedy breach.</li> <li>Second consecutive calculation date - An Asset Coverage Test Breach Notice can be served by the Bond Trustee, preventing the further issuance of covered bonds, and requiring remedial action (which can include sale of mortgage loans). In addition, cashflows are re-allocated.</li> <li>Third consecutive calculation date - An Issuer Event of Default occurs</li> </ul>
<b>Amortisation Test</b>	Following service of Notice to Pay, the Amortisation Test Aggregate Mortgage Loan Amount is less than the NZD equivalent of the aggregate principal amount outstanding of the Covered Bonds on the calculation date	<ul style="list-style-type: none"> <li>Covered Bonds Guarantor Event of Default.</li> <li>Sale of home loans in the cover pool may be required to rectify the breach.</li> </ul>

# Other Triggers

Description	Trigger	Summary of Key Consequences
<b>Legislated Collateralisation Test</b>	Minimum over-collateralisation requirements as set out in the Banking (Prudential Supervision) Act 1989.	<ul style="list-style-type: none"><li>• Failure to meet these requirements may result in liability under the Banking (Prudential Supervision) Act 1989.</li><li>• As this is a minimum requirement, BNZ expects that its obligation in respect of this legal requirement will be satisfied in all circumstances in which the Asset Coverage Test or the Amortisation Test, as applicable, is satisfied.</li></ul>
<b>Title Perfection Event</b>	Include rating trigger (see previous slide), Issuer Event of Default and insolvency of the Seller	<ul style="list-style-type: none"><li>• The Covered Bonds Guarantor will be required to perfect its legal title to the entire pool of mortgage loans by notifying borrowers that the mortgage loans have been sold to the Covered Bonds Guarantor and by registering transfers of the real property mortgages with each relevant land titles office.</li></ul>

# Maturity Triggers and Tests

Description	Trigger	Summary of Key Consequences
<b>Soft Bullet</b>	Trigger: Extended Due for Payment Date	If the Final Redemption Amount of the relevant covered bond is not paid in full on the Final Maturity Date, payment of the unpaid amount will be automatically deferred until the Extended Due for Payment Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date may be paid by the Covered Bond Guarantor on any Interest Payment Date occurring thereafter up to (and including) the relevant Extended Due for Payment Date.

# Hedging Strategy

- The Covered Bond Guarantor and BNZ (as swap provider) have entered into, and will from time to time enter into, swap transactions to hedge certain interest rate, currency and other risks.
- The interest rate swap agreements provide a hedge against the variance between the rates of interest payable on the mortgage loans and the bank bill rate for New Zealand deposits.
- The covered bond swap agreements provide a hedge against differences in currency and interest payments between Covered Bonds issued and payments due from the interest rate swap provider. Each covered bond swap may be forward starting or non-forward starting.



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# Disclaimer

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Recipients should not rely upon the contents of this Report, but should make their own assessment and evaluation and seek their own advice to enable them to make any decision concerning their own risk.

BNZ believes that, at the time of its issuance and based on transparency data made available by BNZ, covered bonds issued under the programme would satisfy the eligibility criteria for Article 14(2) of Directive (EU) 2019/2162 (Covered Bond Directive). However, Covered bond investors should make their own determination and obtain professional advice on whether:

- (i) the information provided in this Report meets the requirements of Article 14 of the Covered Bond Directive; and
- (ii) covered bonds issued under the programme are eligible for preferential treatment by qualifying as Level 2A assets for the purpose of the Liquidity Coverage Ratio under Regulation (EU) 575/2013.

BNZ does not accept any responsibility for, or any liability arising from, this assessment.