



# NAB Covered Bonds Monthly Investor Report

Additional information  
September 2022

# 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 A\$ equivalent amount equal to one quarter of the anticipated annual expenses of the trust 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>Pre-Maturity Test</b>	Issuer	Moody's: below P-1 / A2 Fitch: below F1+	For Hard Bullet Covered Bonds maturing within the next 12 months, Pre-Maturity Ledger must be funded by the A\$ equivalent of the Required Redemption Amount. Failure to remedy a breach of the Pre-Maturity Test within the required timeframe will cause an Issuer Event of Default to occur and may trigger a forced sale of selected mortgage loans.
<b>Swap Collateralisation</b>	Swap Provider	Moody's: below P-1 / A2 Fitch: below F1+	Swaps must be cash-collateralized (one-way CSA) within 30 business days of a Moody's ratings trigger event and within 14 calendar days of a Fitch ratings trigger event.
<b>Swap Replacement</b>	Swap Provider	Moody's: below P2 / A3 Fitch: below F2 / BBB	NAB must replace itself as a swap counterparty within 30 days of a Moody's rating trigger event and within 60 calendar days of a Fitch ratings trigger event.
<b>Trust Bank Account</b>	Account Bank	Moody's: below P-1 Fitch: below F1 / A	The account must within 60 calendar days either (i) be moved to another suitably rated institution or (ii) the account bank must obtain an unconditional and unlimited guarantee from a suitably rated institution.
<b>Cover Pool Monitor</b>	Trust Manager	Moody's: below Baa3 Fitch: below BBB- or below BBB & watch negative	The Trust Manager must immediately notify the Cover Pool Monitor if its rating falls below the Moody's or Fitch minimum ratings. Cover Pool Monitor must test arithmetic accuracy of Trust Manager's calculation of the Asset Coverage Test and Amortisation Test on a monthly basis (prior to downgrade, test is only conducted every 6 months).
<b>Servicer Termination Event</b>	Servicer	Moody's: below Baa3 Fitch: below BBB- or below BBB & watch negative	A Servicer Termination Event will occur entitling the CBG to terminate NAB as the Servicer and appoint a replacement. Excess income will be transferred to the GIC account until the Servicer Termination Event is remedied or waived.
<b>Title Perfection Event</b>	Seller	Moody's: below Baa3 Fitch: below BBB- or below BBB & watch negative	A Title Perfection Event will occur and the CBG 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 CBG and by registering transfers of the real property mortgages with each relevant land titles office.

# 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>the Bond Trustee may (or must, if directed by 25% of covered bondholders) serve an Issuer Acceleration Notice and a Notice to Pay 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>Covered Bond 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 must, if directed by 25% of covered bondholders) serve a Covered Bond Guarantor Acceleration Notice, making the covered bonds immediately due and payable; and</li> <li>enforcement action may be taken by Security 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 Note Subscriber may be requested to fund an increase in the Demand Note.</li> </ul>
<b>Yield Shortfall Test</b>	Insufficient income for a Trust Payment Period falling after Issuer Event of Default	Servicer and trust manager must consult on appropriate increase to variable interest rates of home loans in the cover pool to rectify the shortfall on the next succeeding calculation date.
<b>Asset Coverage Test</b>	Adjusted Aggregate Mortgage Loan Amount is less than the outstanding amount of the Covered Bonds	<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, 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, Amortisation Test Aggregate Mortgage Loan Amount is less than outstanding amount of the Covered Bonds	<ul style="list-style-type: none"> <li>Covered Bond Guarantor Event of Default.</li> <li>Sale of home loans in the cover pool may be required to rectify the breach.</li> </ul>
<b>Legislated Collateralisation Test</b>	Minimum over-collateralisation requirements as set out in the Australian Banking Act.	<p>As set out in the Australian Banking Act.</p> <p>As this is a minimum requirement, NAB 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.</p>
<b>Title Perfection Event</b>	Include rating trigger (see previous slide), Issuer Event of Default and insolvency of the Seller.	The CBG 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 CBG and by registering transfers of the real property mortgages with each relevant land titles office.

# Maturity triggers and tests



Type	Trigger or test	Consequence
<b>Hard Bullet</b>	Test: Pre-Maturity Test	See Overview of rating triggers – pre-maturity tests on the slide ‘Rating Triggers’.
<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 Issuer 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 NAB (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 Australian 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.

# Contact details



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# Disclaimers



This report provides additional information to and should be read in conjunction with the monthly covered bond investor report (together, the **'Report'**).

Capitalised terms used but not defined in this Report have the meaning given in the base prospectus for the nab Covered Bond Programme, as replaced and supplemented from time to time, and made available on: <https://capital.nab.com.au/disclaimer-area/funding-programmes-77.phps>.

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NAB believes that, at the time of its issuance and based on transparency data made available by NAB, 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.

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