# ANZNZ COVERED BOND TRUST
# FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 30 SEPTEMBER 2022**

# DIRECTORY

| | |
|---|---|
| **Trust Manager:** | Institutional Securitisation Services Limited (formerly ANZ Capel Court Limited), a wholly owned subsidiary of Australia and New Zealand Banking Group Limited |
| **Directors of Trust Manager:** | M A Bartolo<br>Melbourne, Australia<br><br>J M Mason<br>Melbourne, Australia<br><br>G D Metcalf<br>Sydney, Australia<br><br>M J Prosser<br>Melbourne, Australia |
| **Principal place of business of Trust Manager in New Zealand:** | Institutional Securitisation Services Limited<br>Ground Floor<br>ANZ Centre<br>23-29 Albert Street<br>Auckland, New Zealand |
| **Auditors:** | KPMG<br>Chartered Accountants<br>Level 9<br>10 Customhouse Quay<br>Wellington, New Zealand |
| **Trustee & Covered Bond Guarantor:** | ANZNZ Covered Bond Trust Limited<br>Level 16, SAP Tower<br>151 Queen Street<br>Auckland, New Zealand |
| **Security Trustee:** | New Zealand Permanent Trustees Limited<br>Level 16, SAP Tower<br>151 Queen Street<br>Auckland, New Zealand |
| **Beneficiary:** | ANZ New Zealand Staff Foundation |

# TRUST MANAGER'S STATEMENT

In the opinion of Institutional Securitisation Services Limited, as Trust Manager for ANZNZ Covered Bond Trust (the Trust), the financial statements and accompanying notes of the Trust set out on pages 3 to 9:

(i) fairly reflect the financial position of the Trust as at 30 September 2022 and its performance for the year ended on that date; and

(ii) have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

Signed for and on behalf of Institutional Securitisation Services Limited, as Trust Manager of ANZNZ Covered Bond Trust:

Yvette Tse

5 December 2022 Date of issue

# STATEMENT OF COMPREHENSIVE INCOME

| For the year ended 30 September | Note | 2022 $000 | 2021 $000 |
|---|---|---|---|
| Interest income | | 332,225 | 339,638 |
| Interest expense | | (313,611) | (185,865) |
| Net interest income on interest rate swaps | | 116,441 | 5,149 |
| Net interest income | | 135,055 | 158,922 |
| Operating expenses | 3 | (135,035) | (158,902) |
| **Profit before income tax** | | 20 | 20 |
| Income tax expense | 5 | - | - |
| **Profit after income tax** | | 20 | 20 |

There are no items of other comprehensive income.

# STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO BENEFICIARY

| For the year ended 30 September | 2022 $000 | 2021 $000 |
|---|---|---|
| **Opening net assets attributable to beneficiary** | 22 | 22 |
| Profit after income tax | 20 | 20 |
| Distribution to beneficiary | (20) | (20) |
| **Closing net assets attributable to beneficiary** | 22 | 22 |

# STATEMENT OF FINANCIAL POSITION

| As at 30 September | Note | 2022 $000 | 2021 $000 |
|---|---|---|---|
| **Assets** | | | |
| Cash at bank | 4 | 48,092 | 22,367 |
| Receivables | 6 | 10,873,146 | 11,383,458 |
| **Total assets** | | 10,921,238 | 11,405,825 |
| **Liabilities** | | | |
| Payables and other liabilities | | 69,924 | 36,526 |
| Interest rate swaps | | 14,149 | 31,602 |
| Demand loan | 7 | 6,789,430 | 7,365,470 |
| Intercompany loans | 7 | 4,047,713 | 3,972,205 |
| **Total liabilities** | | 10,921,216 | 11,405,803 |
| **Net assets attributable to beneficiary** | | 22 | 22 |

# CASH FLOW STATEMENT

| For the year ended 30 September | 2022 $000 | 2021 $000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Interest received | 331,995 | 339,631 |
| Net interest received on interest rate swaps | 108,768 | 4,416 |
| Interest paid | (305,881) | (185,113) |
| Operating expenses | (109,137) | (174,701) |
| **Net cash flows provided by / (used in) operating activities** | 25,745 | (15,767) |
| **Cash flows from investing activities** | | |
| Net change in receivables | 500,532 | 12,488 |
| **Net cash flows provided by investing activities** | 500,532 | 12,488 |
| **Cash flows from financing activities** | | |
| Net change in demand loan | (576,040) | (12,488) |
| Net change in intercompany loan | 75,508 | - |
| Distribution to beneficiary | (20) | (20) |
| **Net cash flows used in financing activities** | (500,552) | (12,508) |
| Net increase / (decrease) in cash and cash equivalents | 25,725 | (15,787) |
| Cash and cash equivalents at beginning of the year | 22,367 | 38,154 |
| **Cash and cash equivalents at end of the year** | 48,092 | 22,367 |

| Reconciliation of profit after income tax to net cash flows provided by / (used in) operating activities | | |
|---|---|---|
| Profit after income tax | 20 | 20 |
| **Deferrals or accruals of past or future operating cash receipts or payments** | | |
| Change in accrued interest receivable | 9,780 | 39,429 |
| Change in accrued interest payable | (9,723) | (39,410) |
| Increase / (decrease) in other accrued expenses | 25,668 | (15,806) |
| **Net cash flows provided by / (used in) operating activities** | 25,745 | (15,767) |

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

#### (i) Reporting entity

The Trust was established by Establishment Deed dated 11 February 2011, and is based in New Zealand. The Trust's principal activity is to acquire and hold a portfolio of high quality housing loans and related security originated by ANZ Bank New Zealand Limited (the Bank) as security for specific covered bond issuances by the Bank and its wholly owned subsidiary ANZ New Zealand (Int'l) Limited.

#### (ii) Statement of compliance

These financial statements have been prepared in accordance with the provisions of the Establishment Deed.

These financial statements have also been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as applicable to for-profit entities. The financial statements comply with International Financial Reporting Standards (IFRS).

The principal accounting policies adopted in the preparation of the financial statements are set out below.

#### (iii) Use of estimates and assumptions

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates.

#### (iv) Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

#### (v) Changes in accounting policies and application of new accounting standards

There have been no changes in accounting policies or early adoption of accounting standards in the preparation and presentation of the financial statements.

#### (vi) Presentation currency and rounding

The amounts contained in the financial statements have been rounded to the nearest thousand New Zealand dollars, except where otherwise stated.

### (b) Income and expense recognition

#### (i) Interest income and interest expense

Interest income and interest expense are recognised in the statement of comprehensive income as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expense on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

#### (ii) Operating expenses

Operating expenses are recognised in the statement of comprehensive income on an accrual basis.

### (c) Recognition and derecognition of financial assets and financial liabilities

#### (i) Receivables

Receivables are the rights to principal and interest cash flows relating to residential mortgages issued by the Bank. They are recognised and measured at amortised cost.

*Impairment*

Credit impairment is measured using an expected credit loss (ECL) model incorporating forward looking information. Under the ECL model, a three-stage approach is applied to measuring ECL based on credit migration between the stages since origination. ECLs are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

There were no expected credit losses as at 30 September 2022 (2021: nil).

#### (ii) Payables and other liabilities

Payables and other liabilities are carried at the amount expected to be required for settlement.

#### (iii) Interest rate swaps

Interest rate swaps are accounted for on an accrual basis. Further details of the accounting treatment of the interest rate swaps is provided in note 2.

# NOTES TO THE FINANCIAL STATEMENTS

**(iv) Demand loan and intercompany loans**

The demand and intercompany loans are recognised and measured at amortised cost.

**(d) Presentation**

**Offsetting of income and expenses**

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument; or
- where gains and losses from a group of similar transactions are reported on a net basis.

## 2. SIGNIFICANT JUDGEMENT

The Trust uses interest rate swaps to mitigate the interest rate risk associated with the interest rate repricing mismatch between its portfolio of fixed and variable rate receivables and the demand and intercompany loans by swapping the interest rate flows received on the receivables for the Bank Bill Benchmark Rate (BKBM) plus a margin. The Trust has determined that, as the underlying mortgages purchased from the Bank do not qualify for derecognition in the financial statements of the Bank, it would be more appropriate to accrual account for these instruments than to mark the derivative to market. The effect of this judgement is provided in note 10.

## 3. OPERATING EXPENSES

| | 2022<br>$000 | 2021<br>$000 |
|---|---|---|
| Deferred consideration | 113,493 | 136,835 |
| Servicer fees | 20,961 | 21,488 |
| Trust manager's fee | 316 | 316 |
| Trustee & security trustee fee | 120 | 120 |
| Calculation manager fees | 100 | 100 |
| Audit of financial statements | 45 | 43 |
| Total operating expenses | 135,035 | 158,902 |

Deferred consideration represents further consideration paid to the Seller after the acquisition date of the housing loans and related security, in accordance with the mortgage sale agreement.

The Calculation Manager performs, on behalf of the Trust, the Asset Coverage Test under the management agreement.

## 4. CASH AT BANK

On 7 April 2020, Fitch Ratings downgraded the Bank's short-term, unsecured, unsubordinated and unguaranteed debt obligations rating to F1 (from F1+). This triggered the establishment of a cash Reserve Fund in the Trust's bank account in accordance with the Establishment Deed. The Reserve Fund is one of a number of features of the programme which enhance the likelihood of timely and, as applicable, ultimate payments to Covered Bond holders.

The Reserve Fund is equal to a three month forecast of: (i) the New Zealand dollar equivalent of the interest to be accrued or paid, whichever is higher, on the Covered Bonds on issue, (ii) the operating expenses of the Trust (excluding deferred consideration); and (iii) interest payments under the interest rate swap and intercompany loans. The Reserve Fund is recalculated each month and although Fitch updated their criteria in January 2020 to not require the Reserve Fund at the current ratings, it will stay in place for as long as the credit ratings for the Bank's short-term, unsecured, unsubordinated and unguaranteed debt obligations are below F1+ by Fitch Ratings or until the bond maturity 'Roll-off Date' on 17 January 2024, at which point it will be repaid.

# NOTES TO THE FINANCIAL STATEMENTS

## 5. INCOME TAX

The Trust is a debt funding special purpose vehicle for New Zealand income tax purposes.

For New Zealand income tax purposes the Bank is treated as carrying on the activities that the Trust carries on, and having a status, intention and purpose of the Trust and the Trust is treated as not carrying on those activities, and not having that status, intention and purpose. Consequently, there is no tax expense for the Trust.

## 6. RECEIVABLES

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Loans and advances | 10,627,086 | 11,075,417 |
| Interest and principal payments collected by the Bank but not yet returned to the Trust | 246,060 | 308,041 |
| Total receivables | 10,873,146 | 11,383,458 |

Substantially all of the assets of the Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Trust of issuances of covered bonds by the Bank, or its subsidiary ANZ New Zealand (Int'l) Limited, from time to time.

The Trust holds these assets to meet the Asset Coverage Test requirements under the Establishment Deed and programme obligations. To the extent that home loans held in the Trust's facility are found to no longer contribute value towards the Asset Coverage Test the Bank elects to remove them from the facility. Additional lending to existing customers incorporated in the facility is added into the facility generally on a quarterly basis.

## 7. RELATED PARTIES

Trust Manager fees are paid to Institutional Securitisation Services Limited as Trust Manager. Deferred consideration and servicer fees are paid to the Bank as Servicer and Custodian.

Cash at bank, receivables, interest rate swaps, and the demand and intercompany loan are due from/to the Bank, which has the same ultimate parent (Australia and New Zealand Banking Group Limited) as the Trust Manager.

The demand loan funding is provided by the Bank under a New Zealand dollar revolving credit facility. Under the terms of the loan agreement, the proceeds from advances of this facility may only be used for a limited number of pre-specified purposes. Interest is payable on the demand loan based on BKBM plus a margin, and the rate resets on a monthly basis. Receipts from repayments of the receivables are applied against the demand loan in accordance with the priority of payments specified in the Establishment Deed.

Each intercompany loan is the New Zealand dollar equivalent, on issue date, of each Covered Bond issued by ANZ New Zealand (Int'l) Limited. Interest is payable on each intercompany loan based on BKBM plus a fixed margin for each tranche, and the rate resets on a monthly basis. The intercompany loan has a maximum maturity date of 23 March 2027.

During the year, the Trust purchased residential mortgage assets from the Bank. The purchase of these assets was funded by a corresponding advance under the demand loan and reinvestment of principal collections. Also, during the year, the Bank repurchased residential mortgage assets from the Trust. The proceeds from these repurchases were applied in accordance with the cash flow waterfall of the Trust. The amounts are shown in the table below.

| | 2022 $m | 2021 $m |
|---|---|---|
| **Face value of residential mortgage assets** | | |
| Purchased from the Bank | 2,292 | 3,611 |
| Sold to the Bank | 379 | 598 |
| **Fair value of residential mortgage assets** | | |
| Purchased from the Bank | 2,257 | 3,602 |
| Sold to the Bank | 376 | 599 |

# NOTES TO THE FINANCIAL STATEMENTS

## 8. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following is an analysis of asset and liability line items in the statement of financial position that combine amounts expected to be realised or due to be settled within one year and after more than one year.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | within one year | after more than one year | Total | within one year | after more than one year | Total |
| | $000 | $000 | $000 | $000 | $000 | $000 |
| **Assets** | | | | | | |
| Receivables | 855,512 | 10,017,634 | 10,873,146 | 1,055,304 | 10,328,154 | 11,383,458 |
| **Liabilities** | | | | | | |
| Intercompany loans | 1,551,948 | 2,495,765 | 4,047,713 | 1,142,297 | 2,829,908 | 3,972,205 |

## 9. FINANCIAL RISK MANAGEMENT

Exposure to risk arises from the Trust's operations as a financial intermediary. All aspects of risk are managed within a framework of policies, limits, control procedures, systems and reporting as set out by the Bank as Servicer. Risk exposures are monitored and controlled within predefined limits, with an internal reporting framework in place by the Bank as Servicer.

**Interest rate risk**
A portion of the Trust's receivables are at fixed rates while all of its funding is at variable rates. This results in an unmatched position, leading to material exposures to a shifting interest rate environment. The Trust uses interest rate swaps to manage interest rate risk. As a result of the interest rate management mechanisms in place, the Trust has no material sensitivity to movements in interest rates.

**Liquidity risk**
Liquidity risk is the risk that the Trust is unable to meet its payment obligations on the demand and intercompany loans when they fall due.

The Trust is exposed to minimal liquidity risk as it is funded by variable rate loans, with a facility limit of $15,000 million. The demand loan is callable by the Bank, but repayment is subject to amounts available under the cash flow waterfall and the asset coverage test having not been breached as a result of the repayment. Further, the Trust is able to sell selected receivables to make the repayment on the demand and intercompany loans and the Bank has the first right of repurchase.

The tables below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings, based on the earliest date the Trust is able to realise the asset, or may be required to settle the liability. The amounts in the table represent undiscounted future principal and interest cash flows and may differ to amounts presented in the statement of financial position.

Liquidity is not managed on the basis of expected profiles but rather on the basis described above.

| 2022 | Total $000 | At call or less than 3 months $000 | 3 to 12 months $000 | 1 to 5 years $000 | Beyond 5 years $000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Payables and other liabilities (excluding interest) | 53,337 | 53,337 | - | - | - |
| Net interest rate swap interest paid / (received) | (202,936) | (11,014) | (99,983) | (28,426) | (63,513) |
| Demand loan | 6,789,430 | 6,789,430 | - | - | - |
| Intercompany loans | 4,374,276 | 57,408 | 1,657,981 | 2,658,887 | - |
| Total financial liabilities (including interest) | 11,014,107 | 6,889,161 | 1,557,998 | 2,630,461 | (63,513) |

| 2021 | | | | | |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Payables and other liabilities (excluding interest) | 28,268 | 28,268 | - | - | - |
| Net interest rate swap interest paid / (received) | 145,514 | 24,706 | (15,485) | 45,688 | 90,605 |
| Demand loan | 7,365,470 | 7,365,470 | - | - | - |
| Intercompany loans | 4,008,866 | 12,047 | 1,152,391 | 2,844,428 | - |
| Total financial liabilities (including interest) | 11,548,118 | 7,430,491 | 1,136,906 | 2,890,116 | 90,605 |

# NOTES TO THE FINANCIAL STATEMENTS

**Currency risk**
The Trust does not have foreign currency exposures.

**Credit risk**
Credit risk is the potential that the counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing loss. Credit risk on the underlying mortgages that support the receivables is managed through the Asset Coverage Test which supports the issuance of Covered Bonds by the Bank. Loans which are more than three months in arrears will be given zero value under the Asset Coverage Test and accordingly the Bank is incentivised to buy back such loans.

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Receivables, interest rate swaps, the demand loan and intercompany loans are valued using a discounted cash flow model, to which the principal inputs used in the determination of the fair value of the financial instruments are interest rates, which are observable in the market. There are no significant unobservable inputs in the valuation process, and the instruments are classified as level 2 instruments.

The carrying value of liquid assets, demand loan and payables and other liabilities is considered to approximate the fair value as they are short term in nature.

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Carrying amount $000 | Fair value $000 | Carrying amount $000 | Fair value $000 |
| **Financial assets** | | | | |
| Liquid assets | 48,092 | 48,092 | 22,367 | 22,367 |
| Receivables | 10,873,146 | 10,675,751 | 11,383,458 | 11,312,011 |
| **Total financial assets** | 10,921,238 | 10,723,843 | 11,405,825 | 11,334,378 |
| **Financial liabilities / (assets)** | | | | |
| Payables and other liabilities | 69,924 | 69,924 | 36,526 | 36,526 |
| Interest rate swaps | 14,149 | (294,460) | 31,602 | (84,471) |
| Demand loan | 6,789,430 | 6,789,430 | 7,365,470 | 7,365,470 |
| Intercompany loans | 4,047,713 | 4,101,809 | 3,972,205 | 4,055,641 |
| **Total financial liabilities** | 10,921,216 | 10,666,703 | 11,405,803 | 11,373,166 |

KPMG

# Independent Auditor's Report

To the Trustee of ANZ Covered Bond Trust

**Report on the audit of the financial statements**

## Opinion

We have audited the accompanying financial statements of ANZ Covered Bond Trust (the "Trust") which comprise:

- the statement of financial position as at 30 September 2022;
- the statements of comprehensive income, changes in net assets attributable to beneficiary and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies.

In our opinion, the financial statements on pages 3 to 9 present fairly, in all material respects, the Trust's financial position as at 30 September 2022 and its financial performance and cash flows for the year ended on that date, in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Trust in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

Other than in our capacity as auditor we have no relationship with, or interests in, the Trust.

## Other information

The Trustee, on behalf of the Trust, are responsible for the other information included in the Trust's financial statements. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

KPMG

## Use of this independent auditor's report

This independent auditor's report is made solely to the Trustee as a body. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

## Responsibilities of the Trustee for the financial statements

The Trustee, on behalf of the Trust, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board;
- implementing necessary internal control to enable the preparation of a set of financial statements that is free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/

This description forms part of our independent auditor's report.

KPMG

KPMG
Auckland

5 December 2022