New Zealand Mortgage Covered Bonds Programmes: Peer Review

Downgrade Protection Supports Stable Outlook

Ratings Protected from IDR Downgrade: The 'AAA' covered bond (CVB) ratings can be sustained despite a downgrade of the New Zealand banks' Long-Term Issuer Default Ratings (IDR) by up to four notches, all else being equal. This is based on the issuing banks' 'A+' to 'AA-' IDRs, combined with a total rating uplift of seven notches. The Stable Outlook on the CVBs reflects the buffer against an IDR downgrade.

No Preferential Treatment in Resolution: New Zealand's open bank resolution (OBR) framework does not explicitly exempt CVBs from being bailed in in the event of a resolution of a bank. Therefore, Fitch Ratings assigns a zero-resolution uplift to New Zealand programmes, as there is no preferential treatment of CVBs compared with the banks' other senior debt. This means issuers' Long-Term IDRs remain the resolution reference point for the ratings.

Sizable AP Buffer: The asset percentage (AP) Fitch relies on provides between a 1.2x to 15x buffer on the breakeven AP determined by Fitch at the last analysis. The analysis relies on the highest nominal AP in the last 12 months for all programmes, except for WNZL. Fitch only counts the guaranteed portion of the overcollateralisation (OC) under the asset coverage test (ACT), as WNZL's excess is secured by a demand loan that ranks senior in repayment to the CVB holders.

Low Credit Risk Composition: All cover pools are composed of prime New Zealand residential mortgage loans. The weighted average (WA) loan/value (LTV) ratios on the assets are lower than 60% and have limited adverse characteristics. The cover pools have a large proportion of loans linked to a fixed interest rate for a period that is typically between one and two years.

Large ALM Loss Component: The ALM loss component is the largest contributor to the 'AAA' breakeven OC, as asset-liability mismatches create the need to sell assets post the enforcement of the CVB guarantee. This is exacerbated by the sales constraint that limits the volume of mortgages that can be sold in proportion to the bonds' redemption.

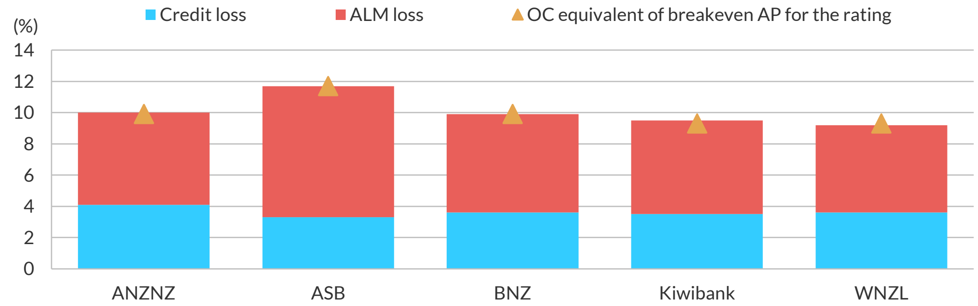
Resilient to Downside Stress: New Zealand's coronavirus pandemic containment measures may lead to a deterioration of residential mortgage performance. However, the programmes still have substantial OC to buffer any deterioration, and the banks have a significant volume of mortgage loans to replace non-performing loans in the cover pool. Fitch expects asset performance to be supported by New Zealand's strong macroeconomic recovery, which Fitch expects to be sustained.

Key Rating Drivers

Programme	ANZNZ	ASB	BNZ	Kiwibank	WNZL
Long-Term IDR	A+	A+	A+	AA-	A+
Resolution uplift (notches)	0	0	0	0	0
PCU (notches)	6	6	6	6	6
Timely payment rating level	AA+	AA+	AA+	AA+	AA+
Recovery uplift (notches)	1	1	1	1	1
CVB rating	AAA	AAA	AAA	AAA	AAA
Outlook on CVBs	Stable	Stable	Stable	Stable	Stable
Buffer against IDR downgrade	3	3	3	4	3
Breakeven AP for rating (%)	91.0	89.5	91.0	91.5	91.5
AP Fitch relies upon (%)	39.5	82.4	83.3	77.7	90.0

Source: Fitch Ratings

Breakeven OC for CVB Rating



Source: Fitch Ratings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Cover Pool – Peer Analysis

Cover Assets Credit Analysis[a]

	ANZNZ	ASB[b]	BNZ	Kiwibank[b]	WNZL
CVB rating	AAA	AAA	AAA	AAA	AAA
Rating default rate (RDR) for rating (%)	13.7	12.6	9.0	8.6	7.4
Rating recovery rate (RRR) for rating (%)	64.5	68.3	55.3	53.7	46.0
Rating loss rate (RDR*(1-RRR) for rating (%)	4.9	4.0	4.0	4.0	4.0
'B' case loss rate (%)	0.2	0.4	0.6	0.4	0.9[c]

[a] Cover pool data for all programmes is as at end-June 2021, except for BNZ, which is as at end-May 2021 in accordance with its quarterly investor reporting cycle
[b] We assessed the cover pools of ASB and Kiwibank under the APAC RMBS criteria released in May 2021
[c] Includes additional coronavirus stress scenario

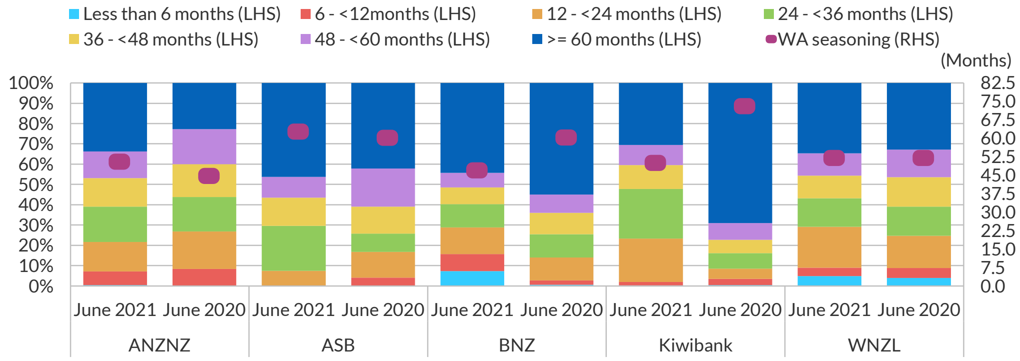
Source: Fitch Ratings

- All five cover pools consist of 100% first-ranking prime residential mortgage loans denominated in New Zealand dollars and backed by residential properties in New Zealand.
- The 'B' portfolio loss rate (PLR) for the five cover pools varies between 0.1% and 0.6%, with the exception of WNZL, which has a PLR of 0.9% due to the inclusion of an additional coronavirus default multiple of 1.4x at the 'B' rating level at last analysis. Fitch has since removed its coronavirus adjustment, as asset performance has remained stable, supported by New Zealand's economic recovery since the onset of the pandemic. WNZL's 'B' PLR reduces to 0.6% once the coronavirus default multiple is removed, to be in line with peers.
- ASB has the most seasoned pool, with over five years of seasoning. All cover pools are topped up at least yearly, which keeps seasoning stable. More assets are usually held in the cover pool than needed to provide issuers with flexibility in issuance timing.
- ANZNZ's cover pool has an expected loss rate that is above the 'AAA' 4.0% floor defined in Fitch's criteria. The higher loss rate is partially driven by a higher default rate of 13.7% compared with peers. This reflects the combination of higher-risk characteristics in the portfolio, which include a higher WA portfolio LTV, a greater proportion of loans made to self-employed borrowers and the inclusion of loans where the mortgage security is linked to a flexible loan product. We consider the flexible loan product to be an at-call secured credit line, which, under Fitch's criteria, has an increased probability of default due to the at-call nature that may cause a cross default on the loans in the cover pool.

  ASB's cover pool contains a larger proportion of such loans, but our expectation of a higher foreclosure frequency stemming from these loans is offset by lower-risk portfolio characteristics compared with ANZNZ's portfolio. These include a significantly lower WA LTV and a lower portion of self-employed borrowers.

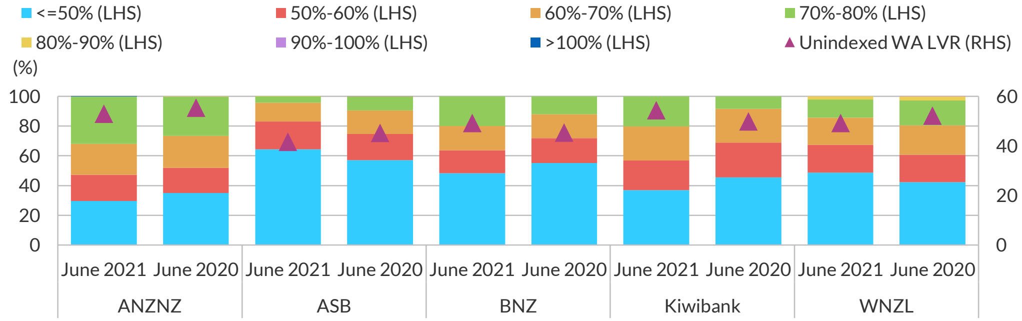
- Loans with an interest-only period have decreased in the cover pools over the last 12 months, despite a temporary lift during 2020 due to most lenders offering a short interest-only period – typically for six to twelve months – as a form of payment relief during the pandemic. The portion of interest-only loans peaked in 2Q20 for all portfolios, except for WNZL, which did not offer this type of assistance. ASB had the highest portion of interest-only loans at 22.8% at end-April 2020. This dropped to 12.7% by end-June 2021.

Seasoning Distribution



Source: Fitch Ratings, ANZNZ, ASB, BNZ, Kiwibank, WNZL

Unindexed LVR Distribution



Source: Fitch Ratings, ANZNZ, ASB, BNZ, Kiwibank, WNZL

Breakeven Overcollateralisation – Peer Analysis

Programme	ALM loss (%)	Credit loss (%)	OC equivalent of breakeven AP (%)
ANZNZ	5.9	4.1	9.9
ASB	8.4	3.3	11.7
BNZ	6.3	3.6	9.9
Kiwibank	5.9	3.3	9.3
WNZL	5.6	3.6	9.3

Source: Fitch Ratings

Credit Loss

- The credit loss component reflects the stressed credit loss derived by Fitch under its analysis of each cover pool of the five programmes at the 'AA+' timely payment rating level, which is the driving rating scenario for the 'AAA' breakeven AP.
- The credit loss for all pools is low, reflecting good credit quality and highly seasoned cover assets. ANZNZ has the highest credit loss, partially driven by the linkage of a flexible loan product to the same security as the loans in the cover pool. ASB has a proportion of its cover assets linked to a similar product, which equates to over 45% of its portfolio.

ALM Loss

- ALM is the driving component of Fitch's 'AAA' breakeven OC. The ALM loss represents modelled asset and liability mismatches, inclusive of modelled excess spread. This considers the effect of the sales constraint that restricts the assets that can be sold to the pro rata proportion of the bond redemption.
- ASB's ALM loss component of 8.4% is the highest of the five programmes, driven by the modelled maturity mismatches and the impact of the sales constraint that limits the assets sold to the pro rata proportion of the maturing bonds.
- WNZL has the lowest ALM loss component, at 5.6%, driven by a lower modelled asset and liability mismatch compared with peers. The ALM component includes credit to excess spread available under the programmes. Fitch looks through to the asset margin on the cover assets, as we believe the swaps on the variable rate assets are not replaceable.
- CVB swaps are in place for all programmes to cover interest rate and foreign-exchange rate mismatches on the bonds until the extended due-for-payment date.

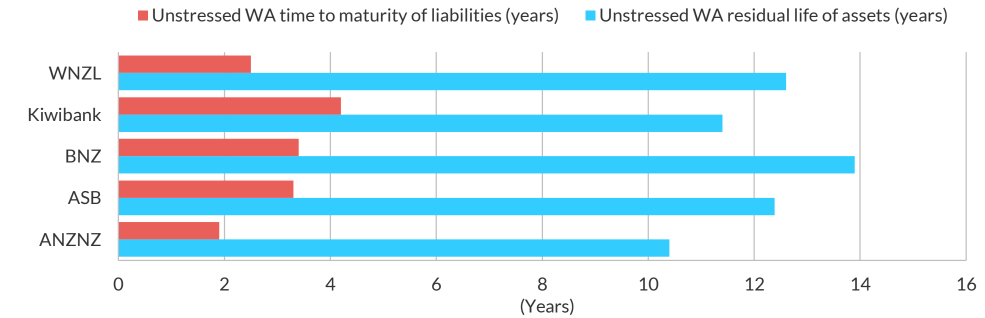
Cash Flow Analysis Driving Scenarios

Programme	Prepayment scenario	Interest-rate scenario	Default timing scenario
ANZNZ	Low	Stable	Front loaded
ASB	Low	Stable	Front loaded
BNZ	Low	Down	Front loaded
Kiwibank	Low	Stable	Front loaded
WNZL	Low	Stable	Front loaded

Source: Fitch Ratings

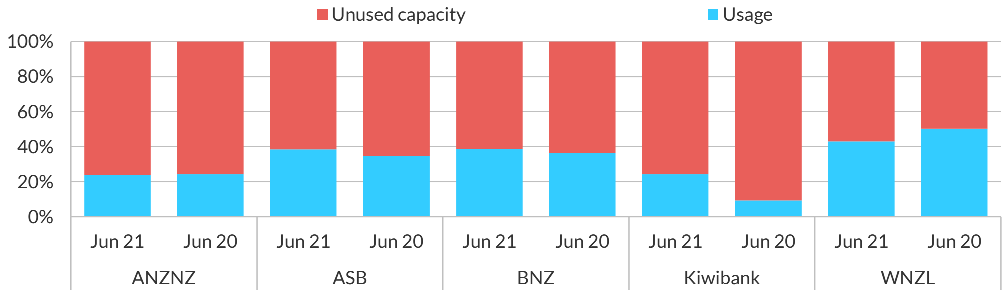
Unstressed Asset and Liability Maturity Mismatches

End-June 2021



Source: Fitch Ratings

Issuance Available Capacity



Capacity calculated as 8% of resident assets and includes OC
Source: Fitch Ratings, Reserve Bank of New Zealand

Resolution Uplift, PCU and Recovery Uplift – Peer Analysis

Continuity Uplift Assessment

Programme	Resolution uplift (notches)	PCU (notches)
ANZNZ	0	6
ASB	0	6
BNZ	0	6
Kiwibank	0	6
WNZL	0	6

Source: Fitch Ratings

Resolution Uplift

- New Zealand's OBR framework contemplates the power to bail-in unsecured creditors. However, CVBs are not explicitly exempt. The OBR recognises secured assets and the resolution process should not affect legal claims. Therefore, upon the resolution of a CVB issuing bank, we expect that recourse will switch from the issuer to the cover pool to make repayments on the CVBs.
- This results in a resolution uplift of zero notches for New Zealand CVBs. The resolution reference point is the IDR, as there is no preferential treatment of CVBs compared with the banks' senior unsecured debt.

Payment Continuity Uplift

- The six-notch payment continuity uplift (PCU) granted to all the programmes is based on the 12-month protection for principal payments. This is in the form of a 12-month extension period for the soft-bullet bonds, which represents 100% of all issuance by New Zealand CVB programmes.
- The PCU analysis also reflects the three-month protection of interest payments and other senior liabilities due for payment in the form of a reserve that is funded upon a trigger event.
- The Short-Term IDRs of ANZNZ, ASB, BNZ and WNZL were downgraded to 'F1' in April 2020, below the documented trigger of 'F1+'. The reserve fund amounts are held with eligible rated account banks that are subject to replacement language that is either in line with or more conservative than Fitch's criteria for the timely payment rating level of 'AA+'. WNZL and Kiwibank's documented requirements for the reserve fund are in line with Fitch's criteria expectation of 'A-' or 'F1'.
- There are no other payment continuity risks that could undermine the liquidity protection considered in the PCU assessment on the New Zealand programmes.

Recovery Uplift Assessment

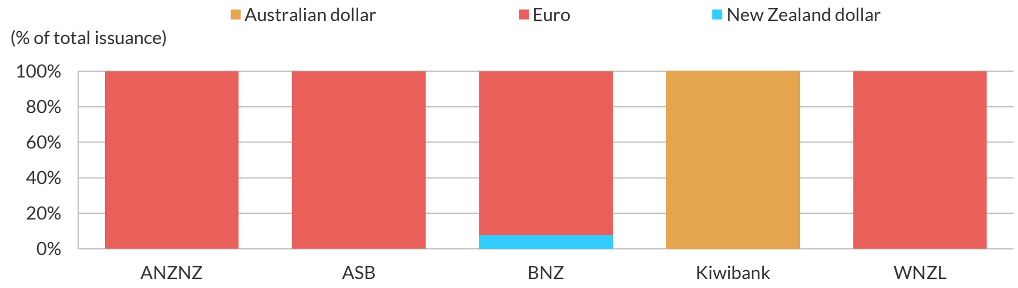
Programme	'AAA' credit loss (%)	OC Fitch relies upon in its analysis (%)	Pre-swap non-New Zealand dollar bond exposure (%)	Maximum achievable recovery uplift (notches)
ANZNZ	4.1	153.2	100.0	1
ASB	3.3	21.3	100.0	1
BNZ	3.6	20.0	92.4	1
Kiwibank	3.3	28.7	100.0	1
WNZL	3.6	11.1	100.0	1

Source: Fitch Ratings

Recovery Uplift

- The recovery uplift is capped at one notch for all programmes due to the presence of material pre-swap currency mismatches between the cover assets and liabilities. The cover assets are denominated in New Zealand dollars, while the CVBs, with the exception of one bond issued by BNZ, are denominated in other currencies, mainly euros (see chart below).
- Swaps are in place to hedge the non-New Zealand dollar CVBs, however, we expect the swaps to terminate upon a CVB default. This could expose non-New Zealand dollar bondholders to foreign-exchange risk, as recoveries come from the New Zealand dollar assets, which have a longer WA life than the CVBs.

Currency Type



Source: Fitch Ratings, ANZNZ, ASB, BNZ, Kiwibank, WNZL

ESG Considerations

ESG Relevance Scores Recap

		ANZNZ	ASB	BNZ	Kiwibank	WNZL
Environmental	GHG emissions & air quality	1	1	1	1	1
	Energy management	1	1	1	1	1
	Water & wastewater management	1	1	1	1	1
	Waste & hazardous materials management; ecological impacts	2	2	2	2	2
	Exposure to environmental impacts	3	3	3	3	3
Social	Human rights, community relations, access & affordability	2	2	2	2	2
	Customer welfare – fair messaging, privacy & data security	3	3	3	3	3
	Labour relations & practices	1	1	1	1	1
	Employee wellbeing	1	1	1	1	1
	Exposure to social impacts	3	3	3	3	3
Governan	Rule of law, institutional and regulatory quality	3	3	3	3	3
	Transaction & collateral structure	3	3	3	3	3
	Transaction parties & operational risk	3	3	3	3	3
	Data transparency & privacy	3	3	3	3	3

Source: Fitch Ratings

Credit-Relevant ESG Scale - Definitions

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant; a key transaction or programme rating driver that has a significant impact on an individual basis
4	Relevant to transaction or programme ratings; not a key rating driver, but has an impact on the ratings in combination with other factors
3	Minimally relevant to ratings; either very low impact or actively mitigated in a way that results in no impact on the transaction or programme ratings
2	Irrelevant to the transaction or programme ratings; relevant to the sector
1	Irrelevant to the transaction or programme ratings; irrelevant to the sector

Source: Fitch Ratings

Impact of Coronavirus Pandemic on CVBs

Cover Pools Resilient to Pandemic Crisis

Fitch expects the rapid recovery of New Zealand's economy to support stable loan performance. The economy has been buttressed by government financial support to businesses and consumers as well as payment assistance from lenders. Most mortgage lenders in New Zealand offered interest deferrals, relief from principal mortgage repayments for up to six months, temporary interest-only payment arrangements, loan-term extensions and debt consolidation. Total assistance across the five programmes peaked at 16.5% of the total outstanding cover pool balance and has since reduced to zero, as borrowers have either resumed full repayments or have had their loan terms extended. The renewed Covid-19 outbreak in August 2021 may see some lenders re-introduce payment assistance measures, although Fitch expects the take-up to be smaller than previously.

Coronavirus Rating Impact

Fitch performed a stress sensitivity scenario by increasing the cover pool probability of default, decreasing recovery expectations on the mortgage loans and raising the stressed cost to refinance the cover pool and the recovery timing lag on the mortgage loans. The relied-upon AP still provided more protection than the stressed 'AAA' breakeven AP for four of the five programmes.

The relied-upon AP supporting the 'AAA' rating provides less protection than the stressed 'AAA' breakeven AP for the WNZL programme, but the programme still had a significant amount of nominal OC of 81.5% as of end-June 2021. It has also utilised less than 45% of its maximum cover asset limit, based on 10% of total assets, which is specified as a condition of registration under the CVB legislation. This means it has the capacity to add more performing mortgages to the cover pool, as required. We believe the programme has the capacity to support the 'AAA' rating should there be any performance deterioration, based on these mitigating factors.

Stable Performance Outlook

Fitch removed the additional coronavirus stress scenario analysis from its Australian and New Zealand mortgage criteria, which had been implemented on 28 July 2020. We believe the stresses contained in the APAC Residential Mortgage Rating Criteria are sufficient to account for the uncertainty related to the pandemic, as New Zealand's recession was shallower than we expected and the health crisis has been largely contained along with the vaccine rollout.

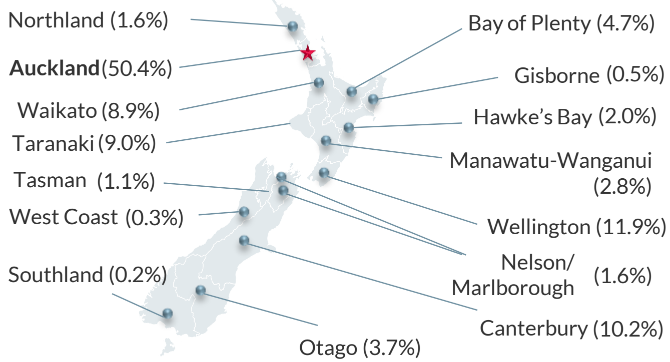
The stable performance of the cover pools is supported by New Zealand's effective suppression of Covid-19 and the macro-policy response, which has facilitated a robust economic recovery. Fitch forecasts New Zealand's GDP to expand by 5.5% in 2021, revised up from an estimate of 4.0% earlier this year. We expect GDP growth to stabilise in 2022 at 3.3% and the unemployment rate to improve, falling to 4.4% by end-2022.

Appendix 1A – Focus on ANZ Bank New Zealand Limited

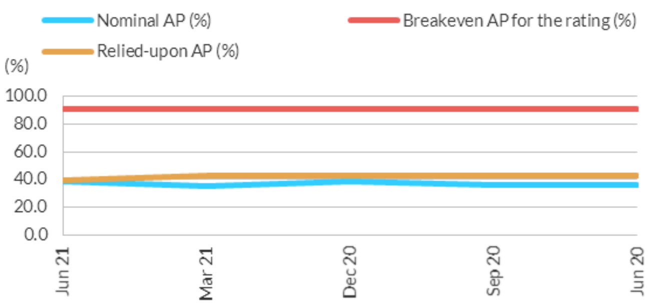
Programme Structure

- ANZNZ can issue CVBs of up to EUR8 billion under its programme.
- The programme features a reserve fund to mitigate against payment interruptions. The reserve is funded upon the loss of an 'F1+' Short-Term IDR. This is at the higher of the next three months of interest payments due and three months accrued interest payments or one quarter of senior expenses. This will increase from January 2024 to include rolling three-month swap payments on senior expenses due upon the loss of an 'F1' Short-Term IDR.
- The CVB guarantor (CBG) has entered into an interest-rate swap to swap the monthly interest paid on the mortgages to the bank bill swap rate (BKBM) plus a margin. Forward starting currency swaps are in place to hedge the currency mismatch between the New Zealand dollar-denominated loan and the non-New Zealand dollar denominated CVBs.
- ANZNZ's cover assets are linked to flexi loans that work as a revolving credit facility or large overdraft. The loans are outside of the cover pool, but are secured over the same security properties, with loan repayments subordinated to the cover assets. The bank had 19.6% of loans linked at end-May 2021, marginally up from 18.6% at the same time last year, but significantly lower than the around 48% at programme inception.

Geographical Distribution (% of asset pool)

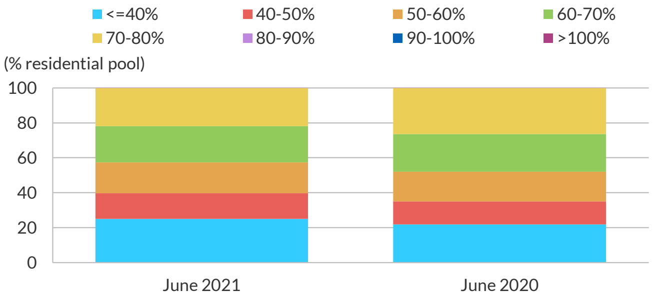


Overcollateralisation Breakdown



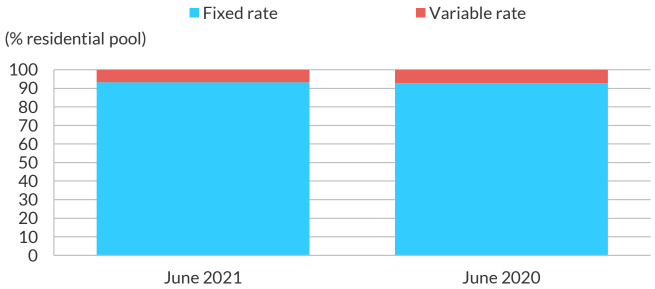
Source: Fitch Ratings, ANZNZ

Current LTV



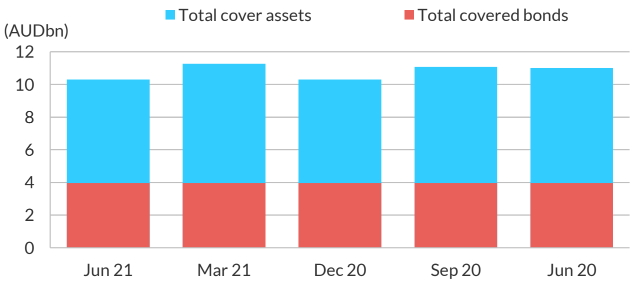
Source: Fitch Ratings, ANZNZ

Loan Payment Type



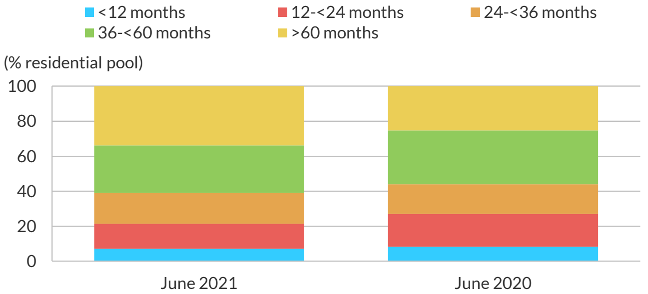
Source: Fitch Ratings; ANZNZ

Assets and Liabilities



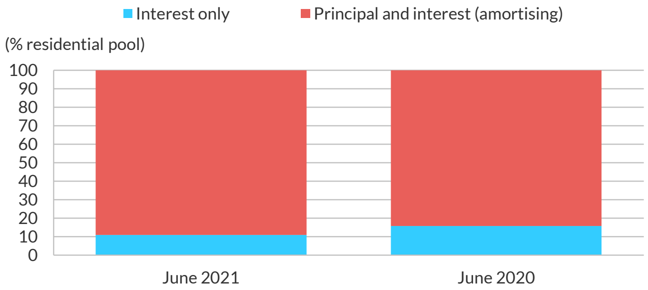
Source: Fitch Ratings, ANZNZ

Loan Seasoning



Source: Fitch Ratings, ANZNZ

Loan Amortisation Type



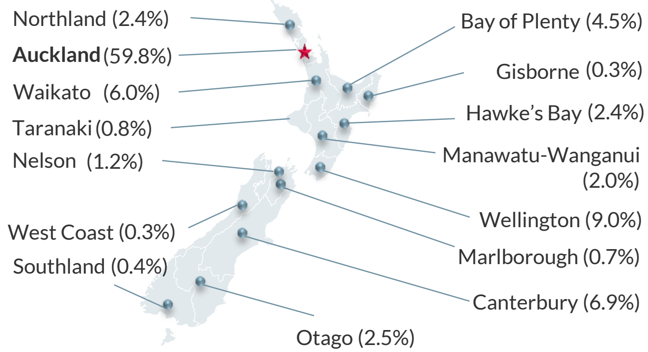
Source: Fitch Ratings, ANZNZ

Appendix 1B – Focus on ASB Bank Limited

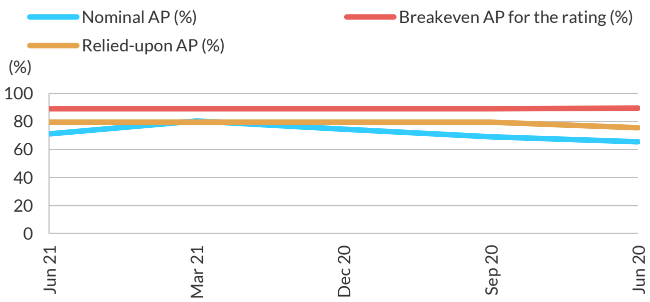
Programme Structure

- ASB can issue CVBs of up to EUR7 billion under its programme.
- The programme features a reserve to mitigate against payment interruption, which is funded upon the loss an 'F1+' Short-Term IDR. This is at the higher of the next three months of interest payments due and three-months accrued interest payments or CVB swap payments and senior expenses due on a rolling three-month basis.
- The CBG has entered into a total return swap to swap the monthly interest paid on the cover assets to the BKBM plus a margin. Forward starting currency swaps are in place to hedge the currency mismatch between the New Zealand dollar-denominated loan and the non-New Zealand dollar denominated CVBs.
- A proportion of ASB's cover assets are linked to an orbit loan product that works as a revolving credit facility or large overdraft. Orbit loans are not cover assets, but are secured over the same security properties, with repayments subordinated to loans within the cover pool. There were 47.9% of loans linked at end-April 2021, marginally down from 50.4% at the same time last year, but higher than the around 31% at programme inception.

Geographical Distribution (% of asset pool)

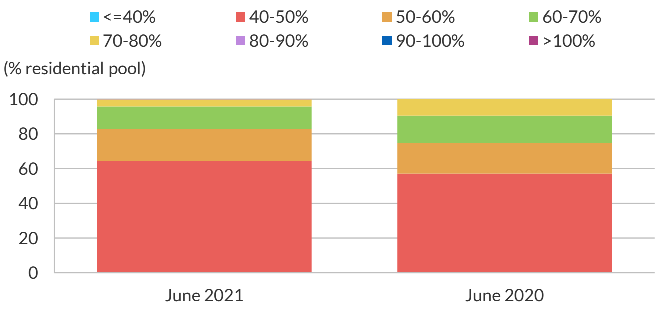


Overcollateralisation Breakdown



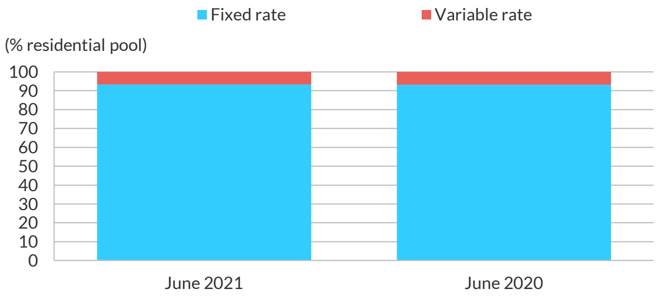
Source: Fitch Ratings, ASB

Current LTV



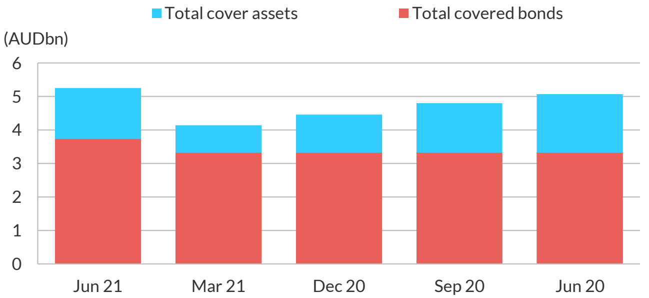
Source: Fitch Ratings, ASB

Loan Payment Type



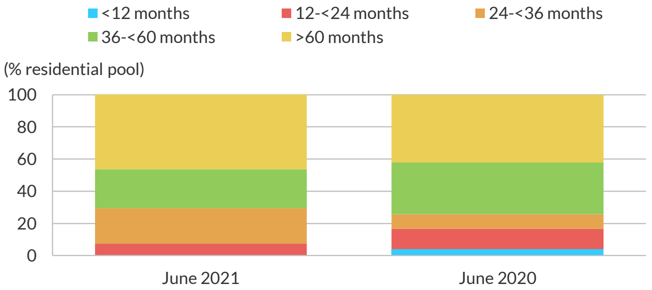
Source: Fitch Ratings, ASB

Assets and Liabilities



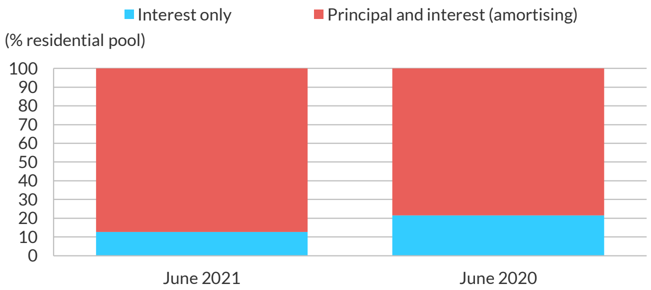
Source: Fitch Ratings, ASB

Loan Seasoning



Source: Fitch Ratings, ASB

Loan Amortisation Type



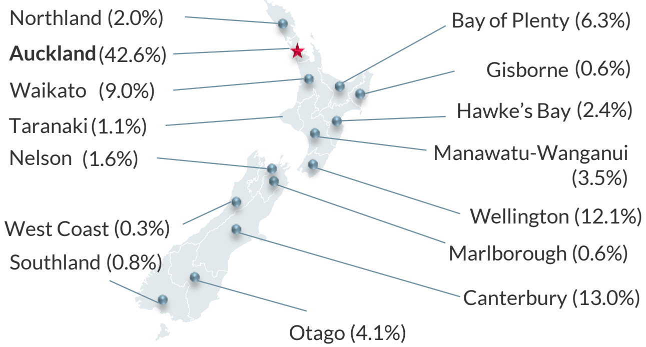
Source: Fitch Ratings, ASB

Appendix 1C – Focus on Bank of New Zealand

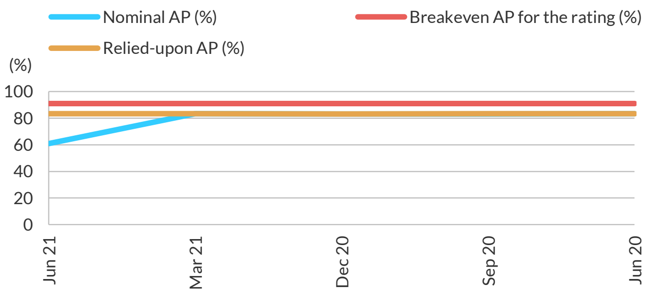
Programme Structure

- BNZ can issue CVBs of up to NZD7 billion under its programme.
- The programme features a reserve to mitigate against payment interruption, which is funded upon the loss of an 'F1+' Short-Term IDR. This is at the higher of the next three months of interest payments due and three months accrued interest payments or one quarter of senior expenses.
- The CBG has entered into an interest-rate swap to swap the monthly interest paid on the cover assets to the BKBM plus a margin. Currency swaps are in place to hedge the currency mismatch between the New Zealand dollar-denominated loan and the non-New Zealand dollar denominated CVBs.
- BNZ issues soft-bullet CVBs with a 12-month extension period. The programme also provides for a 12-month pre-maturity test for hard bullet bond issuance.
- The programme does not size for negative carry under the ACT, as long as the interest-rate swaps are in place.

Geographical Distribution (% of asset pool)

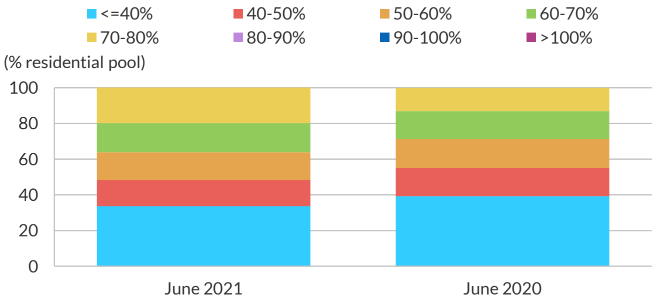


Overcollateralisation Breakdown



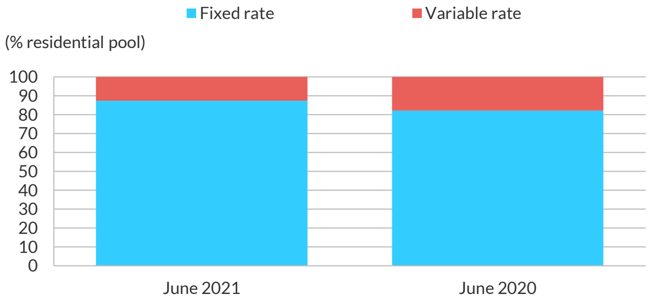
Source: Fitch Rating, BNZ

Current LTV



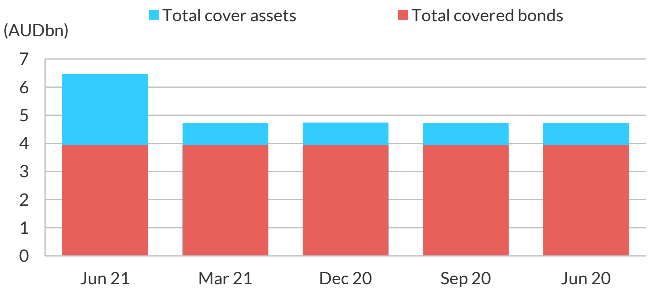
Source: Fitch Ratings, BNZ

Loan Payment Type



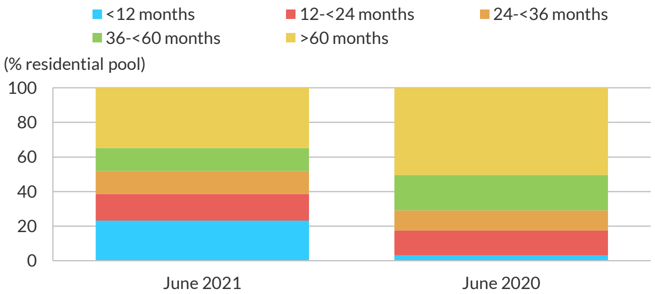
Source: Fitch Ratings, BNZ

Assets and Liabilities



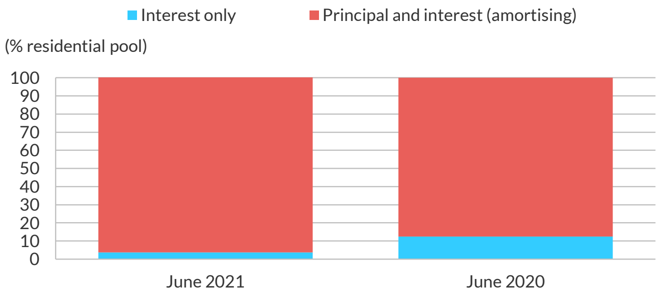
Source: Fitch Rating, BNZ

Loan Seasoning



Source: Fitch Ratings, BNZ

Loan Amortisation Type



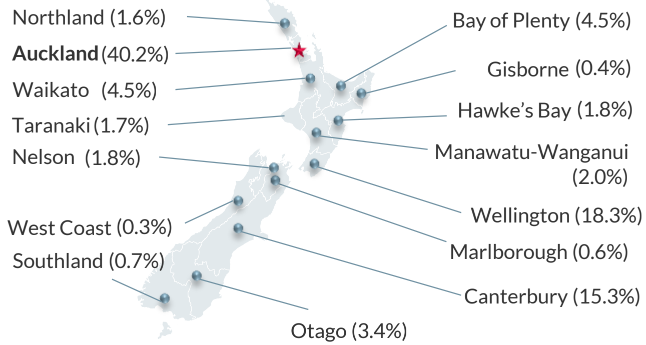
Source: Fitch Ratings, BNZ

Appendix 1D– Focus on Kiwibank Limited

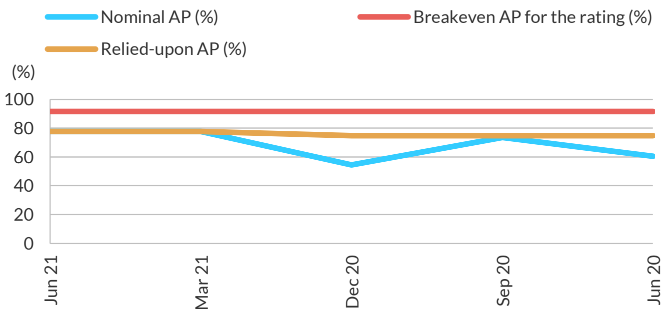
Programme Structure

- Kiwibank can issue CVBs of up to NZD3 billion under its programme.
- The programme features a reserve to mitigate against payment interruption, which is funded upon the loss of an 'F1' Short-Term IDR. This is at the higher of the next three months of interest payments due and three-months accrued interest payments or CVB swap payments and senior expenses due on a rolling three-month basis.
- The CBG has entered into a total return swap to swap the monthly interest paid on the cover assets to the BKBM plus a margin. Currency swaps are in place to hedge the currency mismatch between the New Zealand dollar-denominated loan and the non-New Zealand dollar denominated CVBs.
- Kiwibank issues soft bullet CVBs with a 12-month extension period. The programme also provides for a 12-month pre-maturity test for hard bullet bond issuance.
- The programme does not size for negative carry under the ACT, as long as the total return swap is in place.

Geographical Distribution (% of asset pool)

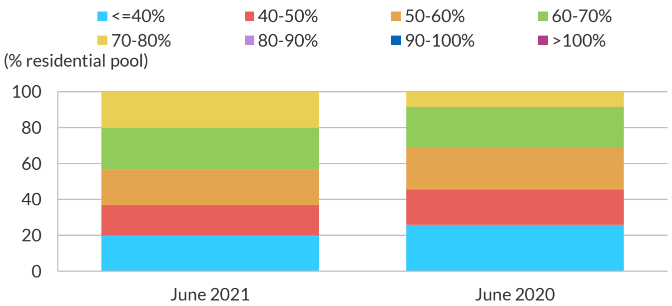


Overcollateralisation Breakdown



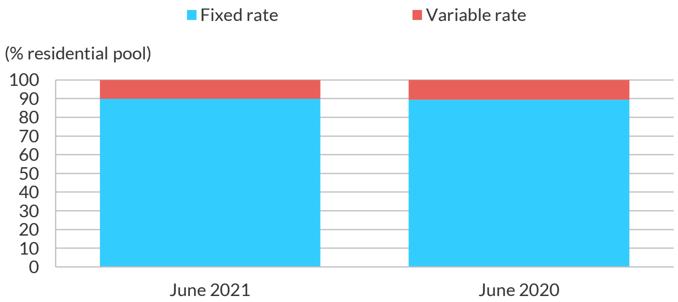
Source: Fitch Rating, Kiwibank

Current LTV



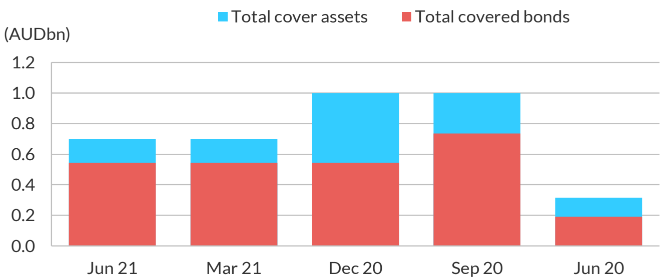
Source: Fitch Ratings, Kiwibank

Loan Payment Type



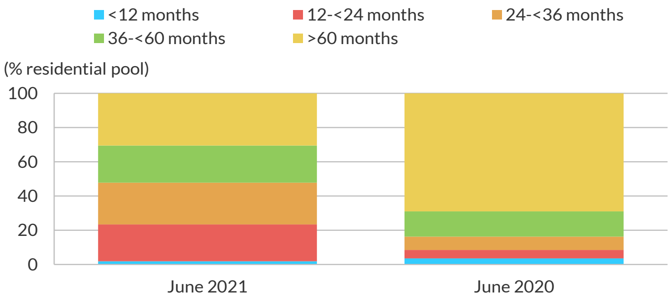
Source: Fitch Ratings, Kiwibank

Assets and Liabilities



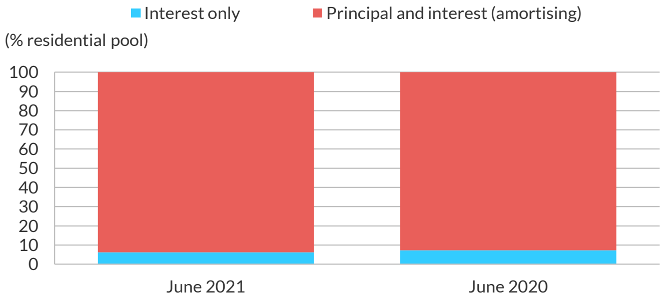
Source: Fitch Rating, Kiwibank

Loan Seasoning



Source: Fitch Ratings, Kiwibank

Loan Amortisation Type

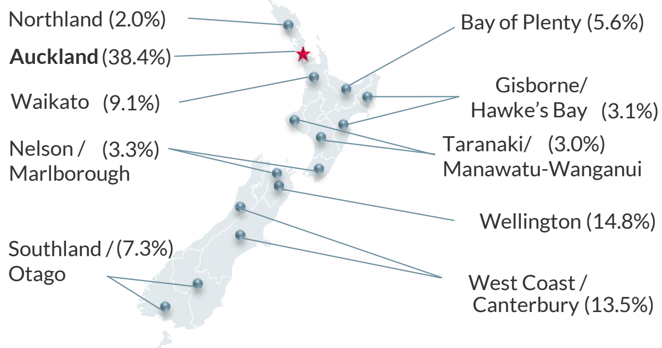


Source: Fitch Ratings, Kiwibank

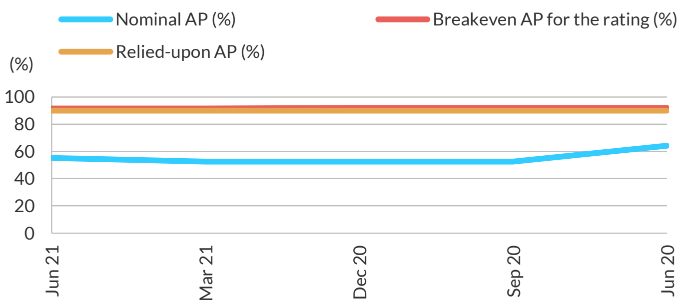
Appendix 1E– Focus on Westpac Bank New Zealand

- WNZL can issue CVBs of up to EUR5 billion under its programme.
- The programme features a reserve to mitigate against payment interruption, which is funded upon the loss of an 'F1+' Short-Term IDR or other such rating as notified. This is at the higher of the next three months of interest payments due and three months accrued interest payments or one quarter of senior expenses or other amount as determined by WNZL. WNZL has notified Fitch that the reserve fund will be funded at the loss of 'A-' and 'F1', which is line with Fitch's criteria.
- The CBG has entered into interest-rate swaps to swap the monthly interest paid on the cover assets to the BKBM plus a margin. Forward starting currency swaps are in place to hedge the currency mismatch between the New Zealand dollar-denominated loan and the non-New Zealand dollar denominated CVBs.
- WNZL issues soft bullet CVBs with a 12-month extension period. The programme also provides for a 12-month pre-maturity test for hard bullet bond issuance.
- WNZL's programme features a demand loan whose repayment ranks in priority to covered bondholders upon issuer insolvency. Fitch relies on the committed AP under the programme's ACT as a result, which is at 90.0% to support its 'AAA' rating.

Geographical Distribution (% of asset pool)

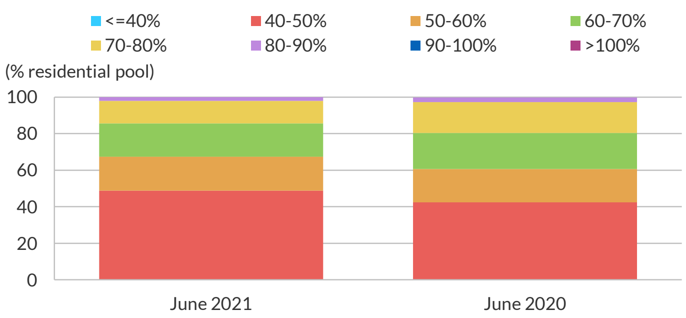


Overcollateralisation Breakdown



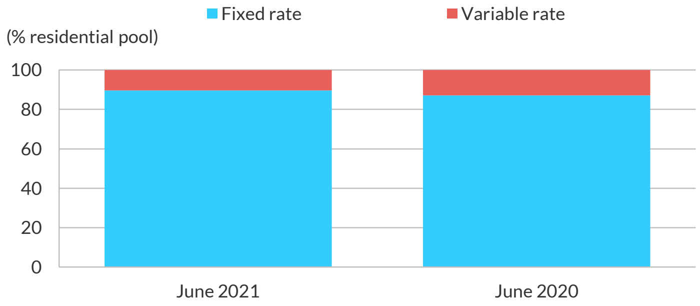
Source: Fitch Rating, WNZL

Current LTV



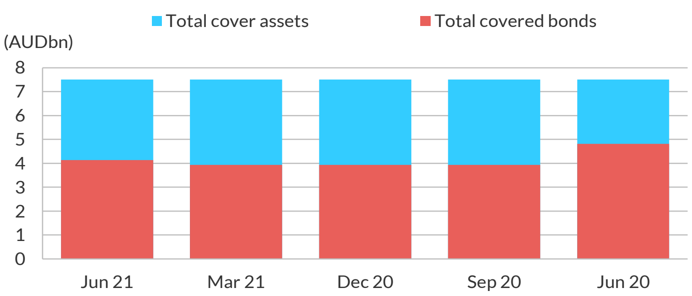
Source: Fitch Ratings, WNZL

Loan Payment Type



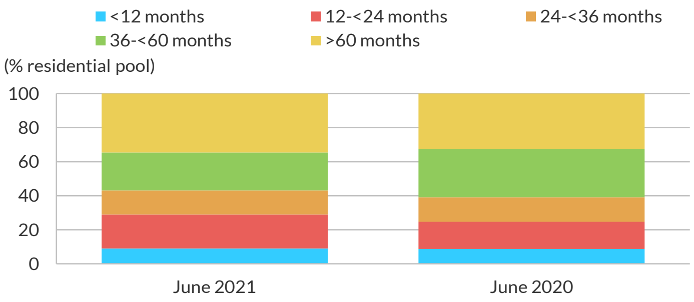
Source: Fitch Ratings, WNZL

Assets and Liabilities



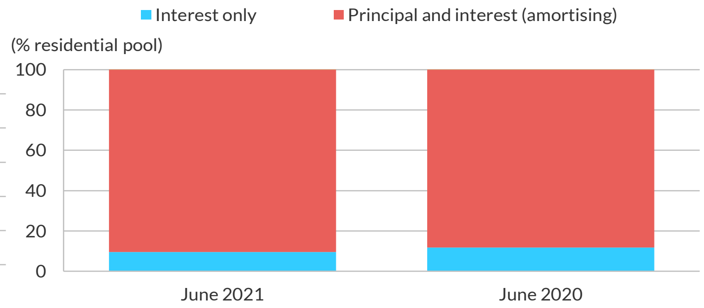
Source: Fitch Rating, WNZL

Loan Seasoning



Source: Fitch Ratings, WNZL

Loan Amortisation Type



Source: Fitch Ratings, WNZL

Appendix 2 – Summary of Applicable Covered Bond Legislation

Items	Description
Basis of framework	The Reserve Bank of New Zealand Act 1989, which was amended in 2013, establishes a registration regime for CVB programmes.
Issuer type	Only a New Zealand-based registered domestic bank or a subsidiary that is guaranteed by such a bank.
Dual recourse	Covered bondholders have recourse to both the general estate of the issuing bank and the cover assets (exclusive right).
Segregation	• The SPV model used contractually achieves asset segregation from the issuer's insolvency estate through the 'true sale' of the mortgage assets to the SPV by way of silent assignment to the CBG. Upon title perfection, full legal title to the underlying mortgages will be transferred. • The asset pool is unavailable to any other creditor of the issuer until the claims of the preferred creditors are met. • Preferred creditors to retain an unsecured claim against the issuer if claims are not fully satisfied from the pool.

Minimum OC	No legal minimum OC is specified in the legislation. Each programme is subject to a maximum AP.
	• The maximum AP for WNZL is 3% (equivalent to 97.1% AP).
	• The contractual maximum AP for all other programmes is as follows:
	    ○ ANZNZ, ASB and Kiwibank: 90.0%
	    ○ BNZ: 97.0%

Cover assets	• Residential mortgage loans, with a maximum maturity not exceeding 30 years. • Substitute assets in the form of New Zealand-dollar deposits, certificates of deposit, long-term debt obligations and short-term obligations of a maturity of one year or less, and New Zealand dollar-denominated government securities.
Maximum LTV limits	75% (ASB) or 80% indexed LTV for residential loans
Eligibility of loans with LTVs higher than the maximum thresholds	Yes, but they cannot be relied upon for over collateralisation calculation purposes.
Hedging	Interest-rate swaps are in place to hedge the interest-rate mismatches on the cover pool for all programmes in this report. CVB swaps are in place to hedge currency and interest-rate mismatches on the bonds until the extended due-for-payment date.
Demand loan	The demand loan funds all excess OC in the programme, any interest-rate shortfall, any ACT breach and pre-maturity test breach. At a demand-loan repayment date, a prepayment can occur in accordance with the priority of payments as long as the ACT will not be breached as a result of the repayment. The repayment of the demand loan in the guarantee priority of payments is subordinated to covered bondholders, except for WNZL, where its repayment ranks ahead of covered bondholders.
Asset coverage test	The ACT is designed to ensure a minimum level of OC on the CVBs to protect bondholders against specific credit and market risks. It is calculated monthly, prior to the service of a notice to pay on the CBG, so long as bonds are outstanding under the programme. The ratio between CVBs and cover assets may not exceed the contractual maximum AP at any time.
Amortisation test	After a service of a notice to pay on the CBG, an amortisation test verifies whether the value of the cover pool, including any cash held in the trust account and any substitute assets, adjusted to account for delinquencies and collateral value, is higher than the notional amount of the outstanding CVBs.
Cap on cover assets encumbered	No more than 10% of the issuer's banking-group assets can be secured as cover assets in New Zealand by value.
Supervision	The Reserve Bank of New Zealand serves as the regulator under the CVB framework. Responsibilities and authority include determining registration of the CVB programme, the publication and maintenance of the public register of CVB programmes and monitoring that reporting requirements are met.
Cover pool administrator	Once a notice to pay has been served on the CBG, it will appoint a portfolio manager responsible for advising on the sale of selected cover assets. In the event of a CBG default, the security trustee will enforce the assets for the benefit of covered bondholders and has the power to appoint a receiver, whose duties are prescribed by the specific programme documents.
Asset monitor compliant	Qualified and licenced audit firm of national standing in New Zealand to verify the accuracy of the ACT, the amortisation test and the register of cover assets,

Source: Fitch Ratings, programme documentation

Appendix 3 – Related Research

Related Research

Details of the programme structures can be found in the following publications:

ANZ Bank New Zealand Banking Group Limited - Mortgage Covered Bonds (September 2019)

ASB Bank Limited - Mortgage Covered Bonds (August 2019)

Bank of New Zealand - Mortgage Covered Bonds (May 2019)

Kiwibank Limited - Mortgage Covered Bonds (January 2019)

Westpac New Zealand Limited - Mortgage Covered Bonds (April 2019)

Details of the latest rating action for the programmes and the applicable criteria can be found in the following publications:

Fitch Affirms ANZ Bank New Zealand's Mortgage Covered Bonds at 'AAA'/Stable (April 2021)

Fitch Affirms ASB's Mortgage Covered Bonds at 'AAA'; Outlook Stable (July 2021)

Fitch Affirms BNZ's Mortgage Covered Bonds at 'AAA'/Stable (March 2021)

Fitch Affirms Kiwibank's Mortgage Covered Bonds at 'AAA'; Outlook Stable (September 2021)

Fitch Affirms Westpac NZ's Mortgage Covered Bonds at 'AAA'; Outlook Stable (January 2021)

Related CVB-Specific Research

APAC Covered Bonds Quarterly – 2Q21 (August 2021)

Covered Bonds Surveillance Snapshot (July 2021)

Covered Bonds Surveillance Snapshot – Excel (July 2021)

Australia, New Zealand Covered Bonds to Restart in 2021 on Economic Recovery (May 2021)

Rising House Prices and High LVR Risks Have Neutral Rating Impact on NZ Covered Bonds (March 2021)

Residential Mortgage CVB Ratings Unaffected by Additional Covid-19 Stress Assumptions (December 2020)

Cover Pool Loss Rates Resilient to Coronavirus Stress (November 2020)

Definitions of Terms Used

ACT	Asset Coverage Test
AP	Asset Percentage
APRA	Australian Prudential Regulation Authority
CBG	Covered Bond Guarantor
CLTV	Current Loan-to-value
CPT	Conditional Pass Through
CVB	Covered Bonds
DTI	Debt-to-Income
IDR	Issuer Default Rating
LTV	Loan-to-value
OC	Overcollateralisation
PCU	Payment Continuity Uplift
PD	Probability of Default
PMT	Pre-maturity Test
WA	Weighted Average
WAL	Weighted Average Life
ANZNZ	ANZ Bank New Zealand Limited
ASB	ASB Bank Limited
BNZ	Bank of New Zealand
WNZL	Westpac New Zealand Limited

Source: Fitch Ratings

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