

# **NAB Covered Bond Trust**

**General Purpose Financial Report**

**YEAR ENDED 30 SEPTEMBER 2023**

**NAB COVERED BOND TRUST**

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**NAB COVERED BOND TRUST**

**Trust Information**

**Principal Place of Business**

Level 13, 395 Bourke Street  
Melbourne VIC 3000

**Trustee**

Perpetual Corporate Trust Limited  
Level 12, 123 Pitt Street  
Sydney NSW 2000

**Trust Manager**

National Australia Bank Limited  
Level 19, 395 Bourke Street  
Melbourne VIC 3000

**Bankers**

National Australia Bank Limited  
Level 19, 395 Bourke Street  
Melbourne VIC 3000

**Auditors**

Ernst & Young  
8 Exhibition Street  
Melbourne VIC 3000

**NAB COVERED BOND TRUST**

**Trustee's Report**

The Trustee presents its report together with the financial statements of NAB Covered Bond Trust (the Trust) for the year ended 30 September 2023 and the auditor's report thereon.

The financial statements are prepared by National Australia Bank Limited (Trust Manager) as required by the Establishment Deed dated 10 November 2011 between Perpetual Corporate Trust Limited (Trustee of the NAB Covered Bond Trust and Covered Bond Guarantor) and National Australia Bank Limited (Issuer, Seller, Servicer and Trust Manager).

The auditors of the Trust, Ernst & Young, who have been appointed by the Trustee in accordance with clause 31 of the Trust agreement have conducted an audit of the financial statements.

A review of the operations of the Trust and the results of those operations for the financial year ended 30 September 2023 is contained within the Trust Manager's Report.

Based on the Trustee's ongoing programme of monitoring and the Trustee's review of the financial statements, the Trustee believes that:

- (i) the Trust has been conducted in accordance with the Establishment Deed dated 10 November 2011 and the Management Agreement dated 11 November 2011; and
- (ii) the Financial Report has been prepared and contains all relevant and required disclosures in accordance with the aforementioned Establishment Deed and Management Agreement.

The Trustee is not aware of any material matter or significant change in the state of affairs of the Trust occurring up to the date of this report that requires disclosure in the financial statements and the notes thereto that has not already been disclosed.

Signed on behalf of Perpetual Corporate Trust Limited as Trustee of NAB Covered Bond Trust:



Juan Gilarte  
Senior Client Service Manager

20 December 2023



Alejandra Brito Alejandra Brito  
Senior Client Service Manager

20 December 2023

## NAB COVERED BOND TRUST

### Trust Manager's Report

The Trust Manager presents its report on the financial statements of the NAB Covered Bond Trust (the Trust) for the year ended 30 September 2023.

#### **Trust information**

The Trustee of the Trust is Perpetual Corporate Trust Limited, which has been the Trustee since commencement date, 15 November 2011.

The Trust was established on 10 November 2011 under the NAB Covered Bond Trust Establishment Deed dated 10 November 2011 between National Australia Bank Limited (**Trust Manager**) and Perpetual Corporate Trust Limited (**Trustee**).

#### **Principal activities**

The principal activities of the Trust are the acquisition, management and sale of mortgage receivables. These mortgage receivables support a guarantee provided by the Trust to the Trustee associated with the issue of covered bonds by National Australia Bank Limited (**NAB**).

#### **Review of results of operations**

Net nil gain/loss of the Trust after distributions for the period ended 30 September 2023 (2022: nil).

Covered Bonds have been issued by NAB in the following series during the year:

Series 40 - USD 1,650,000,000 Covered Bonds @ 4.628% due on 22 November 2027  
Series 41 - NOK 1,000,000,000 Covered Bonds @ 3.770% due on 09 December 2032  
Series 42 - CHF 250,000,000 Covered Bonds @ 1.715% due on 03 February 2033  
Series 43 - EUR 1,500,000,000 Covered Bonds @ 3.263% due on 13 February 2026  
Series 44 - GBP 1,250,000,000 Covered Bonds @ SONIA + 0.6% due on 17 June 2026  
Series 45 - NOK 1,000,000,000 Covered Bonds @ 4.025% due on 01 June 2033  
Series 46 - NOK 2,000,000,000 Covered Bonds @ 4.560% due on 04 August 2031

#### **Trust distributions**

The Trust has recognised distributions of residual income of \$682.4 million for the year ended 30 September 2023 (2022: \$627.3 million). The distribution payable as at 30 September 2023 was \$476.9 million (2022: \$285.7 million).

#### **State of affairs**

There have been no significant changes in the state of affairs of the Trust during the year ended 30 September 2023.

#### **Significant events after the reporting date**

Since 30 September 2023 and as at the date of this report, the trust has undertaken transactions in the ordinary course of business. The most significant of these transactions include:

- Reduction in the Demand Note of \$700 million on 30 October 2023
- Series 33 USD \$1,150 million Covered Bonds @ 3.45% fixed rate maturing on 4 December 2023
- Increase in the Demand Note of \$1,594m on 4 December 2023
- The covered programme limit was increased to US\$40,000 million on the 15th November 2023
- Reduction in the Demand Note of \$650 million on 27 November 2023
- Reduction in the Demand Note of \$2,669 million on 28 November 2023
- Series 47 USD \$1,750 million Covered Bonds @ 5.134% fixed rate settling on 28 November 2023
- Series 48 EUR \$159 million Covered Bonds @ 3.23% fixed rate settling on 15 December 2023
- Reduction in the Demand Note of \$262 million on 15 December 2023
- Demand Note top-up of \$5,961 million on 18 December 2023

#### **Likely developments and expected results**

The Trust is expected to continue its operations in accordance with the purposes outlined in the Establishment Deed.

#### **Environmental regulation**

The operations of the Trust are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Trust.

#### **Indemnification**

During or since the end of the year, the Trust has not provided any indemnification of any person who is or has been an officer of the Trustee or the Trust Manager or auditors of the Trust.

#### **Insurance**

No insurance premiums have been paid during, or since the end of the year for a person who is or has been an officer of the Trustee or the Trust Manager or auditors of the Trust.

#### **Rounding**

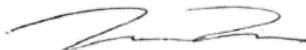
Pursuant to Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the Trust has rounded off amounts in this report and the accompanying financial report to the nearest thousand dollars, except where indicated.

Signed for and on behalf of National Australia Bank Limited as Trust Manager of NAB Covered Bond Trust:



Michael Johnson, Executive, Funding & Liquidity, NAB

20 December 2023



Lachlan Rose, Head of Treasury Governance Business Management, NAB

20 December 2023

**NAB COVERED BOND TRUST**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2023**

	Notes	2023 \$'000	2022 \$'000
Interest income	3	2,761,409	1,375,680
Interest expense*	4	<u>(2,078,409)</u>	<u>(747,787)</u>
<b>Net interest income</b>		<b>683,000</b>	<b>627,893</b>
(Losses) / Gains on financial instruments at fair value		<u>(258,281)</u>	<u>(1,416,925)</u>
<b>Total operating income</b>		<b>424,719</b>	<b>(789,032)</b>
Operating expenses*	5	(594)	(603)
Changes in estimated liabilities*		<u>258,281</u>	<u>1,416,925</u>
<b>Net profit attributable to unitholders</b>		<b>682,406</b>	<b>627,290</b>
Trust distribution	10	<u>(682,406)</u>	<u>(627,290)</u>
<b>Net (losses) / profit for the year</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive (losses) / income</b>		<b>-</b>	<b>-</b>

\*Comparative information has been restated to align to the presentation in the current period.

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**NAB COVERED BOND TRUST**  
**STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2023**

	Notes	2023 \$'000	2022 \$'000
<b>Assets</b>			
Cash and cash equivalents	6	1,246,797	944,433
Trade and other receivables	7	8,810	2,859
Derivative assets	13	1,170,917	993,955
Loans and advances	8	33,430,314	29,738,930
<b>Total assets</b>		<b>35,856,838</b>	<b>31,680,177</b>
<b>Liabilities</b>			
Trade and other payables	9	198,598	101,799
Distribution payable	10	476,901	285,722
Derivative liabilities	13	537,290	1,490,865
Interest bearing liabilities*	11	34,644,049	29,801,791
<b>Total liabilities</b>		<b>35,856,838</b>	<b>31,680,177</b>
<b>Net assets attributable to unitholders</b>		<b>-</b>	<b>-</b>

\*Comparative information has been restated to align to the presentation in the current period.

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

**NAB COVERED BOND TRUST**

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

**FOR THE YEAR ENDED 30 SEPTEMBER 2023**

	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Net assets attributable to unitholders at the beginning of the year*	-	-
Units issued during the year	-	-
Units redeemed or otherwise cancelled during the year	-	-
Change in net assets attributable to unitholders*	-	-
<b>Closing net assets attributable to unitholders*</b>	<b>-</b>	<b>-</b>

\*Comparative information has been restated to align to the presentation in the current period.

*The above Statement of Changes in Net Assets Attributable to Unitholders should be read in conjunction with the accompanying notes.*



**NAB COVERED BOND TRUST**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2023**

	Notes	2023 \$'000	2022 \$'000
<b>Cash flows from operating activities</b>			
Interest received		2,079,446	1,041,460
Net interest (paid) / received on derivatives		(242,419)	(232,037)
Interest paid on interest bearing liabilities*		(956,670)	(511,533)
Distributions paid	10	(491,227)	(497,217)
Other expenses paid*		(592)	(595)
<b>Net cash flows from operating activities</b>		<b>388,538</b>	<b>(199,922)</b>
*Comparative information has been restated to align to the presentation in the current period.			
<b>Cash flows from investing activities</b>			
Net (payments) / receipts for mortgage pool receivables	8	(3,691,384)	(900,144)
<b>Net cash flows from investing activities</b>		<b>(3,691,384)</b>	<b>(900,144)</b>
<b>Cash flows from financing activities</b>			
Net (payments) / receipts relating to notes		3,605,210	1,258,899
<b>Net cash flows from financing activities</b>		<b>3,605,210</b>	<b>1,258,899</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>302,364</b>	<b>158,833</b>
Cash and cash equivalents at beginning of year		944,433	785,600
<b>Cash and cash equivalents at end of year</b>	<b>6</b>	<b>1,246,797</b>	<b>944,433</b>
<b>Reconciliation of Net Loss to net cash flows provided from operating activities</b>			
<b>Net Loss*</b>		-	-
Decrease / (Increase) in trade and other receivables		(5,951)	(917)
(Decrease) / Increase in trade and other payables		96,799	(50,884)
(Decrease) / Increase in distribution payable		191,179	130,073
(Decrease) / Increase in estimated liabilities*		(258,281)	(1,416,925)
Fair value movements on financial instruments		364,792	1,138,731
<b>Net cash flows provided by operating activities</b>		<b>388,538</b>	<b>(199,922)</b>

\*Comparative information has been restated to align to the presentation in the current period.

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

**NAB COVERED BOND TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2023**

**1 Corporate information**

NAB Covered Bond Trust (the Trust) was established on 10 November 2011 under the NAB Covered Bond Trust Establishment Deed dated 10 November 2011 between National Australia Bank Limited (NAB, Issuer, Seller, Servicer and Trust Manager) and Perpetual Corporate Trust Limited (Trustee of the NAB Covered Bond Trust and Covered Bond Guarantor).

The Trust is a for-profit entity and a description of the Trust operations and principal activities is included in the Trust Manager's Report on page 5.

The financial statements of NAB Covered Bond Trust for the year ended 30 September 2023 were authorised for issue by the Trust Manager on 20 December 2023.

**2 Summary of significant accounting policies**

**(a) Basis of preparation**

This General Purpose Financial Report has been prepared in accordance with the requirements of the Establishment Deed and accounting standards and interpretations issued by Australian Accounting Standards Board (AASB).

The financial report has been prepared under the historical cost convention, as modified by the application of fair value measurements required or allowed by relevant accounting standards.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

The financial statements are presented in Australian Dollars and all values are rounded to the nearest thousand except where otherwise indicated.

The financial report of the Trust complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

**(b) Comparative information**

Following a review of the Trust documentation, and based on accounting guidance and legal advice obtained, the following presentation changes have been made to the Trust financial statements. Comparative information has been restated to align to the presentation in the current period.

Under AASB 132 Financial Instruments: Presentation, the Trust Residual Capital Units and the Trust Residual Revenue Units have been classified as liabilities. In addition, any surplus / positive net assets are for the ultimate benefit of the Trust unit holders and are classified as part of 'Non-interest bearing liabilities'. The impact of this restatement in presentation at 1 October 2021 (i.e. the beginning of the comparative period) is a reclassification of \$334.5 million from 'Net assets attributable to unitholders' to 'Non-interest bearing liabilities'.

The Trust's 'Interest-bearing liabilities' comprise the intercompany notes and the demand note. Amounts due to the swap providers impact the revised contractual cash flows payable to the intercompany / demand note holders, with a corresponding adjustment recognised in the statement of comprehensive income.

For the year ended 30 September 2022, the revision of the contractual cash flows payable on 'Interest-bearing liabilities' and 'Non-interest bearing liabilities' resulted in an restatement of \$1,416.9 million being recognised as a 'Change in estimated liabilities' in the statement of comprehensive income with restatement to 'Non-interest bearing liabilities' of \$334.5 million and 'Interest bearing liabilities' of \$1,082.4 million.

For the year ended 30 September 2023, the revision of the contractual cash flows payable on 'Interest-bearing liabilities' resulted in an adjustment of \$258.3 million being recognised as a 'Change in estimated liabilities' in the statement of comprehensive income.

Additionally, in the current year servicer fees of \$81m (2022: \$72.9 million) have been reclassified from operating expenses and included within interest expense in the Trust's financial statements as this better reflects the nature of the amount paid to NAB. Comparative information has been restated to align to the presentation in the current period.

**(c) New and amended accounting standards and interpretations**

*(i) Changes in accounting policy*

There were no amendments to accounting standards or interpretations adopted during the period that have a material impact on the Trust.

*(ii) Early adoptions*

The Trust has not elected to early adopt any other new or amended accounting standards in the current year.

*(iii) New and amended accounting standards not yet effective*

Amendments to existing standards that are not yet effective are not expected to result in significant impact to the Trust's financial reporting.

**(d) Foreign currency translation**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are normally recognised in the statement of comprehensive income. Non-monetary items are translated using the exchange rate at the date of the initial recognition of the asset or liability.

**(e) Significant accounting judgements and estimates**

The preparation of the Trust's financial statements requires the Trust Manager and Trustee to make use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. However, uncertainty about these estimates and assumptions could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability in future.

*Fair Value measurement*

Where no active market exists for a particular asset or liability, the Trustee uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The judgements include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The models are calibrated regularly and tested for validity using prices from observable current market transactions in the same instruments (without modification or repackaging) or based on any observable market data. Valuation techniques will be used where conditions are unobservable.

*Changes in estimated net interest bearing liabilities*

The carrying amounts of the intercompany notes and the demand note held at amortised cost are adjusted for changes in the estimated contractual cash flows. The movement in interest bearing liabilities to reflect the revised estimated cash flows is shown in Note 11.

*Functional currency*

Items included in the financial statement are measured using the currency of the primary economic environment in which the Trust operates (functional currency). The financial report is presented in Australian dollars, which is the Trust's functional and presentation currency.

*Impairment of assets*

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Trust makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

**(f) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash on hand, demand deposits, short term deposits in banks with original maturities of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Short term investments which are not held for the purpose of meeting short-term cash commitments as well as restricted margin accounts are not considered as cash and cash equivalents.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**NAB COVERED BOND TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2023**

**2 Summary of significant accounting policies (continued)**

**(g) Financial Instruments**

**(i) Classification of financial instruments**

The Trust classified its financial assets into the following measurement categories:

- those to be measured at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Trust's business model for managing financial assets and the contractual terms of the financial assets cash flows. The Trust classifies its financial liabilities as liabilities at amortised cost or derivative liabilities.

**(ii) Recognition and derecognition of financial instruments**

A financial asset or financial liability is recognised in the statement of financial position when the Trust becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and receivables are recognised when cash is advanced (or settled) to the borrowers.

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs. The Trust derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Trust is recognised as a separate asset or liability.

A financial liability is derecognised from the statement of financial position when the Trust has discharged its obligation or the contract is cancelled or expires.

**(iii) Offsetting**

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Trust has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

**(iv) Items at amortised cost**

Loans and receivables are financial assets for which the contractual cash flows are solely repayments of principal and interest and that are held in a business model with the objective of collecting contractual cash flows. Subsequently, loans and receivables are measured at amortised cost using the effective interest rate method, net of any provision for credit impairment.

**(v) Items at fair value through profit or loss**

Items at fair value through profit or loss comprise:

- items held for trading;
- items specifically designated as fair value through profit or loss on initial recognition; and
- debt instruments with contractual terms that do not represent solely payments of principal and interest are measured at fair value through profit and loss.

Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains and losses are recognised in the income statement as they arise.

**Held for trading**

A financial instrument is classified as held for trading, if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship. Trading derivatives and trading securities are classified as held for trading and recognised at fair value.

**Financial instruments designated as measured at fair value through profit or loss**

A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies from measuring financial assets or liabilities on a different basis (i.e. eliminates an accounting mismatch) that would otherwise arise inconsistencies from measuring financial assets or liabilities on a different basis.

A financial liability may be designated at fair value through profit or loss due to an 'accounting mismatch'; or

- in respect of an entire contract if a host contract contains one or more embedded derivatives; and
- if financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

**(h) Mortgage pool receivable**

The Trust has purchased the rights, title and interests in a pool of residential real estate mortgages from NAB. Simultaneously, the Trust has entered into interest rate and basis swaps with NAB to economically hedge the interest rate risk arising due to the mortgage receivables at mortgage rates and its interest bearing liabilities at BBSW rates. NAB does not separately recognise the interest rate and basis swaps as it would result in duplicating the recognition of the underlying mortgage receivables. Consequently, NAB recognises the obligation to pay cash flows associated with the pool of residential mortgages sold to the Trust together with the cash flows under the interest rate and basis swaps as an imputed floating rate loan. The terms of the interest rate and basis swaps result in NAB retaining substantially all of the risks and rewards associated with the mortgage loans, and as such, NAB is unable to derecognise those loans.

The Trust adopts a consistent accounting treatment, recognising the cash flows associated with the mortgage receivables together with the cash flows under the interest rate and basis swaps as an imputed floating rate loan. Payments under the swap contracts paid to or received from NAB are recorded in the statement of comprehensive income as interest income received on the mortgage pool receivable.

**(i) Impairment of financial assets carried at amortised cost**

The Trust applies a three-stage approach to measuring expected credit losses (ECL) on debt instruments accounted for at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

**i) Stage 1: 12-months ECL**

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

**ii) Stage 2: Lifetime ECL – not credit impaired**

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

**iii) Stage 3: Lifetime ECL – credit impaired**

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, the Trust assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Trust uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in credit quality of a financial asset.

The Trust assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are assessed on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Trust and all the cash flows that the Trust expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

The Trust considers its historical loss experience and adjusts this for current observable data. In addition, the Trust uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. Macroeconomic factors which include, but is not limited to, unemployment, interest rates, gross domestic product, inflation and residential property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

**NAB COVERED BOND TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2023**

**2 Summary of significant accounting policies (continued)**

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

The Trust Manager performs an assessment of the debt instruments at amortised cost at each reporting date, and has determined that due to the quality of the underlying assets, no ECL has been recognised in the Trust.

**(j) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables are stated with the amount of GST included.

Trustee's fees and other relevant expenses are recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office. Input tax credits recoverable by the Trust from the Australian Taxation Office are recognised as a receivable in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the taxation authority is classified as part of operating cash flows.

The Trust is part of the NAB Consolidated Group for the purposes of GST, hence transactions between NAB and the Trust are not subject to GST.

**(k) Trust units**

*Residual Capital Units*

Each unit issued confers upon the unitholder an equal interest in the Trust, and is of equal value. A unit does not confer any interest in any particular asset or investment of the Trust. The interest of Residual Capital Unitholders comprises an interest in its proportion of any assets of the Trust remaining after payment of any amount due to the Residual Income Unitholder.

*Residual Income Units*

Each unit issued confers upon the unitholder an equal interest in the Trust and is of equal value. A unit does not cover any interest in any particular asset or investment of the Trust. The interest of Residual Income Unitholders comprises the Net Trust Income of the Trust for each Fiscal Period.

Under AASB 132 *Financial Instruments: Presentation*, the Trust Residual Capital Units and the Trust Residual Revenue Units are classified as a financial liability. Any surplus/net assets is for the ultimate benefit of the Trust unit holders, and is classified as part of non-interest bearing liabilities.

**(l) Revenue recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable, to the extent it is probable that the economic benefits will flow to the Trust and the revenue can be reliably measured.

**(m) Interest Revenue and Expense**

Interest revenue and expense are recognised in the Statement of comprehensive income for all financial instruments not at fair value through profit or loss using the effective interest method. Interest earned on financial assets classified as at fair value through the profit or loss is recorded in 'Interest revenue' according to the terms of the contract.

**(n) Fees and commissions**

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction. Management fees are recognised over the period the service is provided.

**(o) Net gains or losses on financial instruments at fair value**

Net gains or losses on financial instruments at fair value comprise fair value gains and losses from:

- trading derivatives; and
- other financial assets and liabilities at fair value through profit or loss.

Realised Interest income or expense attributable to trading derivatives is recognised within net interest income and not part of the fair value movement of the trading derivative.

**(p) Distributions**

In accordance with the Trust Deed, the Trust distributes all its Residual Income to the Residual Income Unitholders. Residual Income includes all items that would be included or deducted for the purpose of calculating the Net Taxable Income of the Trust.

Distributions are paid regularly during the year. Such distributions are determined by reference to the Net Taxable Income of the Trust.

**(q) Income tax**

Under current Australian legislation, the Trust is not subject to income tax provided the unit holders are presently entitled to the income of the Trust and the Trust fully distributes its net taxable income. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the Residual Income Unitholder (NAB) only.

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	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>3 Interest Income</b>		
Interest income on cash and cash equivalents	49,619	5,731
Interest income from derivatives	676,012	333,303
Interest income from mortgage pool receivables	2,035,778	1,036,646
<b>Total interest income</b>	<b>2,761,409</b>	<b>1,375,680</b>
<b>4 Interest Expense</b>		
Interest expense from derivatives	1,024,942	287,146
Interest expense from borrowings*	1,053,467	460,641
<b>Total interest expense</b>	<b>2,078,409</b>	<b>747,787</b>
*Comparative information has been restated to align to the presentation in the current period.		
<b>5 Operating expenses</b>		
Management fees*	300	300
Trustee fees	251	262
Audit fees	43	41
<b>Total operating expenses</b>	<b>594</b>	<b>603</b>
*Comparative information has been restated to align to the presentation in the current period.		
<b>6 Cash and cash equivalents</b>		
Cash at bank	1,246,797	944,433
<b>Total cash and cash equivalents</b>	<b>1,246,797</b>	<b>944,433</b>
<b>7 Trade and other receivables</b>		
Interest receivable	8,810	2,859
<b>Total trade and other receivables</b>	<b>8,810</b>	<b>2,859</b>
<b>8 Loans and receivables</b>		
Mortgage pool receivables	33,318,487	29,674,279
Mortgage collections receivable	111,827	64,651
<b>Total loans and receivables</b>	<b>33,430,314</b>	<b>29,738,930</b>
Mortgage pool receivables relate to equitable interests in mortgages over residential real estate securing loans that have been sold to the Trust. As at 30 September 2023, the mortgage pool receivable comprised of cash flows from 106,024 (2022: 101,943) mortgage loans granted to prime Australian borrowers, secured over Australian residential properties with a weighted average current loan to value ratio of 56.63% (2022: 55.51%).		
Mortgage collections receivable represents payments from mortgages that have been received by NAB but not yet paid to the Trust.		
<b>9 Trade and other payables</b>		
Interest payable	193,851	98,438
Trade creditors	4,704	3,320
Auditor fees payable	43	41
<b>Total trade and other payables</b>	<b>198,598</b>	<b>101,799</b>
<b>10 Distributions payable</b>		
<b>Reconciliation of movement in distributions to unitholders</b>		
Opening balance - distributions payable	285,722	155,649
Distributions of residual income attributable to unitholders	682,406	627,290
Distributions paid during the year	(491,227)	(497,217)
<b>Closing balance - distributions payable</b>	<b>476,901</b>	<b>285,722</b>
<b>11 Interest bearing liabilities</b>		
Intercompany notes*	27,824,186	22,473,631
Demand note	8,160,520	8,410,536
Changes in estimated liabilities*	(1,340,657)	(1,082,376)
<b>Total interest bearing liabilities</b>	<b>34,644,049</b>	<b>29,801,791</b>

\*Comparative information has been restated to align to the presentation in the current period.

**Intercompany notes**

Intercompany notes are issued by the Trust to NAB to mirror the Covered Bonds issued by NAB on market. Under the NAB covered bond program the aggregate issue amount must not exceed US\$30,000 million (2022: US\$30,000 million).

The carrying amount of intercompany notes includes an accumulated unamortised fair value hedge accounting adjustment of \$81.0 million (2022:\$119.6 million) for hedged items that have ceased to be adjusted for hedging gains and losses.

**Demand note**

The Trust borrows funds from NAB under the Demand Note in order to acquire mortgage pool receivables. Borrowing under the Demand Note is denominated in Australian dollars and is subject to floating interest rates. The maturity of the Demand Note is linked to the maturity of the Intercompany Note issued by the Trust with the longest tenor.

**Borrowings by currency**

AUD	9,035,601	10,660,805
CHF	764,920	321,439
EUR	13,667,487	13,039,044
GBP	7,612,486	4,779,199
NOK	580,889	-
NZD	-	312,405
USD	4,323,323	1,771,275
<b>Total Interest bearing liabilities</b>	<b>35,984,706</b>	<b>30,884,167</b>
Changes in estimated liabilities*	(1,340,657)	(1,082,376)
<b>Total borrowings</b>	<b>34,644,049</b>	<b>29,801,791</b>

\*Comparative information has been restated to align to the presentation in the current period.

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**12 Units on issue**

	2023		2022	
	No of units	\$	No of units	\$
Balance as at beginning of the year	11	110	11	110
Units issued during the year	-	-	-	-
Units redeemed during the year	-	-	-	-
<b>Balance as at end of the year</b>	<b>11</b>	<b>110</b>	<b>11</b>	<b>110</b>

**13 Derivative assets and liabilities measured at fair value through profit or loss**

The operations of the Trust are subject to the risk of interest rate fluctuations to the extent of the repricing profile of the Trust's statement of financial position. Derivative financial instruments are held for the purpose of managing the foreign exchange and interest rate risk between its mortgage pool receivable assets and its borrowings. These derivatives are classified as held for trading and are measured at fair value through profit or loss. Specifically, the Trust uses cross currency and interest rate swaps as economic hedges of foreign currency and interest rate risk arising on floating and fixed rate foreign currency borrowings.

The tables below set out the fair value of trading derivatives including notional values:

**Derivative financial instruments**

	2023		2022	
	Notional \$'000	Fair value \$'000	Notional \$'000	Fair value \$'000
<b>Assets</b>				
Cross currency swaps	18,464,404	1,038,168	6,002,435	805,545
Interest rate swaps	1,889,752	132,749	3,512,710	188,410
<b>Total trading derivative assets</b>	<b>20,354,156</b>	<b>1,170,917</b>	<b>9,515,145</b>	<b>993,955</b>
<b>Total derivative assets</b>	<b>20,354,156</b>	<b>1,170,917</b>	<b>9,515,145</b>	<b>993,955</b>
<b>Liabilities</b>				
Cross currency swaps	8,610,208	529,382	14,294,581	1,481,252
Interest rate swaps	875,000	7,908	450,000	9,613
<b>Total trading derivative liabilities</b>	<b>9,485,208</b>	<b>537,290</b>	<b>14,744,581</b>	<b>1,490,865</b>
<b>Total derivative liabilities</b>	<b>9,485,208</b>	<b>537,290</b>	<b>14,744,581</b>	<b>1,490,865</b>
<b>Net derivative financial instruments</b>	<b>10,868,948</b>	<b>633,627</b>	<b>(5,229,436)</b>	<b>(496,910)</b>

**14 Covered Bonds Guarantee**

As at 30 September 2023, NAB has issued \$26,019 million (2022: \$21,982 million) of Covered Bonds. The Trustee, as Covered Bond Guarantor, has guaranteed payments of interest and principal of Covered Bonds issued by NAB, with the sole source of payments by the Covered Bond Guarantor being the assets of the Trust. The Covered Bond Guarantor's obligations under the Covered Bond Guarantee are secured by the assets of the Trust and recourse against the Covered Bond Guarantor is limited to the Trust assets.

The value of the NAB issued Covered Bonds noted above is the AUD equivalent of the face value of the bonds issued by NAB, at the exchange rates at which they were swapped into AUD. This differs from the values on the statement of financial position which is the AUD equivalent of the face value of the bonds converted at year-end spot rates.

The Covered Bond Guarantor will have no obligation to make payments under the Covered Bond Guarantee until the occurrence and continuation of an Issuer Event of Default. Issuer Events of Default include:

- failure by the Issuer to make payments of principal or interest on the Covered Bonds when due;
- insolvency of the Issuer or the appointment of a receiver or administrator over the Issuer's assets;
- failure by the Issuer to perform or observe its obligations under the terms and conditions of the Covered Bonds; or
- breach of the Asset Coverage Test (ACT), or in the case of Hard Bullet Covered Bonds only, breach of the Pre-Maturity Test (PMT) and a failure, in each case, to take the required mitigating action.

The ACT is designed to protect Covered Bondholders by ensuring that the assets of the Trust are sufficient for the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee. The PMT is intended to ensure that the Covered Bond Guarantor has sufficient liquidity within a 12 month period prior to the maturity of Hard Bullet Covered Bonds to ensure that payments of principal and interest can be made on maturity of such Covered Bonds.

The fair value of the Covered Bond Guarantee is negligible as the liability to the Covered Bondholders on the occurrence of an Issuer Event of Default is already recognised by the Trust through the Intercompany Notes issued by the Trust to NAB.

As at 30 September 2023, Covered Bonds issued by NAB have been assigned AAA rating by Fitch Australia Pty Ltd and Aaa credit rating by Moody's Investor Services Pty Ltd.

**15 Financial risk management disclosures**

The key financial risks faced by the Trust are:

- credit risk;
- market risk including interest rate risk and currency risk; and
- liquidity risk.

Further details regarding the nature and extent of each key financial risk faced by the Trust, and how these are risks are managed, are outlined as part of this note.

**Governance and oversight**

The financial risks to which the Trust is exposed are managed and overseen as contemplated and sanctioned in the Trust Establishment Deed and other associated transaction documentation.

As Trust Manager, NAB applies the risk management governance and frameworks applicable to NAB, its subsidiaries and structured entities. Risk is identified and managed as part of an enterprise Group-wide risk management framework that starts with the Board approved Strategy, Risk Appetite, Capital, Funding and Operational Plans. Risk Appetite is translated and cascaded to the businesses qualitatively (through the Group's risk postures, policies, standards and operating procedures) and quantitatively (through the Group's risk limits, settings and decision making authorities).

In addition to the above, the financial risks to which the Trust is exposed arise as a result of transactions undertaken by the Trust. These transactions are undertaken for purposes relating only to the Covered Bonds. As such, much of the required management and mitigation of risks arising on such transactions is defined within the associated transaction documentation. The impact of provisions of transaction documentation on financial risks is discussed below, in relation to each financial risk.

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**15 Financial risk management disclosures (continued)**

**Credit risk**

The Trust is a special purpose entity which has been established to acquire NAB mortgage loans and the related securities and to provide a guarantee over Covered Bonds issued by NAB.

Credit risk is the potential that a counterparty will fail to meet its obligations to the Trust in accordance with agreed terms. The Trust's credit exposures are concentrated primarily to one counterparty, NAB. The transaction documents contain a number of provisions that mitigate the effect of the credit exposure to NAB. Some of these are detailed in the sections below.

*Maximum exposure to credit risk*

The Trust's maximum exposure to credit risk without taking account of collateral or other credit enhancements is the carrying value of cash and cash equivalents, interest receivable, derivative assets and mortgage pool receivables. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values as recorded in the statement of financial position.

For financial assets recognised on the statement of financial position, the gross exposure to credit risk equals their carrying amount.

The Trust manages credit risk arising on individual types of transactions in specific ways.

**(a) Derivatives**

At any one time, the maximum exposure to credit risk is limited to the current fair value of instruments that are favourable to the Trust less collateral obtained.

The Trust uses documentation including International Swaps and Derivatives Association (ISDA) Master Agreements to document derivative activities. Under the ISDA Master Agreements, if a default of a counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default. The Trust also executes Credit Support Annexes (CSA) in conjunction with ISDA Master Agreements.

In order to meet rating agencies' requirements the CSA's provide, where relevant, that in the event of adverse ratings action, NAB must post collateral to support the value of the derivatives favourable to the Trust, and in the event of continuing adverse ratings action make efforts to transfer its obligations under the derivative contracts to an alternative party of appropriate credit standing.

Collateral held by the Trust in support of derivative assets as at 30 September 2023 was nil (2022: nil).

**Offsetting of financial assets and liabilities**

The table below illustrates the amounts of financial instruments that have been offset on the statement of financial position and also those amounts that are subject to enforceable master netting arrangements or similar agreements (i.e. offsetting agreements and any related financial collateral). The table excludes financial instruments not subject to offset and that are only subject to collateral arrangements.

	2023						Amounts not subject to enforceable netting arrangements
	Effect of offsetting arrangements			Related amount not offset			
	Gross amounts	Amount offset	Net amounts reported on statement of financial position	Financial instrument	Collateral	Net amount	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Derivative financial assets	1,170,917	-	1,170,917	537,290	-	633,627	-
<b>Total assets</b>	<b>1,170,917</b>	<b>-</b>	<b>1,170,917</b>	<b>537,290</b>	<b>-</b>	<b>633,627</b>	<b>-</b>
Derivative financial liabilities	537,290	-	537,290	537,290	-	-	-
<b>Total Liabilities</b>	<b>537,290</b>	<b>-</b>	<b>537,290</b>	<b>537,290</b>	<b>-</b>	<b>-</b>	<b>-</b>

	2022						Amounts not subject to enforceable netting arrangements
	Effect of offsetting arrangements			Related amount not offset			
	Gross amounts	Amount offset	Net amounts reported on statement of financial position	Financial instrument	Collateral	Net amount	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Derivative financial assets	993,955	-	993,955	993,955	-	-	-
<b>Total assets</b>	<b>993,955</b>	<b>-</b>	<b>993,955</b>	<b>993,955</b>	<b>-</b>	<b>-</b>	<b>-</b>
Derivative financial liabilities	1,490,865	-	1,490,865	993,955	-	496,910	-
<b>Total Liabilities</b>	<b>1,490,865</b>	<b>-</b>	<b>1,490,865</b>	<b>993,955</b>	<b>-</b>	<b>496,910</b>	<b>-</b>

**(b) Mortgage pool receivable**

Under the transaction documents, the Trust is entitled to cashflows associated with mortgages in the mortgage pool.

The mortgage pool receivables relate to the housing loans issued by NAB that are secured against Australian residential property as collateral, and where applicable, Lenders Mortgage Insurance (LMI). Mortgage pool receivables are monitored regularly for indicators of impairment as outlined in Note (2) (i).

For the year ended 30 September 2023, there were no bad debts (2022: nil). As at that date, 469 loans representing less than 1% (\$186m) of the outstanding balance were in arrears i.e. greater than 30 days past due (2022: 286 loans representing less than 1% (\$99.6m) of the outstanding balance). Financial assets have not deteriorated significantly since origination if they are less than 30 days past due. Impaired assets are considered the loans that are contractually past due more than 90 days, including loans where the security is insufficient to cover principal and interest. No provision has been recognised by the Trust in relation to the mortgage loans in the cover pool as the Trust Manager has the discretion under clause 13 of the Mortgage Sale Agreement to sell the Trust's interests in non-performing mortgage loans to NAB as Seller.

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**15 Financial risk management disclosures (continued)**

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market variables such as interest rates, foreign exchange rates and other prices. The Trust is exposed to interest rate risk and foreign currency risk as described below.

**(i) Interest rate risk**

The impact of a reasonably possible change in AUD interest rates on the Trust's Profit or loss and Net assets / (liabilities) attributable to unitholders assuming all other variables remain constant is nil (2022: nil).

**(ii) Foreign currency risk**

Foreign currency risk arises from the possibility that changes in currency exchange rates will affect the future cash flows or the fair value of financial instruments.

Foreign currency risk in the Trust arises as a result of the Trust issuing intercompany notes to NAB in currencies other than Australian dollars. All non-Australian dollar cash flows arising on the intercompany notes with NAB are economically hedged by the Trust using cross currency swaps to swap the foreign currency cash flows for Australian dollar cash flows. As a result, any changes in foreign exchange rates will have minimal impact on the future cash flows of the Trust, on its profit or loss or on net assets or liabilities attributable to unitholders. Any foreign exchange gain or loss arising on the intercompany notes will be offset by an equal and opposite gain or loss on the hedging cross currency swap.

**(iii) Liquidity risk**

Liquidity risk is the risk that the Trust is unable to meet its financial obligations as they fall due. These obligations mostly include payment of interest and repayment of principal.

Key principles adopted in the Trust approach to managing liquidity risk include:

- continuously monitoring cash flows;
- maintaining adequate cash reserves;
- economically hedging the maturity of loans with corresponding interest rate and basis swap maturities;
- managing the margin between interest receivable and interest payable.

**Contractual maturity of assets and liabilities**

The following tables show an analysis of contractual maturities at balance date of assets and liabilities.

	As at 30 September 2023			As at 30 September 2022		
	Less than 12 months \$'000	Greater than 12 months \$'000	Total \$'000	Less than 12 months \$'000	Greater than 12 months \$'000	Total \$'000
Cash and cash equivalents	1,246,797	-	1,246,797	944,433	-	944,433
Trade and other receivables	8,810	-	8,810	2,859	-	2,859
Derivative assets	293,364	877,553	1,170,917	321,653	672,302	993,955
Mortgage pool receivable	411	33,429,903	33,430,314	397	29,738,533	29,738,930
<b>Total assets</b>	<b>1,549,382</b>	<b>34,307,456</b>	<b>35,856,838</b>	<b>1,269,342</b>	<b>30,410,835</b>	<b>31,680,177</b>
Trade and other payable	198,598	-	198,598	101,799	-	101,799
Distribution payable	476,901	-	476,901	285,722	-	285,722
Derivative liabilities	210	537,080	537,290	6,616	1,484,249	1,490,865
Borrowings*	2,864,886	31,779,163	34,644,049	4,329,020	25,472,771	29,801,791
<b>Total liabilities</b>	<b>3,540,595</b>	<b>32,316,243</b>	<b>35,856,838</b>	<b>4,723,157</b>	<b>26,957,020</b>	<b>31,680,177</b>
<b>Net assets/(liabilities)</b>	<b>(1,991,213)</b>	<b>1,991,213</b>	<b>-</b>	<b>(3,453,815)</b>	<b>3,453,815</b>	<b>-</b>

\*Comparative information has been restated to align to the presentation in the current period.

**16 Fair value of financial assets and liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values are based on relevant information available as at the reporting date and involve judgement.

The table below shows a comparison of the carrying amount, as reported on the statement of financial position and fair value of those assets and liabilities, using a hierarchy that reflects the significance of inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 fair value measurements - quoted prices (unadjusted) in active markets for identical financial assets or liabilities.
- Level 2 fair value measurements - inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements - inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables and distributions payable approximate their fair value as they are short term in nature or are receivable on demand.

The fair value estimates are based on the following methodologies and assumptions:

- The fair value of trading and hedging derivative assets and liabilities, including interest rate swaps and cross currency swaps are obtained from discounted cash flow models. During the year the valuation of derivatives was updated to continue to align with market pricing convention including the recognition of credit and funding valuation adjustments.

- The fair value of mortgage pool receivables that reprice within six months of reporting date is assumed to equate to the carrying value. The fair value of other mortgage pool receivables are calculated using discounted cash flow models based on the maturity of the mortgage pool receivables. The discount rates applied are based on interest rates at reporting date for similar types of mortgage receivables.

- The fair value of interest bearing liabilities are calculated based on the discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments and appropriate credit spreads.



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**16 Fair value of financial assets and liabilities (continued)**

As at 30 September 2023					
	Carrying value \$'000	Fair value \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Derivative assets	1,170,917	1,170,917	-	1,170,917	-
Mortgage pool receivable	33,430,314	33,146,304	-	-	33,146,304 *
<b>Total financial assets</b>	<b>34,601,231</b>	<b>34,317,221</b>	<b>-</b>	<b>1,170,917</b>	<b>33,146,304</b>
Derivative liabilities	537,290	537,290	-	537,290	-
Interest bearing liabilities	34,644,049	31,803,946	-	-	31,803,946 *
<b>Total financial liabilities</b>	<b>35,181,339</b>	<b>32,341,236</b>	<b>-</b>	<b>537,290</b>	<b>31,803,946</b>

As at 30 September 2022					
	Carrying value \$'000	Fair value \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Derivative assets	993,955	993,955	-	993,955	-
Mortgage pool receivable	29,738,930	29,313,083	-	-	29,313,083
<b>Total financial assets</b>	<b>30,732,885</b>	<b>30,307,038</b>	<b>-</b>	<b>993,955</b>	<b>29,313,083</b>
Derivative liabilities	1,490,865	1,490,865	-	1,490,865	-
Interest bearing liabilities**	29,801,791	27,731,613	-	-	27,731,613
<b>Total financial liabilities</b>	<b>31,292,656</b>	<b>29,222,478</b>	<b>-</b>	<b>1,490,865</b>	<b>27,731,613</b>

\*The Mortgage pool receivable and Interest bearing liabilities are carried at amortised cost on the statement of financial position.

\*\*Comparative information has been restated to align to the presentation in the current period.

There were no transfers between level 1 and 2 for the years ended 30 September 2023 and 2022.

There were no transfers into or out of Level 3 for the years ended 30 September 2023 and 2022.

**17 Related party transactions**

**National Australia Bank Limited ("NAB")**

NAB is the counterparty to the Trust in relation to the Mortgage Pool Receivable, Intercompany Notes and the Demand Note. NAB is also the Issuer, Seller, Servicer, Trust Manager, Account Bank, Swap Provider (Covered Bond Swaps, Interest Rate Swaps and Basis Swaps), Intercompany Note Provider and Demand Note Subscriber. Interest income received and interest expense received from and paid to NAB is disclosed on the face of the income statement and is also disclosed in Notes 3 and 4.

All fees are calculated at arm's length and on normal terms and conditions. The Trust Manager's fee is disclosed in Note 5.

Total balances with related entities outstanding at 30 September 2023 were:

	2023 \$'000	2022 \$'000
Cash and cash equivalents	1,246,797	944,433
Trade and other receivables	8,810	2,859
Derivative assets	1,170,917	993,955
Loans and advances	33,430,314	29,738,930
Trade and other payables	198,555	101,758
Distributions payable	476,901	285,722
Derivative liabilities	537,290	1,490,865
Interest bearing liabilities*	34,644,049	29,801,791

\*Comparative information has been restated to align to the presentation in the current period.

The Trust is considered to be a special purpose entity consolidated into the NAB Group (NAB and its controlled entities) of which NAB is the parent entity. NAB services the mortgage pool receivable with a value of \$33,318 million (2022: \$29,674 million).

The loans and advances balance in the above table consists of mortgage pool receivables of \$33,318 million (2022: \$29,674 million) and mortgage collections receivables of \$112 million (2022: \$65 million).

The outstanding balances arose in the ordinary course of business.

Guarantees over Covered Bonds have been given and are detailed in Note 14. The following are the Covered Bond issues which the Trust has provided a guarantee over:

Issue Currency	Series	Coupon rate %	Coupon Frequency	Maturity Date	Face value Issue Currency in millions
EUR	Series 3	4.080%	Annual	20-Jan-27	200
GBP	Series 6	3.000%	Annual	4-Sep-26	250
EUR	Series 7	2.646%	Annual	21-Jan-28	200
EUR	Series 8	2.350%	Annual	4-Oct-24	136
EUR	Series 13	2.250%	Annual	6-Jun-25	750
EUR	Series 16	2.583%	Annual	23-Sep-25	100
CHF	Series 18	1.500%	Annual	7-Feb-24	200
AUD	Series 19	5.000%	Semi Annual	11-Mar-24	750
EUR	Series 20	2.288%	Annual	4-Apr-26	75
EUR	Series 24	0.875%	Annual	19-Feb-27	1,000
AUD	Series 32	3.600%	Semi Annual	16-Mar-28	125
USD	Series 33	3.450%	Semi Annual	4-Dec-23	1,150
EUR	Series 34	0.750%	Annual	30-Jan-26	1,250
GBP	Series 35	SONIA + 0.50%	Quarterly	4-Feb-25	1,000
EUR	Series 36	0.010%	Annual	6-Jan-29	850
GBP	Series 37	SONIA + 1.00%	Quarterly	15-Dec-25	1,500
EUR	Series 38	0.625%	Annual	16-Mar-27	1,500
EUR	Series 39	2.347%	Annual	30-Aug-29	750
USD	Series 40	4.628%	Semi Annual	22-Nov-27	1,650
NOK	Series 41	3.770%	Annual	9-Dec-32	1,000
CHF	Series 42	1.715%	Annual	3-Feb-33	250
EUR	Series 43	3.263%	Annual	13-Feb-26	1,500
GBP	Series 44	SONIA + 0.60%	Quarterly	17-Jun-26	1,250
NOK	Series 45	4.025%	Annual	1-Jun-33	1,000
NOK	Series 46	4.560%	Annual	4-Aug-32	2,000

**NAB COVERED BOND TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2023**

**17 Related party transactions (continued)**

**Demand note**

The Trust borrows funds from NAB under the Demand Note Subscription Agreement in order to acquire mortgage pool receivables. Borrowing under the Demand Note is denominated in Australian dollars and is subject to floating interest rates. Amounts owed by the Covered Bond Guarantor under the Demand Note Subscription Agreement will be subordinated to amounts owed by the Covered Bond Guarantor under the Covered Bond Guarantee in accordance with the applicable priority of payments.

**Intercompany notes**

*Fixed rate intercompany notes*

Interest on fixed rate intercompany notes are payable in arrears according to their payment frequency.

The fixed rate intercompany notes are provided by NAB under the terms and conditions of the Intercompany Note Subscription Agreement. NAB will have recourse and claim only in respect of the assets of the Trust. Any advances owed by the Covered Bond Guarantor and Trustee will be made in accordance with the applicable priority of payments. The fixed rate intercompany notes are measured at amortised cost.

In consideration for the Covered Bond Guarantor agreeing to give the Covered Bond Guarantee, the Intercompany Loan provider has agreed to make advances to enable the Trust to acquire mortgage loans and other assets to support the Covered Bonds Guarantors obligations under the Covered Bond Guarantee. In accordance with the Intercompany Note Subscription Agreement, the amount and term of each fixed rate intercompany note equals the amount and term of the corresponding tranche of Covered Bonds issued by NAB.

*Floating rate intercompany notes*

The floating rate intercompany notes' interest rates reset on daily basis and are measured at amortised cost. Interest on floating rate intercompany notes are payable quarterly in arrears.

**18 Auditors' remuneration**

The auditors remuneration for the Trust for the period is \$39,084 (2022: \$37,223).

**19 Events Subsequent to reporting date**

Since 30 September 2023 and as at the date of this report, the trust has undertaken transactions in the ordinary course of business. The most significant of these transactions include:

- Reduction in the Demand Note of \$700 million on 30 October 2023
- Series 33 USD \$1,150 million Covered Bonds @ 3.45% fixed rate maturing on 4 December 2023
- Increase in the Demand Note of \$1,594m on 4 December 2023
- The covered programme limit was increased to US\$40,000 million on the 15th November 2023
- Reduction in the Demand Note of \$650 million on 27 November 2023
- Reduction in the Demand Note of \$2,669 million on 28 November 2023
- Series 47 USD \$1,750 million Covered Bonds @ 5.134% fixed rate settling on 28 November 2023
- Series 48 EUR \$159 million Covered Bonds @ 3.23% fixed rate settling on 15 December 2023
- Reduction in the Demand Note of \$262 million on 15 December 2023
- Demand Note top-up of \$5,961 million on 18 December 2023

No other matter, item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report that, in the opinion of the Trust Manager, has significantly affected or may significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial years.

**20 Commitments, contingent assets and contingent liabilities**

There are no commitments, contingent assets or contingent liabilities outstanding as at 30 September 2023 (2022: nil), other than those already disclosed in this report.

**NAB COVERED BOND TRUST**  
**TRUST MANAGER'S DECLARATION**

In the opinion of NAB, the Trust Manager of the NAB Covered Bond Trust:

1. The financial statements and notes set out on pages 6 to 18:
  - (a) give a true and fair view of the financial position of the Trust as at 30 September 2023 and its performance for the year ended on that date; and
  - (b) comply with the provisions of the Establishment Deed and Australian Accounting Standards (including the Australian Accounting Interpretations) and International Financial Reporting Standards.
2. There are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.
3. The Trust has been conducted in accordance with the Establishment Deed dated 10 November 2011 and the Management Agreement dated 11 November 2011.

Signed for and on behalf of National Australia Bank Limited as Trust Manager of NAB Covered Bond Trust:



Michael Johnson, Executive, Funding & Liquidity, NAB  
20 December 2023



Lachlan Rose, Head of Treasury Governance Business Management, NAB  
20 December 2023



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## **Independent Auditor's Report to the unitholders of NAB Covered Bond Trust**

### **Opinion**

We have audited the financial report of NAB Covered Bond Trust (the Trust), which comprises the statement of financial position as at 30 September 2023, the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Trust Manager's report.

In our opinion, the accompanying financial report presents fairly, in all material respects, the financial position of the Trust as at 30 September 2023 and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

### **Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Trust in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Information Other than the Financial Report and Auditor's Report Thereon**

The Trust Manager is responsible for the other information. The other information is the Trust Managers' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be 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.

## Responsibilities of the Trust Manager for the Financial Report

The Trust Manager is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the Trust Manager determines is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Trust Manager is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Trust Manager either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trust Manager.



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- Conclude on the appropriateness of the Trust Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Trust Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'Ernst &amp; Young' in a cursive script.

Ernst & Young  
Melbourne  
20 December 2023