Bank of New Zealand

U.S. Debt Funding Information

For the six months ended March 31, 2023

Contents

Presentation of Information

Basis of Presentation

Bank of New Zealand's financial reporting group consists of Bank of New Zealand ("BNZ"), all of its wholly owned entities and other entities consolidated for financial reporting purposes (together, the "Banking Group"). The consolidated financial statements of the Banking Group are prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"), the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB").

Certain differences exist between accounting principles generally accepted in the United States of America ("US GAAP") and NZ GAAP, NZ IFRS, IFRS and interpretations adopted by the IASB which might be material to the financial information presented in this document. The Banking Group has not prepared a reconciliation of its consolidated financial statements and related notes to the financial statements between NZ GAAP, NZ IFRS and US GAAP. In making an investment decision, investors must rely upon their own examination of the Banking Group, the terms of the offering and the financial information incorporated into the offering documents in connection with such offering. Potential investors should consult their own professional advisors for an understanding of these differences, and whether or not they affect the financial information presented in this document.

Information disclosed in this document is based on the Banking Group. It is different from the information disclosed under the New Zealand Banking segment ("NZ Banking") in the Annual Report, Full Year Results and Half Year Results of National Australia Bank Limited ("NAB") (as well as in disclosures that NAB makes in its U.S. funding documents), the Banking Group's ultimate parent. NZ Banking excludes the group central operation units and markets trading operations of the Banking Group and includes in all relevant periods, BNZ Life Insurance Limited, NAB's former insurance operation in New Zealand. On September 30, 2022, NAB completed the sale of BNZ Life Insurance Limited to Partners Life Limited.

The consolidated half year financial statements of the Banking Group are independently reviewed and the consolidated full year financial statements are audited by an external auditor in accordance with International Standards on Auditing (New Zealand), which differ from those applicable in the United States.

Certain comparative balances in this document have been reclassified to align with the presentation used in the current financial year. These reclassifications have no material impact on the Banking Group's overall financial performance or financial position for the prior periods.

Forward-Looking Statements

This document contains certain forward-looking statements within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this document are forward-looking statements.

The words "anticipate", "believe", "expect", "estimate", "likely", "should", "could", "may", "focus", "beyond", "aim" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

In this document, forward-looking statements may, without limitation, relate to statements regarding:

- economic and financial forecasts, including, but not limited to, statements in the business overview;
- anticipated implementation of certain control systems and programs, including, but not limited to, those described in the risk management section on page 15 herein; and
- certain plans, strategies and objectives of management.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Banking Group, which may cause actual results to differ materially from those expressed or implied in such statements contained in this document. For example:

- the economic and financial forecasts contained in this document will be affected by movements in interest and foreign currency exchange rates, which may vary significantly from current levels, as well as by general economic conditions in each of the Banking Group's major markets. Such variations may materially impact the Banking Group's financial condition and results of operations;
- the implementation of control systems and programs will be dependent on such factors as the Banking Group's ability to acquire or develop necessary technology or systems, its ability to attract and retain qualified personnel and the response of customers and third parties such as vendors; and
- the plans, strategies and objectives of management will be subject to, among other things, government regulation, which may change at any time and over which the Banking Group has no control. In addition, the Banking Group will continue to be affected by general economic conditions in New Zealand and worldwide, movements and conditions in capital markets, the competitive environment in each of its markets and political and regulatory policies.

There are a number of other important factors that could cause actual results to differ materially from those projected in such statements, including (without limitation) the risks and uncertainties associated with the New Zealand and global economic environment and capital market conditions, including the impact of rising interest rates and inflationary conditions, and other macro-economic, geopolitical, climate, other nature-related or social risks. Further information is contained under the caption "Risk Factors" in the offering circular supplement (including the documents incorporated by reference into the offering circular supplement), used in connection with an offer of notes under BNZ's Rule 144A sub-program which is associated with its US$100,000,000,000 Global Medium Term Note Program. No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement made by any person (including BNZ or any of its advisors). In particular, no representation, warranty or assurance (express or implied) is given that the occurrence of the events expressed or implied in any forward-looking statements in this presentation will actually occur.

BNZ expressly disclaims any obligation or undertaking to update or revise in any manner any forward-looking statements contained in this document to reflect any changes in the expectations of BNZ or the Banking Group with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in this document.

Certain Definitions

The Banking Group's financial year ends on September 30. References in this document to the March 2023 half year are references to the six months ended March 31, 2023. Other six month periods are referred to in a corresponding manner.

Presentation of Information

Certain Definitions *continued*

Some information in this document has been derived from the consolidated financial statements of the Banking Group. Where certain items are not shown in the Banking Group's consolidated financial statements, they have been prepared for the purpose of this document. Accordingly, this information should be read in conjunction with, and is qualified in its entirety by reference to, the Banking Group's audited consolidated full year financial statements and unaudited consolidated half year financial statements that are included in the Disclosure Statement for the six months ended March 31, 2023. In addition, in connection with an offer of notes by BNZ under BNZ's Rule 144A sub-program, which is associated with its US$100,000,000,000 Global Medium Term Note Program, this information should be read in conjunction with the offering circular supplement for such notes, including the consolidated financial statements of the Banking Group contained in the Disclosure Statements incorporated therein.

In this document, unless the context otherwise requires:

- references to "APRA" are to the Australian Prudential Regulation Authority;
- references to "Australian dollars" or "AUD" are to the lawful currency of Australia;
- references to "Banking Group" are to Bank of New Zealand's financial reporting group, which consists of Bank of New Zealand, all of its wholly owned entities and other entities consolidated for financial reporting purposes;
- references to "BNZ" or the "Bank" are to Bank of New Zealand;
- references to "BNZ-IF" are to BNZ International Funding Limited, a wholly owned entity of BNZ, acting through its London Branch;
- references to "CHF" are to the lawful currency of Switzerland and Liechtenstein;
- references to "Disclosure Statements" are to the disclosure statements the Banking Group prepared for the relevant period in compliance with Reserve Bank of New Zealand requirements, which contain consolidated financial statements of BNZ for the periods specified and have been published and filed with the Commission de Surveillance du Secteur Financier (the "CSSF");
- references to "EUR" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Union as amended from time to time;
- references to "GBP" are to the lawful currency of the United Kingdom;
- references to "HKD" are to the lawful currency of Hong Kong Special Administrative Region of the People's Republic of China;
- references to "JPY" are to the lawful currency of Japan;
- references to "NAB" or "ultimate parent" are to National Australia Bank Limited, the Banking Group's ultimate parent;
- references to "NAB Group" are to NAB's financial reporting group, which consists of NAB, all of its wholly owned entities and other entities consolidated for financial reporting purposes;
- references to "RBNZ" are to the Reserve Bank of New Zealand;
- references to "US$", "USD" or "U.S. dollars" are to the lawful currency of the United States; and
- references to "$", "New Zealand dollars", "NZD", "NZ$" or "NZ dollars" are to the lawful currency of New Zealand.

Uses of Internet Addresses

This document contains inactive textual addresses to internet websites. Reference to such websites is made for information purposes only, and information found at such websites is not incorporated by reference into this document.

Currency of Presentation and Exchange Rates

All currency amounts are expressed in New Zealand dollars unless otherwise stated. All amounts have been rounded to the nearest million dollars, except where otherwise indicated. Any discrepancies in the conversion between currencies contained in this document are due to rounding.

For the convenience of the reader, the selected financial information for the six months ended March 31, 2023 has been translated from NZ dollars into U.S. dollars using the March 31, 2023 period end noon buying rate of USD 0.6271 = NZD 1.00.

Selected Financial Information

The selected financial information as at and for the six months ended March 31, 2023, September 30, 2022 and March 31, 2022 has been derived from, and should be read in conjunction with, the consolidated financial statements and the related notes which are included in the Disclosure Statements for the respective period. Where certain items are not shown in the consolidated financial statements contained therein, they have been prepared for the purpose of this document. Any discrepancies in the conversion between currencies in tables contained in this document are due to rounding.

Further details on the Banking Group's financial results are provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein and the Disclosure Statements for the periods specified.

The financial information in the Disclosure Statement for the six months ended March 31, 2023 has not been audited.

The Disclosure Statements for the six months ended March 31, 2023, for the year ended September 30, 2022 and for the six months ended March 31, 2022 have been prepared in accordance with NZ GAAP, NZ IFRS, IFRS and interpretations adopted by the IASB. Certain differences exist between NZ GAAP, NZ IFRS, IFRS and interpretations adopted by the IASB and US GAAP, which might be material to the financial information.

Income Statement

	Banking Group			
	Unaudited 6 Months Mar 2023	**Unaudited 6 Months Mar 2023**	Unaudited 6 Months Sep 2022	Unaudited 6 Months Mar 2022
Dollars in Millions	**USD[1]**	**NZD**	NZD	NZD
Interest income				
Effective interest income	**1,925**	**3,070**	2,217	1,583
Fair value through profit or loss	**98**	**156**	75	41
Interest expense	**1,105**	**1,762**	952	460
Net interest income	**918**	**1,464**	1,340	1,164
Gains less losses on financial instruments	**75**	**119**	108	143
Other operating income	**120**	**192**	185	191
Total operating income	**1,113**	**1,775**	1,633	1,498
Operating expenses	**362**	**577**	587	489
Total operating profit before credit impairment charge and income tax expense	**751**	**1,198**	1,046	1,009
Credit impairment charge	**50**	**79**	68	21
Total operating profit before income tax expense	**701**	**1,119**	978	988
Income tax expense on operating profit	**197**	**314**	273	279
Net profit attributable to the shareholder of the Bank	**504**	**805**	705	709

Performance Indicators

	Banking Group			
	Unaudited 6 Months Mar 2023	**Unaudited 6 Months Mar 2023**	Unaudited 6 Months Sep 2022	Unaudited 6 Months Mar 2022
	USD[1]	**NZD**	NZD	NZD
Ordinary shares, fully paid (number of shares in millions)	**10,076**	**10,076[2]**	5,076	5,076
Dividend per ordinary share (cents per share)[3]	**67.06**	**106.94[2]**	11.03	6.40
Net profit per ordinary share (cents per share)	**9.89**	**15.77[4]**	13.89	13.97
Cost to income ratio[5]	**32.51%**	**32.51%**	35.95%	32.64%

[1] For the convenience of the reader, the financial data for the six months ended March 31, 2023 has been translated from NZ dollars into U.S. dollars using the March 31, 2023 period end noon buying rate of USD 0.6271 = NZD 1.00.

[2] Includes $5,000 million dividend on ordinary shares and equivalent share issue. Refer to Note 12 Contributed Equity in BNZ's Disclosure Statement for the six months ended March 31, 2023 for further information.

[3] Dividend paid divided by the weighted average number of ordinary shares outstanding during the period.

[4] Net profit divided by the weighted average number of ordinary shares outstanding during the period.

[5] Operating expenses divided by total operating income.

Selected Financial Information

Balance Sheet

Dollars in Millions	Banking Group			
	Unaudited Mar 2023 USD[1]	Unaudited Mar 2023 NZD	Audited Sep 2022 NZD	Unaudited Mar 2022 NZD
Assets				
Cash and liquid assets	5,912	9,427	9,581	12,170
Due from central banks and other institutions [2]	133	213	372	284
Collateral paid[2]	636	1,014	2,814	683
Trading securities	4,992	7,960	7,414	7,103
Derivative financial instruments	2,759	4,400	9,540	3,823
Loans and advances to customers [2]	63,314	100,963	99,346	97,764
Amounts due from related entities	224	357	210	662
Other assets	593	946	1,013	493
Deferred tax	191	304	293	274
Property, plant and equipment	264	421	428	465
Goodwill and other intangible assets	285	455	409	338
Total assets	79,303	126,460	131,420	124,059
Financed by:				
Liabilities				
Due to central banks and other institutions [2]	3,921	6,252	5,160	5,152
Collateral received[2]	967	1,542	2,134	1,041
Trading liabilities	145	231	302	591
Derivative financial instruments	2,511	4,004	8,228	3,926
Deposits and other borrowings[2]	49,452	78,858	78,154	79,900
Bonds and notes	12,198	19,451	20,181	18,864
Current tax liabilities	60	95	333	176
Amounts due to related entities	749	1,195	2,160	1,053
Other liabilities	966	1,542	1,757	935
Subordinated debt	1,223	1,950	1,950	1,950
Total liabilities	72,192	115,120	120,359	113,588
Net assets	7,111	11,340	11,061	10,471
Shareholder's equity				
Contributed equity – ordinary shares	5,679	9,056	4,056	4,056
Reserves	138	221	296	178
Retained profits	1,294	2,063	6,709	6,237
Total shareholder's equity	7,111	11,340	11,061	10,471

Performance Indicators

	Banking Group			
	Unaudited Mar 2023 USD[1]	Unaudited Mar 2023 NZD	Unaudited Sep 2022 NZD	Unaudited Mar 2022 NZD
Loan to deposit ratio[2,3]	1.35	1.35	1.34	1.33

[1] For the convenience of the reader, the financial data for the six months ended March 31, 2023 has been translated from NZ dollars into U.S. dollars using the March 31, 2023 period end noon buying rate of USD 0.6271 = NZD 1.00.

[2] Comparative balances as at March 31, 2022 have been restated to align with the presentation used in the current period. Refer to page 7 for further information.

[3] Loans and advances to customers divided by customer deposits (i.e., deposits and other borrowings minus short term debt securities (in "Active Funding Programs" on page 19)) for the six months ended March 31, 2023.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Prospective investors should read the following discussion of the Banking Group's financial condition and results of operations together with the Banking Group's audited consolidated full year financial statements, unaudited consolidated half year financial statements and the notes to the respective financial statements which are included in the Disclosure Statement for the period specified. The presentation in this section contains forward-looking statements that involve risks, uncertainties and assumptions. The Banking Group's actual results may differ materially from those anticipated in such forward-looking statements as a result of a number of factors, including, but not limited to, those set forth under the caption "Risk Factors" in the offering circular supplement (including the documents incorporated by reference into the offering circular supplement), used in connection with an offer of notes under BNZ's Rule 144A sub-program which is associated with its US$100,000,000,000 Global Medium Term Note Program.

The following discussion is based on the unaudited consolidated half year financial statements of the Banking Group which have been prepared in accordance with NZ GAAP, NZ IFRS, IFRS and interpretations adopted by the IASB. There are certain differences between US GAAP and NZ GAAP, NZ IFRS, IFRS and interpretations adopted by the IASB which might be material to the financial information in this document. The following discussion is also prepared based on the Banking Group. It is different from the information disclosed under NZ Banking in the Annual Report, Full Year Results and Half Year Results of the NAB Group. NZ Banking excludes the group central operation units and markets trading operations of the Banking Group and includes for all relevant periods, BNZ Life Insurance Limited, NAB's former insurance operation in New Zealand. On September 30, 2022, NAB completed the sale of BNZ Life Insurance Limited to Partners Life Limited.

Overview

BNZ was incorporated on July 29, 1861 and its ultimate parent bank is NAB. The businesses and affairs of BNZ are managed by, or under the direction or supervision of, the BNZ Board of Directors ("BNZ Board") and the BNZ Chief Executive Officer ("CEO") in compliance with the requirements and regulations of the Banking Group's primary regulator, the RBNZ. BNZ is a registered bank under the Banking (Prudential Supervision) Act 1989 (the "BPS Act"). Further details on the supervisory role of the RBNZ are provided in "Supervisory Role of the RBNZ" on page 26 herein.

The Banking Group is one of New Zealand's largest banking organizations and provides a broad range of banking and financial products and services to retail, business, private, corporate and institutional customers.

The Banking Group's operations are affected by government actions, such as changes to taxation and government regulations, particularly those in New Zealand. The financial services sector in New Zealand is very competitive, which impacts the Banking Group's profitability in terms of interest rate spreads, lending and deposit volumes and overall operating income.

Significant Conditions Affecting the Banking Group's Capital Position

The Banking Group continues to maintain a strong capital position, with a balance sheet that is supported by diversified and stable funding sources. As at March 31, 2023, the Banking Group's Common Equity Tier 1, Tier 1 and Total qualifying capital ratios were 13.3%, 14.1% and 15.7%, respectively, well above the RBNZ's current minimum capital ratio requirements (including a 3.5% buffer ratio) of 8.0%, 9.5% and 11.5%, respectively. The Banking Group's capital ratios may be influenced by future market developments, such as regulatory changes, rating agency expectations and peer bank capital trends.

As required by the RBNZ's Banking Prudential Requirements on regulatory capital, since July 1, 2022 the Banking Group has been in a six year transition period to increase Tier 1 capital to 16% of risk-weighted assets ("RWA") (including a prudential capital buffer of 9% of RWA), of which up to 2.5% can be in the form of Additional Tier 1 ("AT1") capital, and increase total capital to 18% of RWA, of which up to 2% can be in the form of Tier 2 capital.

The Banking Group's core funding ratio of 89.4% as at March 31, 2023, exceeded the RBNZ's current minimum requirement of 75%.

The Banking Group maintains wholesale funding diversity by remaining active in both domestic and offshore markets, supporting the refinancing of term debt maturities. During the six months ended March 31, 2023, the Bank issued senior unsecured medium term notes in USD and NZD.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Accounting Policies and Estimates

Basis for preparation

The Banking Group's interim financial statements are prepared in accordance with the New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting*, the New Zealand Financial Markets Conduct Act 2013, the New Zealand Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended) and the Bank's accounting policies.

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

Reclassification of financial information

Certain comparative balances have been reclassified to align with the presentation used in the current reporting period. Refer below for further details. These reclassifications have no impact on the overall financial performance or financial position for the comparative periods.

Presentation of collateral paid and collateral received

During the year ended September 30, 2022, the Banking Group changed the balance sheet presentation of collateral balances paid and received from financial institutions and other counterparties. The revised presentation resulted in two new balance sheet line items for collateral paid and collateral received, which include all collateral balances across the Banking Group with the exception of collateral balances with related parties. Collateral balances with related parties are reported within Amounts due from related entities and Amounts due to related entities. This presentation enhances the ability of users of the financial statements to understand collateral balances within the Banking Group. To align with this presentation, certain comparative balances as at March 31, 2022 have been restated.

Collateral paid as at March 31, 2022 is comprised of the following amounts:

- $643 million previously presented in Due from central banks and other institutions; and
- $40 million previously presented in Loans and advances to customers.

Collateral received as at March 31, 2022 is comprised of the following amounts:

- $506 million previously presented in Due to central banks and other institutions; and
- $535 million previously presented in Deposits and other borrowings.

Accounting for modification of loans

In response to severe weather events that occurred in New Zealand during January and February 2023, the Banking Group provided a number of assistance packages to impacted customers, including interest relief on loans to those most impacted by the events. This resulted in a loss of $11 million during the March 2023 half year reflecting the effect of modification in contractual cashflows. The modification did not result in a derecognition of the respective loans.

Changes in accounting policies and disclosures

Accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the Disclosure Statement for the year ended September 30, 2022, except as detailed below.

Recognition of ongoing trail commission payable to mortgage brokers on the balance sheet

During the six months ended March 31, 2023, the Banking Group revised its accounting treatment of ongoing trail commission payable to mortgage brokers. The Banking Group has recognized a liability within Other liabilities equal to the present value of expected future trail commission payments and a corresponding increase in capitalized brokerage costs within Loans and advances to customers. Comparative balances have not been restated.

Other developments – Interest Rate Benchmark ("IBOR") Reform

Following the cessation of certain IBOR benchmark rates from January 1, 2022, the Banking Group has transitioned all impacted financial instrument contracts to alternative reference rates. For contracts referencing USD IBOR benchmarks subject to cessation on June 30, 2023, to the extent such contracts do not mature before that date, fallback language or early termination are being discussed for execution ahead of the cessation date.

Critical accounting assumptions and estimates

The preparation of interim financial statements requires the use of critical accounting estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Unless explicitly stated, there have been no significant changes to the accounting estimates, judgements and assumptions used in preparing interim financial statements for the six months ended March 31, 2023, compared to those applied in the preparation of the Disclosure Statement for the year ended September 30, 2022.

Results of Operations

	Banking Group		
Dollars in Millions	**Unaudited 6 Months Mar 2023**	Unaudited 6 Months Sep 2022	Unaudited 6 Months Mar 2022
Net interest income			
Net interest income	**1,464**	1,340	1,164
Average interest earning assets	**119,822**	118,587	114,483
Net interest margin[1]	**2.45%**	2.25%	2.04%

[1] Annualized net interest income divided by total average interest earning assets.

Net interest income March 2023 half year vs September 2022 half year

Net interest income increased by $124 million or 9.3%, from $1,340 million in the September 2022 half year to $1,464 million in the March 2023 half year. Net interest income growth was mainly due to lending growth and higher net interest margin supported by the higher interest rate environment increasing returns on replicating portfolios.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations *continued*

Average volumes of gross loans and advances to customers grew by $1,411 million or 1.4%, from $99,234 million in the September 2022 half year to $100,645 million in the March 2023 half year. This was driven by growth in the housing and business lending portfolios.

Average volumes of deposits and other borrowings reduced by $179 million or 0.2%, from $80,368 million in the September 2022 half year to $80,189 million in the March 2023 half year. This was largely driven by a decrease in short term funding instruments, partially offset by an increase in customer deposits driven by term deposits.

Overall, net interest margin increased by 20 basis points, from 2.25% in the September 2022 half year to 2.45% in the March 2023 half year. The overall yield on total average interest earning assets increased by 152 basis points, while the cost of total average interest bearing liabilities increased by 170 basis points.[1] The impact of average interest bearing liabilities on net interest margin was less than the impact of the increased net interest margin on interest earning assets due to a smaller balance sheet size compared to interest earning assets.

Key influences on the net interest margin result included:

- increased returns on capital and non-interest bearing deposits replicating portfolios, supported by the higher interest rate environment;
- average yield on interest earning loans and advances to customers increased by 141 basis points, from 4.29% in the September 2022 half year to 5.70% in the March 2023 half year. The increase was driven by an increase in New Zealand swap rates in line with official cash rate increases in the 2022 financial year and the March 2023 half year;
- average cost of interest bearing deposits and other borrowings increased by 167 basis points, from 1.54% in the September 2022 half year to 3.21% in the March 2023 half year. This increase was due to increasing New Zealand swap rates, and changes to deposit mix with growth in term deposits, partially offset by volume reductions in short term funding instruments; and
- average cost of bonds and notes increased by 178 basis points, from 3.31% in the September 2022 half year to 5.09% in the March 2023 half year. This increase was driven by higher interest rates.

Net interest income March 2023 half year vs March 2022 half year

Net interest income increased by $300 million or 25.8%, from $1,164 million in the March 2022 half year to $1,464 million in the March 2023 half year. Net interest income growth was mainly due to lending growth and higher net interest margin supported by the higher interest rate environment increasing returns on replicating portfolios.

Average volumes of gross loans and advances to customers grew by $3,566 million or 3.7%, from $97,079 million in the March 2022 half year to $100,645 million in the March 2023 half year.[2] This was driven by growth in the housing and business lending portfolios.

Average volumes of deposits and other borrowings grew by $30 million, from $80,159 million in the March 2022 half year to $80,189 million in the March 2023 half year.[2] This was largely driven by an increase in term deposits from customers, largely offset by reductions in demand and short dated deposits and short term funding instruments.

Overall, net interest margin increased by 41 basis points, from 2.04% in the March 2022 half year to 2.45% in the March 2023 half year. The overall yield on total average interest earning assets increased by 256 basis points, while the cost of total average interest bearing liabilities increased by 268 basis points.[1] The impact of average interest bearing liabilities on net interest margin was less than the impact of the increased net interest margin on interest earning assets due to a smaller balance sheet size compared to interest earning assets and the impact of non-interest bearing liabilities.

Key influences on the net interest margin result included:

- increased returns on capital and non-interest bearing deposits replicating portfolios, supported by the higher interest rate environment;
- average yield on interest earning loans and advances to customers increased by 242 basis points, from 3.28% in the March 2022 half year to 5.70% in the March 2023 half year. The increase was driven by an increase in New Zealand swap rates in line with official cash rate increases in the 2022 financial year and the March 2023 half year;
- average cost of interest bearing deposits and other borrowings increased by 248 basis points, from 0.73% in the March 2022 half year to 3.21% in the March 2023 half year.[2] This increase was due to increasing New Zealand swap rates, and changes to deposit mix with growth in term deposits, partially offset by volume reductions in short term funding instruments; and
- average cost of bonds and notes increased by 327 basis points, from 1.82% in the March 2022 half year to 5.09% in the March 2023 half year. This increase was mainly due to higher interest rates.

	Banking Group		
	Unaudited	Unaudited	Unaudited
	6 Months	6 Months	6 Months
Dollars in Millions	**Mar 2023**	Sep 2022	Mar 2022
Gains less losses on financial instruments	**119**	108	143

Gains less losses on financial instruments March 2023 half year vs September 2022 half year

Gains less losses on financial instruments increased by $11 million or 10.2%, from a gain of $108 million in the September 2022 half year to a gain of $119 million in the March 2023 half year. This was mainly driven by increases in trading gains on financial instruments, partially offset by interest rate movements on swaps used to economically hedge fixed rate medium term notes.

Gains less losses on financial instruments March 2023 half year vs March 2022 half year

Gains less losses on financial instruments decreased by $24 million or 16.8%, from a gain of $143 million in the March 2022 half year to a gain of $119 million in the March 2023 half year. This decrease was mainly driven by interest rate movements and losses on cross currency basis spreads on swaps used to economically hedge foreign currency fixed rate medium term notes, partially offset by increases in trading gains on financial instruments.

[1] Average interest bearing liabilities include lease liabilities under NZ IFRS 16 *Leases* for the purposes of the calculation. Under the New Zealand Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended), these are classified as non-interest bearing in BNZ's Disclosure Statement for the six months ended March 31, 2023.

[2] Comparative balances as at March 31, 2022 have been restated to align with the presentation used in the current period. Refer to page 7 for further information.

Results of Operations *continued*

Dollars in Millions	Banking Group Unaudited 6 Months Mar 2023	Unaudited 6 Months Sep 2022	Unaudited 6 Months Mar 2022
Other operating income			
Money transfer fees	44	38	46
Fees earned on financial assets and liabilities	109	100	101
Other income	39	47	44
Total other operating income	192	185	191

Other operating income March 2023 half year vs September 2022 half year

Total other operating income increased by $7 million or 3.8%, from $185 million in the September 2022 half year to $192 million in the March 2023 half year. Money transfer fees increased by $6 million, due to an increase in cards income. Fees earned on financial assets and liabilities increased by $9 million, driven by higher business lending activity in the March 2023 half year. Other income decreased by $8 million, due to the removal and reduction of certain account fees.

Other operating income March 2023 half year vs March 2022 half year

Total other operating income remained flat in the March 2023 half year compared to the March 2022 half year. Fees earned on financial assets and liabilities increased by $8 million, driven by higher business lending activity in the March 2023 half year. Money transfer fees decreased by $2 million, largely due to a decrease in cards income. Other income decreased by $5 million, due to the removal and reduction of certain account fees.

Dollars in Millions	Banking Group Unaudited 6 Months Mar 2023	Unaudited 6 Months Sep 2022	Unaudited 6 Months Mar 2022
Operating expenses			
Amortization and depreciation	81	75	67
Personnel expenses	350	345	318
Other operating expenses	146	167	104
Total operating expenses	577	587	489

Operating expenses March 2023 half year vs September 2022 half year

Total operating expenses decreased by $10 million or 1.7%, from $587 million in the September 2022 half year to $577 million in the March 2023 half year. This was largely due to the non repeat of separation costs associated with the sale of BNZ Life Insurance Limited, partially offset by higher personnel expenses driven by salary increases, and higher amortization and other operating expenses driven by software and technology costs.

Operating expenses March 2023 half year vs March 2022 half year

Total operating expenses increased by $88 million or 18.0%, from $489 million in the March 2022 half year to $577 million in the March 2023 half year. This was driven by the release in the March 2022 half year of provisioning for historical holiday pay remediation, higher personnel expenses driven by additional colleagues to support customers and compliance obligations along with salary increases, and higher amortization and other operating expenses driven by software and technology costs.

Dollars in Millions	Banking Group Unaudited 6 Months Mar 2023	Unaudited 6 Months Sep 2022	Unaudited 6 Months Mar 2022
Credit impairment charge and credit risk adjustments on credit exposures			
Credit impairment charge	79	68	21
Credit risk adjustments on financial assets designated at fair value through profit or loss[1]	(19)	(1)	6
Total credit impairment charge and credit risk adjustments on credit exposures	60	67	27

[1] Disclosed within gains less losses on financial instruments in the income statement.

The table above represents the Banking Group's total credit impairment charge and credit risk adjustments on credit exposures. Movements in credit impairment charge should be read in conjunction with movements in credit risk adjustments on financial assets designated at fair value through profit or loss.

Credit impairment charge and credit risk adjustments March 2023 half year vs September 2022 half year

Total credit impairment charge and credit risk adjustments reduced by $7 million or 10.4%, from $67 million in the September 2022 half year to $60 million in the March 2023 half year. The decrease in credit risk adjustments was driven by write-backs for a small number of large customers. The increase in credit impairment charges was driven by increased collectively assessed impairment charges. The increased collectively assessed impairment charge was mainly driven by a refresh of the modelled inputs in the loan portfolio and forward looking adjustments along with an overlay for customers impacted by severe weather events that occurred in New Zealand during January and February 2023.

Credit impairment charge and credit risk adjustments March 2023 half year vs March 2022 half year

Total credit impairment charge and credit risk adjustments increased by $33 million or 122.2%, from $27 million in the March 2022 half year to $60 million in the March 2023 half year. The increase in credit impairment charges was largely driven by increased collectively assessed impairment charges. The

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increased collectively assessed impairment charge was mainly driven by a refresh of the modelled inputs in the loan portfolio and forward looking adjustments along with an overlay for customers impacted by severe weather events that occurred in New Zealand during January and February 2023.

	Banking Group		
Dollars in Millions	Unaudited Mar 2023	Audited Sep 2022	Unaudited Mar 2022
Assets			
Cash and liquid assets	9,427	9,581	12,170
Due from central banks and other institutions[1]	213	372	284
Collateral paid[1]	1,014	2,814	683
Trading securities	7,960	7,414	7,103
Derivative financial instruments	4,400	9,540	3,823
Loans and advances to customers[1]	100,963	99,346	97,764
Amounts due from related entities	357	210	662
Other assets	946	1,013	493
Deferred tax	304	293	274
Property, plant and equipment	421	428	465
Goodwill and other intangible assets	455	409	338
Total assets	126,460	131,420	124,059

[1] Comparative balances as at March 31, 2022 have been restated to align with the presentation used in the current period. Refer to page 7 for further information.

Assets March 2023 vs September 2022

Total assets decreased by $4,960 million or 3.8%, from $131,420 million as at September 2022 to $126,460 million as at March 2023, mainly due to decrease in derivative financial assets of $5,140 million and a decrease in collateral paid of $1,800 million, partially offset by an increase in net loans and advances to customers of $1,617 million.

Collateral paid decreased by $1,800 million or 64.0%, from $2,814 million to $1,014 million as at March 2023, to meet derivative trading obligations.

Trading securities increased by $546 million or 7.4%, from $7,414 million as at September 2022 to $7,960 million as at March 2023. This was primarily driven by increased investment in corporate and other institutions securities.

Derivative financial assets decreased by $5,140 million or 53.9%, from $9,540 million as at September 2022 to $4,400 million as at March 2023. This was primarily driven by the appreciation of the NZD against the USD in the March 2023 half year comparative to high market volatility in the September 2022 half year with sharp depreciation of the NZD against the USD in the month of September 2022.

Net loans and advances to customers increased by $1,617 million or 1.6%, from $99,346 million as at September 2022 to $100,963 million as at March 2023. This was primarily driven by an increase of $1,589 million in housing loans.

Assets March 2023 vs March 2022

Total assets increased by $2,401 million or 1.9%, from $124,059 million as at March 2022 to $126,460 million as at March 2023, mainly due to an increase in net loans and advances to customers of $3,199 million, an increase in trading securities of $857 million, an increase in derivative financial assets of $577 million and an increase in other assets of $453 million, partially offset by a decrease in cash and liquid assets of $2,743 million.

Cash and liquid assets decreased by $2,743 million or 22.5%, from $12,170 million as at March 2022 to $9,427 million as at March 2023. This was mainly due to a decrease in transactional balances with central banks of $2,199 million and a decrease in reverse repurchase agreements of $514 million.

Trading securities increased by $857 million or 12.1%, from $7,103 million as at March 2022 to $7,960 million as at March 2023. This was primarily driven by increased investment in semi-government securities, partially offset by decreased investment in government securities.

Derivative financial assets increased by $577 million or 15.1%, from $3,823 million as at March 2022 to $4,400 million as at March 2023. This was primarily driven by the depreciation of the NZD against the USD.

Net loans and advances to customers increased by $3,199 million or 3.3%, from $97,764 million as at March 2022 to $100,963 million as at March 2023. This was primarily driven by an increase of $1,909 million in housing loans and an increase of $852 million in business term lending.

Other assets increased by $453 million or 91.9%, from $493 million as at March 2022 to $946 million as at March 2023. This increase was primarily driven by an increase in securities sold but not yet settled at the end of the March 2023 half year.

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Dollars in Millions	Banking Group Unaudited Mar 2023	Audited Sep 2022	Unaudited Mar 2022
Liabilities			
Due to central banks and other institutions[1]	**6,252**	5,160	5,152
Collateral received[1]	**1,542**	2,134	1,041
Trading liabilities	**231**	302	591
Derivative financial instruments	**4,004**	8,228	3,926
Deposits and other borrowings[1]	**78,858**	78,154	79,900
Bonds and notes	**19,451**	20,181	18,864
Current tax liabilities	**95**	333	176
Amounts due to related entities	**1,195**	2,160	1,053
Other liabilities	**1,542**	1,757	935
Subordinated debt	**1,950**	1,950	1,950
Total liabilities	**115,120**	120,359	113,588
Shareholder's equity			
Contributed equity – ordinary shares	**9,056**	4,056	4,056
Reserves	**221**	296	178
Retained profits	**2,063**	6,709	6,237
Total shareholder's equity	**11,340**	11,061	10,471

[1] Comparative balances as at March 31, 2022 have been restated to align with the presentation used in the current period. Refer to page 7 for further information.

Liabilities and equity March 2023 vs September 2022

Total liabilities decreased by $5,239 million or 4.4%, from $120,359 million as at September 2022 to $115,120 million as at March 2023, primarily driven by a decrease in derivative financial liabilities of $4,224 million, a decrease in amounts due to related entities of $965 million, a decrease in bonds and notes of $730 million and a decrease in collateral received of $592 million, partially offset by an increase in due to central banks and other institutions of $1,092 million.

Due to central banks and other institutions increased by $1,092 million or 21.2%, from $5,160 million as at September 2022 to $6,252 million as at March 2023. This was mainly due to an increase in repurchase agreements held with central banks of $1,260 million. Repurchase agreements with central banks includes borrowing from the RBNZ Funding for Lending and RBNZ Term Lending Facility programs; however, as at March 31, 2023, those facilities are closed for drawdowns. See "Additional RBNZ facilities" on page 20 below for further information.

Collateral received decreased by $592 million or 27.7%, from $2,134 million to $1,542 million as at March 2023, to meet derivative trading obligations.

Amounts due to related entities decreased by $965 million or 44.7%, from $2,160 million as at September 2022 to $1,195 million as at March 2023. This was primarily due to a decrease in NAB collateral received of $874 million to meet derivative trading obligations.

Derivative financial liabilities decreased by $4,224 million or 51.3%, from $8,228 million as at September 2022 to $4,004 million as at March 2023. This was primarily driven by the appreciation of the NZD against the USD in the March 2023 half year comparative to high market volatility in the September 2022 half year with sharp depreciation of the NZD against the USD in the month of September 2022.

Deposits and other borrowings increased by $704 million or 0.9%, from $78,154 million as at September 2022 to $78,858 million as at March 2023. This was driven by an increase in term deposits of $2,459 and an increase in deposits not bearing interest of $2,219 million, partially offset by a decrease in on-demand and short-term deposits of $4,312 million. This includes the impact of a product change of $2,408 million of interest bearing deposits from on-demand and short-term deposits to deposits not bearing interest in the March 2023 half year.

Bonds and notes decreased by $730 million or 3.6%, from $20,181 million as at September 2022 to $19,451 million as at March 2023. This was primarily due to a net decrease in term debt issuances of $285 million and a decrease due to foreign currency translation of $646 million as the NZD appreciated against major foreign currencies, partially offset by an increase in fair value of $210 million due to decreases in interest rates.

Total shareholder's equity increased by $279 million or 2.5%, from $11,061 million as at September 2022 to $11,340 million as at March 2023. This was mainly driven by an increase in retained earnings due to net profits for the period, offset by ordinary dividends paid of $458 million in the March 2023 half year. On March 30, 2023, the Bank paid a dividend of $5,000 million and issued 5,000 million ordinary shares to National Australia Group (NZ) Limited ("NAGNZ") at a subscription price of $1.00 per share under a dividend reinvestment plan, resulting in the Bank's ordinary share capital increasing by $5,000 million.

Liabilities and equity March 2023 vs March 2022

Total liabilities increased by $1,532 million or 1.3%, from $113,588 million as at March 2022 to $115,120 million as at March 2023, primarily due to an increase in due to central banks and other institutions of $1,100 million, an increase in other liabilities of $607 million, and increase in bonds and notes of $587 million and an increase in collateral received of $501 million, partially offset by a decrease in deposits and other borrowings of $1,042 million.

Due to central banks and other institutions increased by $1,100 million or 21.4%, from $5,152 million as at March 2022 to $6,252 million as at March 2023. This was mainly due to an increase in repurchase agreements held with central banks of $1,444 million. Repurchase agreements with central banks includes borrowing from the RBNZ Funding for Lending and RBNZ Term Lending Facility programs.

Collateral received increased by $501 million or 48.1%, from $1,041 million to $1,542 million as at March 2023, to meet derivative trading obligations.

Deposits and other borrowings decreased by $1,042 million or 1.3%, from $79,900 million as at March 2022 to $78,858 million as at March 2023. This was mainly due to decrease in on-demand and short-term deposits of $6,035 million, a decrease in deposits not bearing interest of $1,756 and a decrease in

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commercial paper of $1,899 million, partially offset by an increase in term deposits of $5,325 million. This includes the impact of a product change of $2,408 million of interest bearing deposits from on-demand and short-term deposits to deposits not bearing interest in the March 2023 half year.

Bonds and notes increased by $587 million or 3.1%, from $18,864 million as at March 2022 to $19,451 million as at March 2023. This was primarily due to an increase due to foreign currency translation of $1,503 million as the NZD depreciated against major foreign currencies, partially offset by a decrease in fair value of $628 million due to increases in interest rates and a net decrease in term debt issuances of $276 million.

Other liabilities increased by $607 million or 64.9%, from $935 million as at March 2022 to $1,542 million as at March 2023. This was primarily due to an increase in accrued interest payable and an increase of $105 million from the revised accounting treatment of future trail commission payments.

Total shareholder's equity increased by $869 million or 8.3%, from $10,471 million as at March 2022 to $11,340 million as at March 2023. This was mainly driven by an increase in retained earnings due to net profits for the period, offset by ordinary dividends paid. On March 30, 2023, the Bank paid a dividend of $5,000 million and issued 5,000 million ordinary shares to NAGNZ at a subscription price of $1.00 per share under a dividend reinvestment plan, resulting in the Bank's ordinary share capital increasing by $5,000 million.

Results of Operations by Segments

For segment reporting purposes, the Banking Group is organized into two major reportable and operating segments: Partnership Banking; and Corporate and Institutional Banking. Reportable segments are disclosed on the basis that is used by management to assess performance, with adjusting entries in the Other Segment to reconcile to the NZ IFRS accounting treatment. The results of operations by segments are presented consistently across all periods. The tables on pages 12 to 14 herein show the results of operations by each segment for the March 2023 half year, September 2022 half year and March 2022 half year.

Partnership Banking

Partnership Banking provides financial products and services to retail, business, and private customers.

	Banking Group		
Dollars in Millions	**Unaudited 6 Months Mar 2023**	Unaudited 6 Months Sep 2022	Unaudited 6 Months Mar 2022
Net interest income	**1,082**	1,021	894
Other income	**120**	115	119
Total operating income	**1,202**	1,136	1,013
Operating expenses	**466**	444	425
Total operating profit before credit impairment charge and income tax expense	**736**	692	588
Credit impairment charge	**31**	40	3
Total operating profit before income tax expense	**705**	652	585
Income tax expense	**198**	185	161
Net profit attributable to the shareholder of the Bank	**507**	467	424

Partnership Banking results of operations March 2023 half year vs September 2022 half year

Partnership Banking net profit after tax increased by $40 million or 8.6%, from $467 million in the September 2022 half year to $507 million in the March 2023 half year. This was largely due to an increase in operating income and a decrease in credit impairment charges, partially offset by an increase in operating expenses.

Total operating income increased by $66 million or 5.8%, from $1,136 million in the September 2022 half year to $1,202 million in the March 2023 half year. This increase was mainly due to higher net interest income driven by balance sheet growth and expansion of net interest margin, largely driven by increased returns on non-interest bearing deposits and allocated capital, supported by the higher interest rate environment. The increase in other income was due to higher lending fee income and higher customer risk management income, partially offset by the removal and reduction of certain fees.

Operating expenses increased by $22 million or 5.0%, from $444 million in the September 2022 half year to $466 million in the March 2023 half year. This was largely driven by higher personnel costs due to salary increases, as well as an increase in allocated costs from support units.

Credit impairment charge reduced by $9 million or 22.5%, from $40 million in the September 2022 half year to $31 million in the March 2023 half year. The decrease in credit impairment charges was driven by a decrease in collectively assessed impairment charges, partially offset by an increase in individually assessed allowance across the small and medium enterprise business lending portfolio.

Partnership Banking results of operations March 2023 half year vs March 2022 half year

Partnership Banking net profit after tax increased by $83 million or 19.6%, from $424 million in the March 2022 half year to $507 million in the March 2023 half year. This was largely due to an increase in operating income, partially offset by an increase in operating expenses and credit impairment charges.

Total operating income increased by $189 million or 18.7%, from $1,013 million in the March 2022 half year to $1,202 million in the March 2023 half year. This increase was mainly due to higher net interest income driven by balance sheet growth and expansion of net interest margin, largely driven by increased returns on non-interest bearing deposits and allocated capital, supported by the higher interest rate environment. The increase in other income was due to higher lending fee income, partially offset by removal and reduction of certain fees.

Operating expenses increased by $41 million or 9.6%, from $425 million in the March 2022 half year to $466 million in the March 2023 half year. This was largely driven by higher personnel costs due to salary increases and additional colleagues supporting customers, as well as an increase in allocated costs from support units.

Credit impairment charge increased by $28 million, from $3 million in the March 2022 half year to $31 million in the March 2023 half year. The increase in credit impairment charges was driven by the non-repeat of individually assessed allowance write-backs in the March 2022 half year, combined with an increase in individually assessed allowance across the small and medium enterprise business lending portfolio, and higher collectively assessed impairment charges.

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Corporate and Institutional Banking

Corporate and Institutional Banking provides financial products and services to corporate and institutional customers.

	Banking Group		
Dollars in Millions	Unaudited 6 Months Mar 2023	Unaudited 6 Months Sep 2022	Unaudited 6 Months Mar 2022
Net interest income	338	293	250
Other income	132	142	130
Total operating income	470	435	380
Operating expenses	100	85	81
Total operating profit before credit impairment charge and income tax expense	370	350	299
Credit impairment charge/(write-back)	(31)	(13)	15
Total operating profit before income tax expense	401	363	284
Income tax expense	112	101	80
Net profit attributable to the shareholder of the Bank	289	262	204

Corporate and Institutional Banking results of operations March 2023 half year vs September 2022 half year

Corporate and Institutional Banking net profit after tax increased by $27 million or 10.3%, from $262 million in the September 2022 half year to $289 million in the March 2023 half year. This was largely driven by an increase in operating income and an increase in credit impairment write-backs, partially offset by an increase in operating expenses.

Total operating income increased by $35 million or 8.0%, from $435 million in the September 2022 half year to $470 million in the March 2023 half year. This increase was mainly due to higher net interest income driven by expansion of net interest margin, largely driven by increased returns on non-interest bearing deposits and allocated capital, supported by the higher interest rate environment. This was partially offset by a reduction in other operating income driven by lower customer risk management income.

Operating expenses increased by $15 million or 17.6%, from $85 million in the September 2022 half year to $100 million in the March 2023 half year. This was largely driven by an increase in allocated costs from support units and higher personnel costs due to salary increases.

Credit impairment write-back increased by $18 million or 138.5%, from a write-back of $13 million in the September 2022 half year to a write-back of $31 million in the March 2023 half year. The increase in credit impairment write-backs was mainly driven by improvements in asset quality and repayment of debt for a small number of large business lending exposures.

Corporate and Institutional Banking results of operations March 2023 half year vs March 2022 half year

Corporate and Institutional Banking net profit after tax increased by $85 million or 41.7%, from $204 million in the March 2022 half year to $289 million in the March 2023 half year. This was largely driven by an increase in operating income and lower credit impairment charges, partially offset by an increase in operating expenses.

Total operating income increased by $90 million or 23.7%, from $380 million in the March 2022 half year to $470 million in the March 2023 half year. This increase was mainly due to higher net interest income driven by expansion of net interest margin, largely driven by increased returns on non-interest bearing deposits and allocated capital, supported by the higher interest rate environment.

Operating expenses increased by $19 million or 23.5%, from $81 million in the March 2022 half year to $100 million in the March 2023 half year. This was largely driven by an increase in allocated costs from support units and higher personnel costs due to salary increases.

Credit impairment charge/(write-back) reduced by $46 million, from a charge of $15 million in the March 2022 half year to a write-back of $31 million in the March 2023 half year. The increase in credit impairment write-backs was driven by both individually and collectively assessed allowance due to improvements in asset quality and repayment of debt for a small number of large business lending exposures.

Other Segment

Included in "Other Segment" in the table below are business activities that are not separately reportable segments; other balances excluded for management reporting purposes, but included in the consolidated financial statements of the Banking Group for statutory financial reporting purposes; accounting differences between management and statutory financial reporting; elimination entries on consolidation of the results of the Banking Group's controlled entities in the preparation of the consolidated financial statements of the Banking Group; and, with respect to the September 2022 half year and March 2022 half year, results of an entity included for management reporting purposes (BNZ Life Insurance Limited, NAB's former insurance operation in New Zealand), but excluded from the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

	Banking Group		
Dollars in Millions	**Unaudited 6 Months Mar 2023**	Unaudited 6 Months Sep 2022	Unaudited 6 Months Mar 2022
Net interest income	**44**	26	20
Gains less losses on financial instruments	**119**	108	143
Other income/(expense)	**(60)**	(72)	(58)
Total operating income	**103**	62	105
Operating expenses/(income)	**11**	58	(17)
Total operating profit before credit impairment charge and income tax expense	**92**	4	122
Credit impairment charge	**79**	41	3
Total operating profit/(loss) before income tax expense	**13**	(37)	119
Income tax expense	**4**	(13)	38
Net profit/(loss) attributable to the shareholder of the Bank	**9**	(24)	81

Other Segment results of operations March 2023 half year vs September 2022 half year

Net profit/(loss) after tax for the Other Segment increased by $33 million or 137.5%, from a loss of $24 million in the September 2022 half year to a profit of $9 million in the March 2023 half year. This was largely driven by higher operating income and lower operating expenses, partially offset by increased credit impairment charges.

Net interest income increased by $18 million or 69.2%, from $26 million in the September 2022 half year to $44 million in the March 2023 half year. This was mainly driven by increased net interest income from BNZ Markets and BNZ Treasury activities.

Gains less losses on financial instruments increased by $11 million or 10.2%, from a gain of $108 million in the September 2022 half year to a gain of $119 million in the March 2023 half year. This was mainly driven by increases in trading gains on financial instruments, partially offset by interest rate movements on swaps used to economically hedge fixed rate medium term notes.

Other income/(expense) reduced by $12 million or 16.7%, from an expense of $72 million in the September 2022 half year to an expense of $60 million in the March 2023 half year. This was mainly driven by increased other income from BNZ Markets activity, partially offset by an increase in elimination entries on consolidation of the results.

Operating expenses/(income) reduced by $47 million or 81.0%, from an expense of $58 million in the September 2022 half year to an expense of $11 million in the March 2023 half year. This was largely due to the non-repeat of separation costs following the sale of BNZ Life Insurance Limited, NAB's insurance operation in New Zealand.

Credit impairment charge increased by $38 million or 92.7%, from $41 million in the September 2022 half year to $79 million in the March 2023 half year. This was primarily driven by an increase in collectively assessed impairment charges reflecting forward looking economic adjustments and an overlay for customers impacted by severe weather events, combined with the classification adjustment impact of credit risk adjustments on financial assets designated at fair value through profit or loss for a small number of large customers presented in credit impairment charges for the Corporate and Institutional Banking segment.

Other Segment results of operations March 2023 half year vs March 2022 half year

Net profit/(loss) after tax for the Other Segment reduced by $72 million or 88.9%, from a profit of $81 million in the March 2022 half year to a profit of $9 million in the March 2023 half year. This was largely driven by an increase in credit impairment charges and an increase in operating expenses.

Net interest income increased by $24 million or 120.0%, from $20 million in the March 2022 half year to $44 million in the March 2023 half year. This was mainly driven by increased net interest income from BNZ Markets and BNZ Treasury activities.

Gains less losses on financial instruments decreased by $24 million or 16.8%, from a gain of $143 million in the March 2022 half year to a gain of $119 million in the March 2023 half year. This decrease was mainly driven by interest rate movements and losses on cross currency basis spreads on swaps used to economically hedge foreign currency fixed rate medium term notes, partially offset by increases in trading gains on financial instruments.

Other income/(expense) increased by $2 million or 3.4%, from an expense of $58 million in the March 2022 half year to an expense of $60 million in the March 2023 half year. This was mainly driven by an increase in elimination entries on consolidation of the results, partially offset by increased other income from BNZ Markets activity.

Operating expenses/(income) increased by $28 million or 164.7%, from an income of $17 million in the March 2022 half year to an expense of $11 million in the March 2023 half year. This was largely due to the non-repeat of the release of provisioning for historical holiday pay remediation in the March 2022 half year.

Credit impairment charge increased by $76 million, from $3 million in the March 2022 half year to $79 million in the March 2023 half year. This was primarily driven by an increase in collectively assessed impairment charges reflecting forward looking economic adjustments and an overlay for customers impacted by severe weather events, combined with the classification adjustment impact of credit risk adjustments on financial assets designated at fair value through profit or loss for a small number of large customers presented in credit impairment charges for the Corporate and Institutional Banking segment.

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Risk Management

Risk exists in all aspects of the Banking Group and the environment in which it operates. Risk is managed through the Banking Group's risk management strategy. The Risk Management strategy which is approved by the BNZ Board, describes the Banking Group's material risks and approach to managing them and it articulates our risk management framework. Risk appetite is translated and cascaded to the businesses qualitatively (through risk policies, standards and operating procedures) and quantitatively (through the Banking Group's risk limits, settings and decision authorities).

Compliance with the risk management framework is non-negotiable. Risk management accountabilities are allocated for risk ownership and functionally independent oversight and assurance using the Three Lines of Accountability Model as follows:

- first line: Management (who own and manage the risks, obligations and controls within their business in line with risk appetite);
- second line: Risk (who establish risk management frameworks and provide insight, review and challenge and set appetite); and
- third line: Internal Audit (who provide independent assurance).

BNZ is primarily regulated by the RBNZ and the Banking Group is subject to the prudential reporting requirements of APRA as part of the NAB Group.

The key risks faced by the Banking Group include:

- credit risk;
- operational risk;
- compliance risk;
- conduct risk;
- strategic risk;
- market risk - trading;
- market risk - non-trading/banking positions, including interest rate risk in the banking book;
- liquidity risk; and
- sustainability risk.

Further details regarding the nature and extent of key risks faced by the Banking Group, and how these risks are managed, are outlined as part of this note. In addition, in connection with an offer of notes, an investor should carefully consider the risks set forth in or incorporated by reference into the applicable offering circular supplement.

Regulatory and strategic risks are managed and overseen as part of the Banking Group's broader corporate governance structure and risk management framework as follows:

Board governance

The Banking Group's corporate governance structure provides guidance for effective decision making in all areas of the Banking Group through:

- strategic and operational planning;
- risk management and compliance;
- financial management and external reporting; and
- succession planning and culture.

The BNZ Board has ultimate responsibility to monitor and review the adequacy of the Banking Group's corporate governance practices (including risk management) and is supported by a number of committees. The Board Risk and Compliance Committee ("BRCC") supports the framework for risk management across the Banking Group. Further details on the role of BRCC are on page 32 herein.

Executive governance

At an executive level, risk is overseen by the CEO through the Executive Risk and Compliance Committee ("ERCC"), which leads management in respect of risk matters relating to culture, integrated governance processes, risk strategy and performance. ERCC refers any matters of significant importance to BRCC for its consideration and attention.

Internal audit function

The internal audit function is the responsibility of the General Manager Internal Audit who reports to the New Zealand Regional Audit Committee ("NZRAC"), the Managing Director and CEO of BNZ, the Chief Financial Officer ("CFO") of BNZ and to the Executive General Manager, NAB Group Audit. Audits are conducted using a risk-based approach to assess key business risks and internal control systems.

NZRAC assists the BNZ Board to fulfill its statutory and fiduciary responsibilities relating to accounting and financial controls, reporting systems and processes of the Banking Group and to oversee the internal audit function. Further details on the role of NZRAC are on page 32 herein.

External auditor and credit rating agencies

As part of their work in issuing an independent review report on the Banking Group's six month Disclosure Statement or an independent audit report on the Banking Group's year end Disclosure Statement, the Banking Group's external auditor, Ernst & Young, may review parts of the Banking Group's risk management framework that impact significant aspects of the financial systems, to the extent necessary to form their independent review or audit opinion.

Credit rating agencies also conduct periodic reviews of the Banking Group's risk management approach and risk profile.

Management of risk types

The management of certain categories of risk is described below, but there are other types of risk which may adversely impact the Banking Group's reputation or future prospects, including its financial performance or position. Other risks include, but are not limited to:

- a loss of accreditation or regulatory or other licensing for the Banking Group's operations causing the loss of contracts, customers or market share;
- a failure to address existing or new environmental, governance or social issues;
- the development of new services or technology in competition with the Banking Group; and
- new legislation or regulation which impacts the products and services being offered by the Banking Group or adds to compliance costs.

Risk Management *continued*

Credit risk

Credit risk is the risk that a customer will fail to meet their obligations to the Banking Group in accordance with agreed terms. Credit risk arises from both the Banking Group's lending activities and markets and trading activities.

Bank lending activities account for most of the Banking Group's credit risk, however other sources of credit risk also exist throughout the Banking Group. These activities include the banking book, the trading book, and other financial instruments and loans, as well as the extension of commitments and guarantees and the settlement of transactions.

The Banking Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to existing or potential counterparties or customers, groups of related counterparties or groups of related customers, and to geographical and industry segments. Such risks are monitored on an ongoing basis and are subject to an annual or more frequent review.

Administration of the Banking Group's credit policies and procedures is the responsibility of the Risk division of the Banking Group. All loans are subject to a customer rating which estimates the probability of default derived from historical default data. There are monitoring procedures and systems in place to control exposures to individual customers, geographical and industry segments to ensure diversification and asset quality are maintained. Exposure to any one customer is further restricted by sub-limits covering on and off-balance sheet exposures, and daily settlement risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on a daily basis. Individual lending authorities are allocated according to demonstrated skills, accreditation and experience. Consequences are in place for any breaches of these authorities.

Exposure to credit risk is managed through regular analysis of the ability of existing or potential counterparties, customers, groups of related counterparties or groups of related customers to meet interest and capital repayment obligations and by changing limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Banking Group continuously monitors its credit risk to counterparties through the examination of key risk indicators such as irregular or delinquent accounts and early warning signals. In addition, the Strategic Business Services unit has specific responsibility for the management of accounts classified as categorized assets. These processes enable credit impairments to be identified at the earliest possible time. Allowances are raised based on an expected credit loss model in line with the requirements of NZ IFRS 9 *Financial Instruments*. Recoverable amounts for impaired assets take into account the current market value of collateral held and the realizability of securities.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This includes legal risk but excludes strategic risk.

There are inherent risks within the Banking Group's operations due to the range of customers, products and services that the Banking Group provides, the multiple markets and channels these products and services are delivered through, and the reliability and resilience of BNZ's technology, which may be impacted by the complex technology environment, failure to keep technology systems up-to-date, an inability to restore or recover systems and data in acceptable timeframes, or a physical or cyber-attack.

Operational risk can also arise from external events such as biological hazards, climate change, natural disasters, cyber-attacks or acts of terrorism.

The Banking Group has adopted the NAB Group's Operational Risk Management Practices Framework, which sets out the principles for managing operational risks across the Banking Group. The Banking Group takes a proactive risk-based approach to the identification, assessment, management, reporting, assurance, review and challenge of risks and controls reflecting the Banking Group's risk appetite, strategic objectives, and values. This ensures that end-to-end risks and obligations are understood and managed, and that the control environment is fit for purpose. Timely and accurate information on risks, issues and events is provided to enable prompt reporting and sustainable remedial action.

Effective operational risk management within the Banking Group is based upon a three lines of accountability model. The Banking Group's business units are the first line of accountability and are accountable for the management of their risks. Review and challenge are provided by the Banking Group's Risk division (second line of accountability) who report to the Banking Group's Chief Risk Officer. Assurance is provided by the internal audit function (third line of accountability).

The primary roles of the Banking Group's Risk division in relation to operational risk are risk appetite setting, policy making, advisory and support, including monitoring, review, and challenge. The team also provides subject matter expertise and additional assistance to business units and identifies systemic trends across the business.

For the Banking Group's approach to calculating operational risk capital for the purpose of capital adequacy, refer to "Capital Adequacy" on page 20 herein.

The operational risk calculations are performed on an aggregate bank-wide basis, and the resultant capital is allocated across major business lines.

Risk Management *continued*

Compliance risk

Compliance risk is the risk of failing to understand and comply with relevant laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives as well as the internal policies, standards, procedures and frameworks that support sustainable compliance.

The Banking Group has adopted the NAB Group's Compliance Framework (Compliance Obligation Management Policy) (as appropriate for the Banking Group) which sets out the principles for managing compliance risk across the Banking Group.

The Banking Group has a fundamental duty to obey the law when delivering banking and financial services, and is committed to the fair treatment of customers, and maintaining open, constructive and transparent relationships with the Banking Group's regulators. The Banking Group therefore strives to maintain effective practices for compliance risk management to ensure compliance obligations are met. Timely identification, investigation, escalation, reporting and remediation of any instances of non-compliance is emphasized by the Banking Group.

Conduct risk

Conduct risk is the risk that a behavior, or action by either the Banking Group, or those acting on behalf of the Banking Group, does not lead to the appropriate outcome for the Banking Group's colleagues, customers, communities and other stakeholders.

Conduct risk is inherent in the Banking Group's business activities. It may arise intentionally or unintentionally from decisions and actions made during the execution of the Banking Group's business activities.

Conduct Risk is managed by leveraging policies, frameworks, processes and tools used for other material risk types, such as operational risk, compliance risk and through the Banking Group's Enterprise Conduct Risk Framework. At an executive level, governance and oversight of conduct risk and the conduct strategy resides with the Customer and Conduct Committee, a sub-committee of the Banking Group's ERCC.

Market risk - traded

Traded market risk is the risk of loss to the trading book from unfavorable movements in market variables such as interest rates or foreign exchange rates. Financial instruments designated as traded market risk include those which:

- are held for short term resale;
- are taken on by the Banking Group with the intention of benefitting in the short term from actual and/or expected differences between their buying and selling prices, or from other price or interest rate variations;
- arose from broking and market making; and
- are hedging a derivative valuation adjustment.

The trading activities of the Banking Group are carried out by BNZ Markets.

The types of market risk arising from these activities include interest rate, foreign exchange, commodity, credit spread and volatility risk.

Independent oversight of the Banking Group's traded market risk, including compliance with limits, is undertaken by the Market risk team, which reports through to the Chief Risk Officer. At an executive level, governance is provided by the Banking Group's Market Risk Committee, which is a subcommittee of the Banking Group's ERCC.

All trading activities are subject to the disciplines prescribed in the NAB Group Traded Market Risk Policy which is approved by the NAB Board of Directors ("NAB Board"), and approved by the BNZ Board for adoption by the Banking Group (as appropriate).

Market risk – non-traded/banking positions

Non-traded market risk includes all market risks which are not designated as traded market risk. Non-traded market risk largely consists of structural interest rate risk in the balance sheet arising from loans and deposits and also holdings of high quality liquid assets within the prudential asset portfolio.

Non-traded market risk also includes funding and liquidity risk.

Non-traded market risk policies are approved by the NAB Board, with the NAB Group Liquidity Policy and the NAB Group Capital Policy approved by the BNZ Board for adoption by the Banking Group (as appropriate).

Interest rate risk

Interest rate risk is the risk of the Banking Group's market operations and trading activities being exposed to changes in the value of securities and derivatives as a result of changes in interest rates.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads. The Banking Group has exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Exposure to interest rate risk arises in respect of the following activities: borrowing from and lending to customers; borrowing to fund the Banking Group in both domestic and international wholesale debt markets; transacting in money market instruments such as government stock, bank bills, and commercial paper; foreign exchange instruments such as foreign exchange contracts; and derivative financial instruments such as swaps, options and futures.

Interest rate risk for non-traded market risk is measured, managed and monitored using the Value at Risk ("VaR") methodology and Earnings at Risk ("EaR") limits, complemented by cash flow analysis, basis point sensitivity and stress testing limits.

Similar to the methodology applied for traded market risk provided in "Market Exposures" on page 24 herein, VaR is calculated using the historic simulation method. Due to the generally longer holding period for non-traded products, the parameters applied differ. The key parameters for measuring non-traded market risk are as follows:

- 99% confidence level;
- three-month holding period;

Risk Management *continued*

- six years of historical data;
- rate changes are absolute rather than proportional;
- investment term for capital is three years; and
- investment term for core "Non-Interest Bearing" liabilities (the sum of low and non-interest rate bearing liabilities) is five years.

EaR is the potential accrual income loss over the next 12 months (the forecast period). VaR exposures are measured and reported weekly while EaR exposures are measured and reported monthly.

Liquidity risk
Liquidity risk is the risk that the Banking Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as they mature, the payment of interest on borrowings and the payment of operational expenses and taxes. The liquidity associated with financial markets can be reduced substantially as a result of external economic or market events, market size or the actions of individual participants.

Maintaining adequate liquidity to meet current and future payment obligations at a reasonable cost is a core objective of the Banking Group. The Banking Group must also comply with APRA prudential and regulatory liquidity obligations as part of the NAB Group.

The following are types of liquidity risks:

- Intra-Day: Ability of the Banking Group to meet its intra-day collateral requirements in relation to its clearing and settlement obligations;
- Operational: Ability of the Banking Group to meet its refinancing requirements for a predefined period, e.g. up to 30 days; and
- Structural: Liquidity risk profile of the balance sheet to accommodate the Banking Group's strategic plan and risk appetite.

The Banking Group manages liquidity risk through a combination of positive cash flow management, the maintenance of portfolios containing high quality liquid assets and maintenance of a prudent funding strategy. The Banking Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements, including engaging in regulatory and internal thematic liquidity stress tests.

The BNZ Board has the ultimate responsibility to monitor and review the adequacy of the Banking Group's liquidity compliance and management framework, with the guidance of the Banking Group's BRCC. To aid in the fulfilment of its guidance responsibilities, BRCC receives regular reports on the Banking Group's liquidity management activity, risk limits and sensitivity metrics. The Banking Group's Asset, Liability and Capital Committee ("ALCCO"), which is a subcommittee of the Banking Group's ERCC, is responsible for approval and providing overview of the execution of the liquidity strategy and escalation of issues to ERCC.

Independent oversight of the Banking Group's non-traded market risk, including compliance with limits, is undertaken by the Balance Sheet and Liquidity risk team, which reports through to the Chief Risk Officer. At an executive level, governance is provided by ALCCO.

Sustainability risk
Sustainability risk is the risk that events or conditions (which includes Environmental, Social or Governance issues) arise that could negatively impact the sustainability, resilience, risk and return profile, value or reputation of BNZ or its customers and suppliers.

In relation to climate change risk, extreme weather, increasing weather volatility, and longer-term changes in climatic conditions, as well as other environmental impacts such as biodiversity loss and ecosystem degradation, may affect property and asset values or cause customer losses. The impact of these extreme weather events can be widespread, extending beyond primary producers to customers of BNZ who are suppliers to the agricultural sector, and to those who reside in, and operate businesses within, impacted communities.

Climate-related transition risks are also increasing as economies, governments and companies seek to transition to low-carbon alternatives and adapt to climate change. Customer segments may be adversely impacted as the economy transitions to renewable and low-emissions technology.

Physical and transition risk impacts may increase current levels of customer defaults and increase the credit risk facing the Bank, and adversely impact financial performance and position.

The New Zealand Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 introduced mandatory climate-related reporting by publicly listed companies, large insurers, investment managers, banks and non-bank deposit takers. It requires BNZ, as a "climate reporting entity", to annually prepare and make public climate disclosures on the effects of climate change on its business, in accordance with climate-related disclosure standards, issued by the External Reporting Board in December 2022. BNZ's first mandatory climate related disclosure will be due in late 2024.

Sustainability risk is managed by implementing policies, frameworks, processes and tools used for other material risk types, such as operational risk. At an executive level, governance and oversight of sustainability risk resides with ERCC.

Further details of the Banking Group's risk management policies are provided in "Market Exposures" on page 24 herein and Note 34 Risk Management of the Disclosure Statement for the year ended September 30, 2022.

Liquidity, Funding and Capital Resources

Liquidity and Funding

The Banking Group complies with the liquidity requirements of the banking regulators in New Zealand and Australia (in the case of Australia, due to its status as a subsidiary of NAB). Liquidity within the Banking Group is also managed in accordance with internal policies approved by the BNZ Board, with oversight from ALCCO.

The Banking Group's liquidity policies are designed to ensure that sufficient cash balances and liquid asset holdings are maintained to meet the Bank's obligations as they fall due, in both ordinary market conditions and during periods of stress. These obligations include the repayment of deposits on demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and taxation, the payment of dividends to shareholders, and the ability to fund new and existing loan and contractual commitments.

Liquid assets are defined by the willingness of the RBNZ to accept them as collateral.

The Banking Group's principal sources of liquidity are:

- marketable securities;
- interest and principal repayments received from customer loans;
- customer deposits;
- proceeds from commercial paper, certificates of deposit, bonds and notes;
- fee income;
- interest income and dividends from investments;
- security repurchase agreements with the RBNZ; and
- lending facilities.

The Banking Group holds sizeable balances of marketable treasury and other eligible bills and debt securities which could be disposed of to provide additional funding should the need arise. As at March 31, 2023, the Banking Group held $7,960 million (September 30, 2022: $7,414 million; March 31, 2022: $7,103 million) of trading securities. In addition, the Banking Group held $100,963 million (September 30, 2022: $99,346 million; March 31, 2022: $97,764 million) of net loans and advances to customers, of which $25,107 million (September 30, 2022: $24,950 million; March 31, 2022: $23,777 million) is due to mature within one year. A proportion of these maturing customer loans will be extended in the normal course of business.

The Banking Group's funding policies are designed to achieve diversified sources of funding by product, term, maturity concentration, investor type, investor location, jurisdiction and currency, on a cost effective basis.

The Banking Group's sources of funding include deposits and other borrowings which contain on demand and short term deposits, term deposits, and bank issued certificates of deposit. Of total liabilities as at March 31, 2023 of $115,120 million (September 30, 2022: $120,359 million; March 31, 2022: $113,588 million), funding from customer deposits and certificates of deposit amounted to $76,846 million (September 30, 2022: $75,866 million; March 31, 2022: $75,989 million) or 66.8% (September 30, 2022: 63.0%; March 31, 2022: 66.9%). Although a substantial portion of customer accounts are contractually repayable within one year, on demand, or on short notice, such customer deposit balances have provided a stable source of core long term funding for the Banking Group.

Deposits taken from banks and other financial institutions of $6,252 million as at March 31, 2023 (September 30, 2022: $5,160 million; March 31, 2022: $5,152 million) supplement the Banking Group's customer deposits. The Banking Group also accesses the domestic and international debt capital markets under its various funding programs. As at March 31, 2023, the Banking Group had on issue $21,401 million (September 30, 2022: $22,131 million; March 31, 2022: $20,814 million) of term debt securities (bonds, notes and subordinated debt) and $2,012 million (September 30, 2022: $2,288 million; March 31, 2022: $3,911 million) of commercial paper.

The net cash flow from operating activities in the March 2023 half year was an inflow of $1,219 million (for the year ended September 30, 2022: outflow of $5,500 million; March 2022 half year: inflow of $501 million). The movements in net cash flow from operating activities are primarily attributable to the timing of transactions. The Banking Group maintains a liquid asset portfolio and has the ability to access wholesale money markets and issue debt securities should the need arise. Overall liquidity is considered sufficient to meet current obligations to customers and debt holders.

The Banking Group's funding programs as at March 31, 2023 are summarized in the table below. In addition to these programs, from time to time the Banking Group may issue capital securities that are in compliance with the RBNZ's capital adequacy standards.

Active Funding Programs

	Consolidated (Unaudited Mar 2023)			
Dollars in Millions	Program Size	Amount Outstanding NZD	Issuing Entity	Principal Market
U.S. Commercial Paper Program – short term debt securities	USD10,000	2,012	BNZ-IF[1]	Offshore U.S.-based
Global Commercial Paper Program – short term debt securities	USD10,000	-	BNZ-IF[1]	Offshore non U.S.-based
Debt Issuance Program (certificates of deposit) - short term debt securities	Unlimited	2,275	BNZ	Domestic
Global Medium Term Note Program	USD100,000	10,683	BNZ and BNZ-IF[1]	Offshore
BNZ Covered Bond Program	NZD7,000[2]	4,978	BNZ and BNZ-IF[3]	Offshore and Domestic
Debt Issuance Program (medium term notes)	Unlimited	3,790	BNZ	Domestic

[1] Securities issued by BNZ-IF are guaranteed by BNZ.
[2] The BNZ Covered Bond Program size increased from NZD7,000 million to NZD10,000 million on June 1, 2023.
[3] Covered bonds issued by BNZ and BNZ-IF are guaranteed as to the payments of all interest and principal by CBG Trustee Company Limited as trustee of the BNZ Covered Bond Trust. In addition, the payment of all amounts owing by BNZ-IF in respect of covered bonds issued by BNZ-IF is guaranteed by BNZ. On May 25, 2021, BNZ-IF ceased to be an issuer under the BNZ Covered Bond Program.

Liquidity and Funding *continued*

Internal residential mortgage-backed securities program

The BNZ RMBS Trust Series 2008-1 (the "RMBS Trust") provides an internal residential mortgage-backed securities ("RMBS") program. As at March 31, 2023, included within the Banking Group's loans and advances to customers were housing loans held by the RMBS Trust with a carrying amount of $14,732 million (September 30, 2022: $14,745 million; March 31, 2022: $12,683 million). These housing loans have not been derecognized by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership.

As at March 31, 2023, the Banking Group held RMBS of $15,000 million (September 30, 2022: $15,000 million; March 31, 2022: $13,000 million) of which $14,160 million (September 30, 2022: $14,160 million; March 31, 2022: $12,240 million) is eligible to be sold to the RBNZ under agreements to repurchase.

In accordance with the RBNZ's Liquidity Policy (BS13/BS13A), there is a limit on the amount of RMBS that can be considered as qualifying liquid assets eligible to be sold to the RBNZ under agreements to repurchase, with a maximum allowance of 5% of the Banking Group's total assets, giving a net balance of $6,355 million (September 30, 2022: $6,394 million; March 31, 2022: $6,203 million).

Additional RBNZ facilities

On May 26, 2020, the RBNZ made available a Term Lending Facility ("TLF") to offer loans for a fixed term of three years at the rate of the Official Cash Rate ("OCR"). On August 20, 2020, the RBNZ announced it would extend the term to five years. The TLF has been closed for drawdowns since July 29, 2021. As at March 31, 2023, the Banking Group had repurchase agreements with the RBNZ with a value of $1,264 million (September 30, 2022: $1,353 million; March 31, 2022: $1,519 million) under the TLF.

On December 7, 2020, the RBNZ made available its Funding for Lending Programme ("FLP") aimed at lowering the cost of borrowing for New Zealand businesses and households. The FLP allowed eligible participants to access three-year floating interest rate funding at the prevailing OCR, using qualifying collateral. The FLP has been closed for drawdowns since December 7, 2022. As at March 31, 2023, the Banking Group had repurchase agreements with the RBNZ with a value of $3,449 million (September 30, 2022: $2,100 million; March 31, 2022: $1,750 million) under the FLP.

The underlying collateral accepted by the RBNZ in relation to the TLF and FLP facilities as at March 31, 2023, are RMBS to the value of $5,914 million (September 30, 2022: $4,195 million; March 31, 2022: $3,931 million).

BNZ Covered Bond Program

The BNZ Covered Bond Trust (the "Covered Bond Trust") holds certain BNZ housing loans and its trustee guarantees the payment of all interest and principal under the covered bonds issued by BNZ and BNZ-IF. The assets of the Covered Bond Trust are not available to the Bank unless and until all prior ranking creditors of the Covered Bond Trust have been satisfied. As at March 31, 2023, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $6,094 million held by the Covered Bond Trust (September 30, 2022: $6,359 million; March 31, 2022: $5,108 million). These housing loans have not been derecognized by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership.

Capital Resources

Capital Adequacy

The RBNZ minimum regulatory capital requirements for banks have been established under the RBNZ Capital Adequacy Framework, outlined in the "Banking Prudential Requirements" ("BPR") documents based on the international framework developed by the Bank for International Settlements, Committee on Banking Supervision, commonly known as Basel III. These requirements outline how minimum regulatory capital is to be calculated and provide methods for measuring risks incurred by the banks in New Zealand.

Basel III consists of three pillars – Pillar One covers the capital requirements for banks for credit, operational, and market risks. Pillar Two covers all other material risks that are not already included in Pillar One. Pillar Three relates to market disclosure.

RBNZ Capital Adequacy Framework

The Banking Group has calculated its Risk Weighted Assets ("RWA") and minimum regulatory capital requirements based on the BPR documents.

The RBNZ Capital Adequacy Framework allows accredited banks to use their own models for calculating RWA for credit risk; this is the Internal Ratings Based ("IRB") approach. Subject to a condition of registration requiring the Banking Group to meet minimum systems and governance requirements on a continuing basis, the Bank has been accredited to use the IRB approach for certain credit risk exposures. Under the IRB approach for credit risk, the level of risk associated with customers' exposures is determined by way of the primary components of Probability of Default, Loss Given Default and Exposure at Default. For exposures in the Specialized Lending asset category (including Project Finance, Object Finance, Commodity Finance and Income Producing Real Estate) the Banking Group uses supervisory slotting estimates provided by the RBNZ. From January 1, 2022, the Banking Group has complied with the RBNZ requirement that IRB banks calculate exposures to Bank and Sovereign asset classes using the prescribed standardized methodology in BPR131 *Standardised Credit Risk RWAs* ("BPR131").

Credit risk for portfolios of relatively low materiality, for which the Bank has not sought model approval, are also subject to the standardized treatment.

In calculating the total capital requirement, a scalar has been applied to the RWA, as required by the RBNZ in accordance with the Bank's Conditions of Registration. Effective from October 1, 2022, the scalar increased from 1.06 to 1.2 for exposures subject to the IRB approach and reduced from 1.06 to 1 for exposures subject to the standardized approach.

From January 1, 2022, IRB banks have also been required to use the standardized calculation methodology set out in BPR131 to calculate the standardized equivalent RWA for each credit exposure subject to the IRB calculation methodology and, after multiplying by the scalar, apply a floor on the IRB exposures equal to 85% of the value of those RWA recalculated using the standardized methodology. Effective from October 1, 2022, the applicable scalar increased from 1.06 to 1.2.

Capital requirement for market risk has been calculated in accordance with the approach specified in BPR140 *Market Risk*.

Capital requirement for operational risk has been calculated in accordance with the approach specified in BPR150 *Standardised Operational Risk*, subject to a minimum value of $600 million.

Capital management policies

The Banking Group's primary objectives in relation to the management of capital adequacy are to comply with the requirements set out by the RBNZ, the Banking Group's primary prudential supervisor, to provide a sufficient capital base to cover risks faced by the Bank and to maintain a credit rating to support future business development.

Liquidity, Funding and Capital Resources

Capital Resources *continued*

The Banking Group is required under its Conditions of Registration to maintain a minimum ratio of total eligible or qualifying capital to total RWA of 8%, of which a minimum of 4.5% must be held in Common Equity Tier 1 capital and a minimum of 6% must be held in Tier 1 capital. The Banking Group must maintain a minimum prudential capital buffer ratio of 3.5% above these minimum ratios or it will face restrictions on the distribution of earnings, be required to prepare a capital plan that restores the Banking Group's buffer ratio and have that capital plan approved by the RBNZ.

The Banking Group has an Internal Capital Adequacy Assessment Process ("ICAAP") in place which complies with the requirements set out in BPR100 *Capital Adequacy* as specified under the Bank's Conditions of Registration. The Banking Group's ICAAP outlines the approach to maintaining capital adequacy, risk appetite and stress testing. The ICAAP considers all material risks consistent with the Banking Group's risk appetite and outlines the capital requirements.

Capital requirements, as detailed in the Banking Group's ICAAP document, are managed by the Bank's ERCC and ALCCO under delegated authority from the Board of Directors.

The tables on the following pages detail the capital calculation, capital ratios and capital requirements as at March 31, 2023, September 30, 2022 and March 31, 2022. During the March 31, 2023 half year the Banking Group complied with all of the RBNZ's capital requirements as set out in the Bank's Conditions of Registration.

Regulatory capital

The following table shows the qualifying capital for the Banking Group.

	Banking Group		
Dollars in Millions	**Unaudited Mar 2023**	Unaudited Sep 2022	Unaudited Mar 2022
Qualifying capital			
Common Equity Tier 1 capital			
Contributed equity - ordinary shares	**9,056**	4,056	4,056
Retained profits	**2,063**	6,709	6,237
Accumulated other comprehensive income and other disclosed reserves	**218**	293	176
Deductions from Common Equity Tier 1 capital:			
Goodwill and other intangible assets	**455**	409	338
Cash flow hedge reserve	**214**	282	161
Credit value adjustment on liabilities designated at fair value through profit or loss	**(31)**	(37)	(39)
Prepaid pension assets (net of deferred tax)	**6**	6	6
Deferred tax asset	**304**	293	274
Total expected loss less total eligible allowances for impairment	**-**	-	-
Credit enhancements	**-**	-	2
Total Common Equity Tier 1 capital	**10,389**	10,105	9,727
Additional Tier 1 capital			
Perpetual Notes[1]	**675**	788	788
Total Additional Tier 1 capital	**675**	788	788
Total Tier 1 capital	**11,064**	10,893	10,515
Tier 2 capital			
Revaluation reserves	**3**	3	2
Subordinated Notes[2,3]	**925**	988	988
Total eligible impairment allowance in excess of expected loss	**299**	268	210
Total Tier 2 capital	**1,227**	1,259	1,200
Total Tier 1 and Tier 2 qualifying capital	**12,291**	12,152	11,715

[1] The Perpetual Notes are subject to phase-out in accordance with BPR110 *Capital Definitions* ("BPR110"). The phase-out, which commenced on January 1, 2022, takes place until July 1, 2028, with the maximum eligible amount of AT1 capital for these instruments declining by 12.5% each year. The base amount for phase-out was fixed at the nominal amount outstanding as at September 30, 2021 and amounted to $900 million.

[2] The 2028-Subordinated Notes are subject to phase-out in accordance with BPR110. The phase-out, which commenced on January 1, 2022, takes place until July 1, 2028, with the maximum eligible amount of Tier 2 capital for these instruments declining by 12.5% each year. The base amount for phase-out was fixed at the nominal amount outstanding as at September 30, 2021 and amounted to $500 million.

[3] The 2031-Subordinated Notes of $550 million are not subject to phase-out in accordance with BPR110.

Subsequent Events

On May 8, 2023, the Bank exercised its option to fully redeem the 2028-Subordinated Notes prior to the scheduled maturity date of May 8, 2028.

On May 29, 2023, the Bank announced an offer of up to NZ$250 million of perpetual preference shares ("PPS") to investors in New Zealand only, with the Bank having the ability to accept unlimited oversubscriptions. The PPS will not have a fixed term and will remain on issue indefinitely if not redeemed by the Bank. The distribution rate will be a fixed rate for the first 6 years until the first optional redemption date (June 14, 2029), after which it will change to a floating rate that resets at quarterly intervals. Distributions on the PPS are scheduled to be paid quarterly but are discretionary and will not be paid if certain conditions are not met. The offer opened on May 29, 2023, and is expected to close on June 2, 2023, with the PPS expected to be issued on June 14, 2023.

Capital Resources *continued*

Banking Group Basel III regulatory capital ratios

The table below shows the capital adequacy ratios for the Banking Group based on BPR, expressed as a percentage of total risk-weighted exposures.

		Banking Group		
	Regulatory Minima Mar 2023	Unaudited Mar 2023	Unaudited Sep 2022	Unaudited Mar 2022
Common Equity Tier 1 capital ratio	**4.5%**	**13.3%**	12.8%	12.7%
Tier 1 capital ratio	**6.0%**	**14.1%**	13.8%	13.7%
Total qualifying capital ratio	**8.0%**	**15.7%**	15.4%	15.3%
Prudential capital buffer ratio	**3.5%**	**7.7%**	7.4%	7.3%

Total regulatory capital requirements

	Banking Group								
	Total Exposure at Default after Credit Risk Mitigation Unaudited	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited	Total Capital Require-ment Unaudited	Total Exposure at Default after Credit Risk Mitigation Unaudited	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited	Total Capital Require-ment Unaudited	Total Exposure at Default after Credit Risk Mitigation Unaudited	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited	Total Capital Require-ment Unaudited
Dollars in Millions	Mar 2023	Mar 2023	Mar 2023	Sep 2022	Sep 2022	Sep 2022	Mar 2022	Mar 2022	Mar 2022
Credit risk									
Exposures subject to the internal ratings based approach[1]	**112,720**	**49,384**	**3,951**	111,677	43,583	3,487	109,401	43,828	3,506
Specialized lending subject to the slotting approach[1]	**7,423**	**8,042**	**643**	7,883	7,303	584	7,975	7,172	574
Exposures subject to the standardized approach[1]	**24,421**	**3,040**	**243**	20,614	2,631	211	21,954	1,880	150
Equity exposures[1]	**1**	**4**	**-**	1	5	-	1	4	-
Credit value adjustment subject to BPR	**N/A**	**436**	**35**	N/A	1,346	108	N/A	781	63
Adjustment for standardized RWA floor[2]	**N/A**	**3,643**	**291**	N/A	10,704	856	N/A	9,955	796
Total credit risk	**144,565**	**64,549**	**5,163**	140,175	65,572	5,246	139,331	63,620	5,089
Operational risk	**N/A**	**9,625**	**770**	N/A	9,138	731	N/A	8,850	708
Market risk	**N/A**	**4,172**	**334**	N/A	4,212	337	N/A	4,209	337
Total	**144,565**	**78,346**	**6,267**	140,175	78,922	6,314	139,331	76,679	6,134

[1] In calculating the total capital requirement, a scalar has been applied to the RWA, as required by the RBNZ in accordance with the Bank's Conditions of Registration. Effective from October 1, 2022, the scalar increased from 1.06 to 1.2 for exposures subject to the IRB approach, and reduced from 1.06 to 1 for exposures subject to the standardized approach.

[2] From January 1, 2022, the Banking Group's IRB RWA (after multiplying by the scalar) are subject to a floor equal to 85% of the value of those RWA recalculated using the standardized methodology. Effective from October 1, 2022, the scalar increased from 1.06 to 1.2.

Additional information on the capital adequacy of the Banking Group is detailed in the capital adequacy note of the Disclosure Statements for the periods specified.

Off-Balance Sheet Arrangements, Contingent Liabilities and Credit Related Commitments

Off-balance sheet arrangements are considered to be commitments that have or are reasonably likely to have a current or future material effect on the Banking Group's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Where loss is probable and can be reliably measured, provisions have been made. Contingent liabilities are not recognized on the balance sheet, but are disclosed unless the likelihood of payment is remote.

The Banking Group is exposed to contingent risks and liabilities arising from conduct of its business, including:

- actual and potential disputes, claims and legal proceedings;
- investigations into past conduct, including actual and potential regulatory breaches, carried out by regulatory authorities;
- internal investigations and reviews into past conduct, including actual and potential regulatory breaches, carried out by or on behalf of the Banking Group; and
- contracts that involve giving contingent commitments such as warranties, indemnities or guarantees.

The Banking Group has received information requests from its regulators as part of both industry and bank-specific reviews being undertaken, and the Banking Group has also initiated contact with its regulators on compliance-related matters. The scope of reviews, inquiries and investigations can be wide-ranging and can result in enforcement proceedings, fines and other financial penalties, as well as customer remediation programs.

There are contingent liabilities in respect of all such matters. Such matters are often highly complex and uncertain. Where appropriate, provisions have been made. The aggregate potential liability of the Banking Group in relation to these matters cannot be accurately assessed.

Capital Resources *continued*

The Banking Group has been progressing a program of work to strengthen its Anti-Money Laundering ("AML") and Countering Financing of Terrorism ("CFT") program. The work involves significant investment in systems and personnel to ensure an effective control environment and an uplift in compliance capability. In addition to an ongoing general uplift in capability, the Banking Group is remediating specific compliance issues and weaknesses. The Banking Group continues to keep the RBNZ informed of significant AML or CFT compliance issues and its progress in resolving these issues, and will continue to cooperate with, and respond to queries from, the RBNZ. As this work progresses, further compliance issues may be identified and reported to the RBNZ or equivalent foreign regulators, and additional strengthening may be required. The potential outcome (including enforcement proceedings) and total costs associated with specific issues identified to date, and for any issues that may be identified in the future, remain uncertain.

Contingent liabilities and credit related commitments at face value arising in respect of the Banking Group's operations were:

	Banking Group		
	Unaudited	Audited	Unaudited
Dollars in Millions	**Mar 2023**	Sep 2022	Mar 2022
Contingent liabilities			
Bank guarantees[1]	**430**	473	499
Standby letters of credit	**330**	356	320
Documentary letters of credit	**113**	254	181
Performance related contingencies[1]	**1,294**	1,167	872
Total contingent liabilities	**2,167**	2,250	1,872
Credit related commitments			
Revocable commitments to extend credit[2]	**6,198**	5,904	8,744
Irrevocable commitments to extend credit[2]	**14,606**	14,433	12,818
Total credit related commitments	**20,804**	20,337	21,562
Total contingent liabilities and credit related commitments	**22,971**	22,587	23,434

[1]Comparative balances as at March 31, 2022 have been restated due to a change in product classification and a system optimization project.

[2] Following a review of the contractual terms of the Banking Group's credit facilities during the 2022 financial year, the Banking Group reclassified a portion of the facilities from revocable to irrevocable as at September 30, 2022.

Contractual Obligations by Maturity

The table below sets out the amounts and maturities of the Banking Group's contractual obligations for bonds, notes and subordinated debt, and lease liabilities. It excludes deposits and other liabilities taken in the normal course of banking business and short term liabilities.

	Banking Group (Unaudited Mar 2023)				
Dollars in Millions	Up to 1 Year	Over 1 Year and up to 3 Years	Over 3 Years and up to 5 Years	Over 5 Years	Total
Bonds, notes and subordinated debt[3]	4,622	6,859	5,579	4,341	21,401
Lease liabilities	11	31	97	125	264
Total contractual obligations	4,633	6,890	5,676	4,466	21,665

[3] For the purpose of this disclosure, the amounts show the contractual maturity distribution of the carrying value of the Banking Group's bonds, notes and subordinated debt. The maturity classification of the Bank's Perpetual Notes reflects the scheduled mandatory conversion date. Refer to Note 11 Subordinated Debt in BNZ's Disclosure Statement for the six months ended March 31, 2023 for further information.

Derivatives and Market Exposures

All derivatives are recognized on the balance sheet at fair value on trade date and are classified as trading except where they are designated in a qualifying effective hedge relationship. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative. The fair value of derivative financial instruments is obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate.

Derivative financial instruments

Dollars in Millions	**Fair Value Assets Unaudited Mar 2023**	**Fair Value Liabilities Unaudited Mar 2023**	Fair Value Assets Audited Sep 2022	Fair Value Liabilities Audited Sep 2022	Fair Value Assets Unaudited Mar 2022	Fair Value Liabilities Unaudited Mar 2022
Trading derivatives (including economic hedges)	**4,128**	**3,706**	8,786	7,748	3,821	3,579
Hedging derivatives	**272**	**298**	754	480	2	347
Total derivative financial instruments	**4,400**	**4,004**	9,540	8,228	3,823	3,926

Market Exposures

The Banking Group offers a range of financial products, including derivatives, in connection with which the Bank has deemed it has the expertise in the relevant market and infrastructure to support management processes. Executing this strategy may result in market risk for the Banking Group, which is the risk of financial loss from unfavorable movements in market variables such as interest or foreign exchange rates. The Banking Group's activities involve the use of financial instruments to mitigate market risk or selectively position for favorable movements.

Financial instruments designated as traded market risk include those which:

- are held for short term resale;
- are taken on by the Banking Group with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices, or from other price or interest rate variations;
- arose from broking and market making; and
- are hedging a derivative valuation adjustment.

The trading activities of the Banking Group are carried out by BNZ Markets.

The types of market risk arising from these activities include interest rate, foreign exchange, commodity, credit spread and volatility risk.

Independent oversight of traded market risk, including compliance with limits, is undertaken by the Market risk team, which reports through to the Chief Risk Officer. At an executive level, governance is provided by the Banking Group's Market Risk Committee, which is a subcommittee of the Banking Group's ERCC.

All trading activities are subject to the disciplines prescribed in the NAB Group Traded Market Risk Policy which is approved by the NAB Board, and approved by the BNZ Board for adoption by the Banking Group (as appropriate).

Objectives and limitations of the VaR methodology

VaR is an estimate of potential loss resulting from shifts in market variables such as interest rates, foreign exchange rates, traded credit spreads, option volatility and commodity prices. The estimate is calculated on an entire trading portfolio basis, which includes all financial instruments and derivatives.

VaR is calculated using the historical simulation method. This method involves multiple revaluations of the trading books using 550 days of historical pricing shifts. The pricing data is updated daily so as to have the most recent 550 day history of prices. The results are ranked and the loss at the 99th percentile confidence level identified. The calculation and rate shifts used assume a one-day holding period for all positions. This means there is a 99% chance that the loss will not exceed the VaR estimate on any given day.

The use of a VaR methodology has limitations, which include:

- the historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than the VaR measure suggests;
- the VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe;
- VaR is calculated on positions at the close of each trading day and does not measure risk on positions taken and closed before the end of each trading session; and
- VaR does not describe the directional bias or size of the positions generating the risk.

VaR estimates are checked against profit/loss via backtesting for reasonableness and to assess the continued relevance of the model assumptions.

Derivatives and Market Exposures

Market Exposures *continued*

The following table shows the Banking Group VaR for the trading portfolio, including both physical and derivative positions:

	Banking Group					
	As at			Average Value During Period		
	Unaudited	Audited	Unaudited	Unaudited 6 months	Audited 12 months	Unaudited 6 months
Dollars in Millions	Mar 2023	Sep 2022	Mar 2022	Mar 2023	Sep 2022	Mar 2022
VaR at a 99% confidence level						
Foreign exchange risk	**0.84**	0.46	0.29	**0.46**	0.33	0.44
Interest rate risk	**1.23**	1.73	2.77	**2.47**	2.81	3.10
Volatility risk	**0.01**	0.03	0.04	**0.02**	0.03	0.05
Credit spread risk	**0.50**	0.85	0.62	**0.58**	0.46	0.53
Diversification benefit	**(1.16)**	(1.19)	(0.46)	**(0.85)**	(0.49)	(0.50)
Total VaR for physical and derivative positions	**1.42**	1.88	3.26	**2.68**	3.14	3.62

VaR is measured individually for foreign exchange risk, interest rate risk, volatility, commodities and credit spread risk.

Due to the limitations of the measure, VaR is supplemented with stress testing which is reported daily and also by other measures such as foreign exchange limits, basis point sensitivity limits, stop loss limits and profit/loss referral levels.

Industry and Regulation

Supervisory Role of the RBNZ

The BPS Act requires the RBNZ to exercise its powers of registration of banks and prudential supervision of registered banks for the purposes of:

- promoting the maintenance of a sound and efficient financial system; or
- avoiding significant damage to the financial system that could result from the failure of a registered bank.

The RBNZ's policy on the registration of banks aims to ensure that only financial institutions of appropriate standing and repute are able to become registered banks. Subject to this requirement, the RBNZ has stated that in order to encourage competition in the banking system it intends to keep to a minimum any impediments to the entry of new registered banks.

The RBNZ's supervisory functions are aimed at encouraging the soundness and efficiency of the financial system as a whole and are not aimed at preventing individual bank failures or at protecting creditors. The RBNZ encourages this by drawing on and enhancing disciplines that are naturally present in the market.

The RBNZ places considerable emphasis on a requirement that the banks disclose information about financial performance and risk positions, and on a requirement that directors regularly attest to certain key matters. These measures are intended to strengthen market disciplines and to ensure that responsibility for the prudent management of banks lies with those who the RBNZ considers are best placed to exercise that responsibility – the directors and management.

The main elements of the RBNZ's supervisory role include:

- requiring all banks to comply with certain minimum prudential requirements, which are applied through their conditions of registration. These include constraints on connected exposures, minimum capital adequacy requirements and minimum standards for liquidity risk management;
- monitoring each registered bank's financial condition and compliance with its conditions of registration, principally on the basis of published half-yearly disclosure statements and monthly reporting submitted privately to the RBNZ. This monitoring is intended to ensure that the RBNZ maintains familiarity with the financial condition of each bank and the banking system as a whole, and maintains a state of preparedness to invoke crisis management powers should this be necessary;
- engaging with the senior management and independent directors of registered banks;
- using crisis management powers available to it under the BPS Act to intervene where a bank distress or failure situation threatens the soundness of the financial system;
- assessing whether a bank is carrying on business prudently;
- issuing guidelines on overseeing banks' compliance with AML and CFT requirements;
- monitoring banks' outsourcing arrangements to determine whether a registered bank's management of risks associated with outsourcing is appropriately managed;
- issuing guidelines on banks' internal capital adequacy process and liquidity policy;
- issuing guidelines on corporate governance; and
- maintaining close working relationships with parent bank supervisors (such as APRA in Australia) on bank-specific issues, policy issues and general matters relating to the condition of the financial system in New Zealand and in the countries where parent banks are domiciled.

New Zealand registered banks are required to issue half-yearly disclosure statements that contain comprehensive corporate details, together with full financial statements at the full year, and unaudited interim financial statements at the half-year. The financial statements are subject to a full external audit at the end of each financial year and a limited scope review at the end of each financial half-year. The disclosure statements must be signed by each bank director or by each director's agent authorized in writing to do so. Each director must also make certain attestations. A bank and its directors may incur criminal and civil penalties if the bank's disclosure statement contains information that is held to be false or misleading.

The RBNZ publishes a quarterly "dashboard" of key information on New Zealand registered banks on the RBNZ's website. The dashboard aims to improve the ability of the public and market participants to understand and act on information about such banks' financial strength and risk profile. The information is sourced from private reporting that banks provide to the RBNZ.

The RBNZ also requires all registered banks to obtain and maintain a credit rating from an approved organization and publish that rating in their quarterly dashboard and half-yearly disclosure statements.

In addition, the RBNZ has wide-reaching powers to obtain further information, data and forecasts in connection with its supervisory functions, and to require that information, data, and forecasts be audited.

The RBNZ also possesses a number of crisis management powers. Those powers include recommending that a bank's registration be cancelled, investigating the affairs of a registered bank, requiring that a registered bank consult with the RBNZ, giving directions to a registered bank, removing, replacing or appointing a director of a registered bank, or recommending that a registered bank be subject to statutory management. In addition, the RBNZ requires the bank to maintain processes for overnight operational separation from a parent bank on direction of the RBNZ under their crisis management powers.

If a registered bank is declared to be subject to statutory management, no person may, among other things:

- commence or continue any action or other proceedings including proceedings by way of counterclaim against that bank;
- issue any execution, attach any debt, or otherwise enforce or seek to enforce any judgment or order obtained in respect of that bank;
- take any steps to put that bank into liquidation; or
- exercise any right of set off against that bank.

As part of the RBNZ's supervisory powers, a person must obtain the written consent of the RBNZ before giving effect to a transaction resulting in that person acquiring or increasing a "significant influence" over a registered bank. "Significant influence" means the ability to appoint 25% or more of the board of directors of a registered bank or a qualifying interest (for example, legal or beneficial ownership) in 10% or more of the bank's voting securities.

In assessing applications for consent to acquire a significant influence over a registered bank, the RBNZ has stated that it will have regard to the same matters as are relevant in assessing an application for registration as a registered bank. In giving its consent, the RBNZ may impose such terms and conditions as it deems fit.

For the Banking Group's conditions of registration, refer to the Disclosure Statement for the year ended September 30, 2022. Subsequent changes to, and instances of non-compliance with, the Banking Group's conditions of registration during a reporting period are set out in the Disclosure Statement for that period.

Industry and Regulation

Overview of the New Zealand Financial System

The RBNZ publishes a semi-annual Financial Stability Report, in which it assesses and reports on the soundness and efficiency of the New Zealand financial system. The following section is an excerpt from the most recent RBNZ Financial Stability Report ("RBNZ Report") that was released on May 3, 2023. The information in this section has been accurately reproduced from the summaries introducing a number of sections in the RBNZ Report and as far as the Banking Group is aware and is able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. For more information, please see the full RBNZ Report, which is available from the RBNZ's website at https://www.rbnz.govt.nz/financial-stability/financial-stability-report.

"Chapter 1
Financial stability risk and policy assessment
Key points

- Global inflation pressures remain high. Central banks have slowed the pace of their monetary policy tightening in recent months, as they evaluate the effects of prior interest rate increases on demand and the outlook for inflation.
- The increasing interest rate environment has exposed some fragilities in the global financial system, particularly where risks have been inadequately managed. The failure of two medium-sized United States banks and Credit Suisse in March highlighted the speed at which investors can lose confidence in institutions, although the interventions by regulators have contained any broader contagion so far.
- New Zealand households are facing increased debt servicing costs as their borrowing reprices to higher interest rates. To date there have been limited signs of distress in banks' lending portfolios. This reflects the ongoing strength of the labour market and that borrowers have been able to adjust their spending or use previous savings and repayment buffers. However, cash-flow pressures in households are growing and buffers are likely to be tested. A large rise in unemployment remains the biggest risk to domestic financial stability at present.
- Nationally, house prices are down 16 percent from their peak, with larger falls in Auckland and Wellington. Negative equity is still at relatively low levels.
- We are proposing to ease our Loan-to-value-ratio (LVR) settings reflecting the fact that current lending activity presents fewer risks to the financial system and household resilience compared to that of the past couple of years.
- Businesses are adjusting to higher interest rates, with limited signs of servicing stress to date. Vulnerabilities are highest among the agriculture sector and commercial property operators, given their higher average levels of debt, and the impacts of the North Island flooding and cyclone events. Overall, consumer and business confidence is low, pointing to a weaker outlook for household consumption and business investment, and reflecting the dampening effects of higher debt servicing costs.
- New Zealand's financial system is well placed to handle these domestic and international pressures. The banking system's capital and liquidity positions are strong, with profitability and asset quality remaining high. New Zealand banks are not materially exposed to the interest rate risks that have been realised in banks overseas. Insurers have considerable reinsurance in place for the recent weather events, but claims for these events will cause a drop in insurers' profitability for some time and will increase reinsurance costs for New Zealand.
- Overall, New Zealand's financial institutions are well positioned to continue to take a long-term perspective and support their customers through the current economic challenges."

"Chapter 2
Special topics

This chapter covers topical issues relevant for financial stability in New Zealand. In this Report, we cover the following:

I. Financial strain on households and businesses in a higher interest rate environment
   - A key question in assessing the outlook for the soundness of the financial system is how households and businesses are adjusting to higher interest rates. In this special topic, we look at early signs of debt servicing stress and the risks it might have for households and businesses.

II. Financial stability implications of recent North Island weather events
   - The extreme weather events earlier this year caused significant damage to a large part of the North Island. In late January, Auckland experienced very heavy rainfall, which led to extensive flooding across the city. This was followed in mid-February by Cyclone Gabrielle, which caused more widespread severe damage to parts of the North Island. In this special topic we examine the impacts of the weather events on financial system stability.

III. Trends in bank profitability
   - A profitable banking system is beneficial for financial stability, as it enables banks to generate or attract the capital base needed to absorb potential losses over economic cycles. At the same time, competition between banks has an important role in supporting an efficient, inclusive, and dynamic financial system. In light of this, this special topic analyses recent trends in bank profitability and compares key profitability indicators within the New Zealand banking sector and between banks in peer countries."

"Chapter 3
Regulatory developments

We continue to consolidate and deliver on key policy initiatives that will protect and promote financial stability. We have prioritised work on major legislative reforms and other key initiatives as set out in the November 2022 Report. We also continue to expand and build capacity as we become a more intensive prudential supervisor."

"Chapter 4
Institutional resilience

A sound and efficient financial system with the ability to absorb shocks is fundamental to the health of the New Zealand economy. Financial institutions have remained resilient in the past six months. Bank profitability has continued to recover, and capital levels are being increased in preparation for upcoming regulatory requirements. However, banks are anticipating greater pressure on borrower debt serviceability in the coming year, driven by weaker economic conditions and higher interest rates. Positively, the financial system is well placed to withstand higher credit losses and continue to supply credit. New Zealand's major financial market infrastructures continue to exhibit high availability and resilience, with no significant incidents recorded in recent months. The insurance sector remains profitable and its solvency ratios are stable. However, some insurers have been adversely affected by severe weather events and investment losses."

Our Business

Overview

BNZ is a registered bank incorporated in New Zealand on July 29, 1861 and its address for service of process is Level 4, 80 Queen Street, Auckland 1010, New Zealand.

The Banking Group provides a broad range of banking and financial products and services to retail, business, private, corporate and institutional clients. The New Zealand Government became a shareholder in BNZ in 1904, BNZ was nationalized in 1945 and BNZ returned to a private shareholding in 1987. In 1992, BNZ became a subsidiary of the NAB Group when the NAB Group purchased the ordinary shares and convertible preference shares of BNZ.

The Banking Group's business is organized into two major reportable and operating segments: Partnership Banking; and Corporate and Institutional Banking. Partnership Banking provides financial products and services to retail, business and private customers. Corporate and Institutional Banking provides financial products and services to corporate and institutional customers.

During the current and preceding financial year, there have been no public takeover offers by third parties in respect of the Banking Group's shares or by the Banking Group in respect of other companies' shares, and there have been no material contracts outside of the ordinary course of business.

Geographical Revenue Information

The Banking Group has operations primarily in New Zealand. BNZ and BNZ-IF issue debt securities outside of the New Zealand domestic market as part of BNZ's offshore funding program. Geographical revenue information is based on the location of the office in which the transactions were recorded. Geographical revenue information is available in the table below.

	Banking Group		
	Unaudited 6 Months	Unaudited 6 Months	Unaudited 6 Months
Dollars in Millions	**Mar 2023**	Sep 2022	Mar 2022
Revenue from external customers			
New Zealand	**1,775**	1,633	1,498
Outside of New Zealand	**-**	-	-
Total revenue	**1,775**	1,633	1,498

Organizational Structure

BNZ is the holding company for the Banking Group, as well as the main operating company.

BNZ is wholly owned by National Australia Group (NZ) Limited, which is the immediate parent of BNZ. The ultimate parent bank of BNZ is NAB.

Number of Employees

	Banking Group				
	As at			Change	
				Mar 2023 vs	Mar 2023 vs
	Mar 2023	Sep 2022	Mar 2022	Sep 2022	Mar 2022
Number of full-time equivalent employees	**5,335**	5,246	5,032	89	303

The number of full-time equivalent employees within the Banking Group has increased by 303 or 6.0% from March 31, 2022 to March 31, 2023, primarily attributable to the continuation of the alignment of roles to the Bank's strategic initiatives and strengthening the Bank's compliance and control environment.

BNZ and the New Zealand trade union which represents New Zealand finance industry workers ("FIRST Union") have a current collective agreement in place that applies to FIRST Union members for a period of two years (until October 31, 2023). There are presently no significant employment disputes between BNZ and any of its union-member employees or between BNZ and FIRST Union.

Related Entity Transactions

During the six months ended March 31, 2023, there have been dealings between the Bank and its related entities (including its ultimate parent, NAB, other members of the NAB Group and controlled entities of the Bank) as well as other related parties (including key management personnel, their close family members and their controlled entities).

BNZ provides a range of services to related entities including the provision of banking facilities. These transactions are subject to commercial terms and conditions. BNZ provides some accounting administration and banking services to controlled entities for which fees may be charged.

Dealings with the NAB Group included on-balance sheet activities such as funding and accepting deposits and other activities such as foreign exchange and interest rate derivative transactions.

The Banking Group provides banking and other administrative services to its related entities on arm's length terms and conditions where such provision of services does not involve more than the normal risk of collectability or present other unfavorable features.

No provisions have been recognized in respect of loans provided to related entities. No debts with any of the related entities were written off or forgiven during the six months ended March 31, 2023 (year ended September 30, 2022: nil; six months ended March 31, 2022: nil).

Details of other transactions with related entities are outlined in Note 13 Related Entity Transactions of the Disclosure Statement.

Related Entity Transactions *continued*

Dollars in Millions	Banking Group Unaudited Mar 2023	Audited Sep 2022	Unaudited Mar 2022
Total balances with related entities			
Amounts due from related entities			
Loans outstanding to ultimate parent	**321**	195	622
Loans outstanding to controlled entities of ultimate parent	**36**	15	40
Total amounts due from related entities	**357**	210	662
Derivative financial assets with related entities	**1,610**	3,997	1,202
Amounts due to related entities			
Deposits from ultimate parent	**332**	1,123	276
Deposits from controlled entities of ultimate parent	**863**	1,037	777
Total amounts due to related entities	**1,195**	2,160	1,053
Derivative financial liabilities with related entities	**1,455**	3,112	1,576
Subordinated debt due to related entities	**1,950**	1,950	1,950

Management

BNZ Board

Composition of BNZ Board

As at March 31, 2023, the members of the BNZ Board were as follows:

Name	Position
Douglas Alexander McKay	Non-Executive Director, Chair
Daniel James Huggins	Managing Director and Chief Executive Officer
Barbara Joan Chapman	Independent Non-Executive Director
Louis Arthur Hawke	Independent Non-Executive Director
Warwick Ean Hunt	Independent Non-Executive Director
Kevin John Kenrick	Independent Non-Executive Director
Linley Ann Wood	Independent Non-Executive Director
Gary Andrew Lennon	Non-Executive Director

Subsequent to March 31, 2023, BNZ announced that Louis Hawke will retire as an independent non-executive director of BNZ, effective July 31, 2023.

As at March 31, 2023, except as detailed in the paragraph below, no conflicts of interest and no potential conflicts of interest existed between any duties owed to BNZ by the members of the BNZ Board listed above and their private interests or duties outside of the Banking Group.

Mr. McKay is a director of IAG New Zealand Limited and IAG (NZ) Holdings Limited. As at March 31, 2023, BNZ contracted with IAG New Zealand Limited for the provision of insurance products and services. The BNZ Board receives regular management reports, both directly and through BRCC, which may contain sensitive information.

BNZ has a process for the management of any conflicts of interest that may arise. Further details are provided under "BNZ Constitution" on page 33.

The BNZ Board has adopted a Board Charter which sets out the BNZ Board's purpose, powers and responsibilities.

Douglas McKay, ONZM, CFInstD
A.M.P. (Harvard Business School, Boston), B.A. (University of Auckland)
Douglas McKay is the Chair of the BNZ Board and was appointed as a non-executive director of BNZ in March 2013. Mr. McKay was appointed as a non-executive director of NAB in February 2016.

Mr. McKay brings considerable commercial experience to the BNZ Board. His previous roles include senior positions with Auckland Council, Carter Holt Harvey Limited, Goodman Fielder New Zealand Limited, Independent Liquor (NZ) Limited, Lion Nathan Limited, Procter & Gamble and Sealord Group Limited.

Directorships of listed entities: Fletcher Building Limited (since September 2018) and Vector Limited (since September 2022). Mr. McKay's other directorships and interests include: Eden Park Trust (Chair), Fletcher Building Industries Limited, IAG New Zealand Limited, IAG (NZ) Holdings Limited and Wymac Consulting Limited.

Daniel Huggins
MBA (Northwestern University – Kellogg School of Management, Chicago), MEM (Northwestern University – McCormick School of Engineering, Chicago), B.Com (Hons, University of Auckland)
Daniel Huggins was appointed Managing Director and CEO of BNZ in October 2021.

Mr. Huggins has extensive experience across a range of industries, including Banking, Retail, and Manufacturing. He was appointed to the role of Executive, Customer, Products & Services at BNZ in March 2020. Prior to BNZ, Mr. Huggins was at the Commonwealth Bank of Australia ("CBA"), in Sydney, where he held the role of Executive General Manager of Home Buying and was accountable for CBA's home lending portfolio. Mr. Huggins has also held roles at McKinsey & Company, Fonterra and ASB Bank.

Mr. Huggins' other directorships and interests include: Board member of the Springboard Trust and trustee of the BNZ Foundation.

Barbara Chapman, CNZM, CMInstD
B.Com (University of Canterbury)
Barbara Chapman was appointed as an independent non-executive director of BNZ in October 2021.

Ms. Chapman has considerable bank governance and executive management experience, having previously been the Managing Director and CEO of ASB Bank for approximately seven years. In that time, and in a 30-year career in banking and insurance prior to that, Ms. Chapman has gained significant experience and skills in highly regulated and technology-disrupted industries where good customer outcomes are paramount, and society's (and regulator) expectations are ever-increasing.

Directorships of listed entities: Fletcher Building Limited, Genesis Energy Limited (Chair), NZME Limited (Chair). Ms. Chapman's other directorships and interests include: Fletcher Building Industries Limited, The New Zealand Initiative (Deputy Chair).

Louis Hawke
MBA (Australian Graduate School of Management), BEc (Hons, University of Western Australia)
Louis Hawke was appointed as an independent non-executive director of BNZ in February 2017.

Mr. Hawke has significant experience in consulting, private equity and financial services. Mr. Hawke has held managing director roles in retail banking at ANZ and general manager roles at Westpac and Advance Bank in retail and commercial banking. Prior to financial services, Mr. Hawke was with McKinsey & Company, where he specialized in strategic evaluations and takeovers, and was an economist with the Australian Government Department of the Prime Minister and Cabinet, providing advice on economic issues and policy.

Management

BNZ Board *continued*

Warwick Hunt, MNZM, FKCL
FCA, B.Acc (University of the Witwatersrand, Johannesburg)
Warwick Hunt was appointed as an independent non-executive director of BNZ in November 2022.

Mr. Hunt is a chartered accountant and has retired as Managing Partner of PricewaterhouseCoopers United Kingdom on August 31, 2022. Mr. Hunt has considerable commercial and strategic experience and has held governance and executive leadership roles in the United Kingdom, Europe, Middle East, Africa, the Asia Pacific region and in New Zealand.

Directorships of listed entities: Genesis Energy Limited.

Kevin Kenrick
BMS (University of Waikato)
Kevin Kenrick was appointed as an independent non-executive director of BNZ in July 2016.

Mr. Kenrick retired as the CEO of Television New Zealand Limited on March 1, 2022. Mr. Kenrick led the state broadcaster through a significant period of digital evolution, managing its transition from a free-to-air offering to a multi-platform offering including TVNZ OnDemand. Mr. Kenrick held the role of CEO of House of Travel from 2008 to 2011.

Mr. Kenrick's other interests include: Advisory Board of Somerset Brewing Company Limited (Chair).

Linley Wood
MBA (Fin), LLB, BA (University of Auckland)
Linley Wood was appointed as an independent non-executive director of BNZ in April 2020.

Ms. Wood previously held executive leadership roles at ASB Bank Limited for 25 years, accumulating wide-ranging financial services leadership experience across strategy, legal and regulatory compliance, people and culture, communications, community partnerships and end-to-end customer experience.

Ms. Wood's other directorships and interests include: Auckland City Mission, Auckland City Mission Foundation, Kings School Auckland Limited (Deputy Chair and Finance Governor), The Sleeping Giant (FIJI) Limited and Melanesia Mission Trust.

Gary Lennon
FCA, BEc (Hons, University of Sydney)
Gary Lennon was appointed as a non-executive director of BNZ in May 2019.

Mr. Lennon has extensive banking and finance experience and was appointed to the role of NAB Group Chief Financial Officer in March 2016. He previously held the role of Executive General Manager Finance, leading the NAB Group's Finance function globally. Prior to this role, he was the Chief Financial Officer, Wholesale Banking, at NAB.

Before joining NAB in 2008, Mr. Lennon held a number of senior finance executive roles at Deutsche Bank in Australia, Japan and Singapore and KPMG in Sydney and London.

Mr. Lennon's other directorships and interests include: Jmega Pty Limited, National Equities Limited and the Stronger Smarter Institute.

Dates of appointment/reappointment of BNZ's directors as at March 31, 2023

Director	Date of Appointment	Last Date of Reappointment	Next Date of Reappointment
D A McKay	March 5, 2013	March 5, 2023	March 5, 2024
D J Huggins	October 1, 2021	N/A	N/A
B J Chapman	October 1, 2021	N/A	October 1, 2024
L A Hawke	February 1, 2017	February 1, 2020	Retiring July 31, 2023
W E Hunt	November 1, 2022	N/A	November 1, 2025
K J Kenrick	July 1, 2016	July 1, 2022	July 1, 2025
L A Wood	April 14, 2020	April 14, 2023	April 14, 2026
G A Lennon	May 1, 2019	N/A	N/A

Subsequent to March 31, 2023, BNZ announced that Louis Hawke will retire as an independent non-executive director of BNZ, effective July 31, 2023.

Remuneration of BNZ directors
BNZ directors were paid aggregate directors' fees of $646,833, $633,084 and $702,750 in the March 2023 half year, September 2022 half year and March 2022 half year, respectively. Fees are set by NAB and BNZ directors have no voting power on their own compensation levels.

Directors' service contracts
BNZ has no service contracts in place providing for benefits for directors upon termination of employment.

Management

BNZ Executive Team

Composition of BNZ Executive Team ("BNZET")

As at March 31, 2023, the members of the BNZET were:

Name	Position
Daniel James Huggins	Managing Director and Chief Executive Officer
Anna Victoria Flower	Executive, Chief Customer Officer - Partnership Banking
Penelope Jane Ford	Executive, Chief Customer Officer - Corporate & Institutional Banking
Brigid Mary Gibson	Executive, Chief People Officer - People & Culture
Simon Douglas Kwan	Executive - Operational Excellence
Paul Barrie Littlefair	Executive - Technology
Karna Luke	Executive - Customer, Products & Services
Peter Shane MacGillivray	Executive, Chief Financial Officer
Samuel John Perkins	Executive, Chief Risk Officer
Dean Campbell Schmidt	Executive - Commercial Services & Responsible Business
Katherine Frances Mary Skinner	Executive - Data, Analytics & Strategy

Diversity

As at March 31, 2023, the proportions of female directors on the BNZ Board and female members of the BNZET were 25% and 36%, respectively (March 31, 2022: 33% and 42%).

The Bank's diversity strategy and agenda is owned by the CEO and the BNZET. The Bank also has a Diversity and Inclusion Council which informs the diversity agenda while owning, advocating and influencing performance at the business unit level.

Board Committees

To assist in the execution of its responsibilities, the BNZ Board has established committees comprising NZRAC, BRCC, the Board Due Diligence Committee and the People and Remuneration Committee, each with a committee charter, to assist and support the BNZ Board in the conduct of its duties and obligations.

New Zealand Regional Audit Committee

NZRAC comprises three independent non-executive directors of BNZ. NZRAC assists the BNZ Board in fulfilling certain of its statutory, fiduciary and regulatory responsibilities and to provide an objective, non-executive review of the effectiveness of BNZ's financial reporting, regulatory reporting and tax risk management frameworks. NZRAC is responsible for the oversight of:

- the integrity of the accounting and financial statements and financial controls, and the adequacy of the financial and regulatory reporting processes of, BNZ, its subsidiaries, the NAB group entities operating in New Zealand and other entities substantially associated with the activities of BNZ or domiciled in New Zealand (except all "JBWere" operated companies in New Zealand, at present specifically being JBWere (NZ) Pty Limited, JBWere (NZ) Holdings Limited and JBWere (NZ) Nominees Limited) (the "NZRAC Companies");
- the NZRAC Companies' external audit processes (including the appointment, evaluation, management and removal of the NZRAC Companies' external auditor(s));
- the NZRAC Companies' internal audit standards and processes, including the appointment and removal of the General Manager for Internal Audit;
- compliance with applicable accounting standards and policies and statutory and regulatory accounting requirements to give a true and fair view of the financial position and performance of the NZRAC Companies;
- assessing the adequacy of provisioning for remediation payments in relation to customer remediation; and
- tax risk and tax governance arrangements.

As at March 31, 2023, the members of NZRAC were Warwick Hunt (Chair), Barbara Chapman and Louis Hawke.

Board Risk and Compliance Committee

As at March 31, 2023, BRCC comprised all directors of BNZ. BRCC assists the BNZ Board in fulfilling certain of its statutory, fiduciary and regulatory responsibilities.

BRCC is responsible for:

- oversight of the risk profile and risk management of BNZ, its subsidiaries and certain NAB group entities operating in New Zealand (together, the "BRCC Companies") within the context of the BNZ Board-determined risk appetite and in relation to financial and non-financial risks;
- making recommendations to the BNZ Board (and where applicable to the BRCC Companies) concerning current and future risk appetite, risk management strategy and particular risks or risk management practices, policies, frameworks, processes and other matters requiring Board approval;
- reviewing management's plans to mitigate material risks faced by the BRCC Companies;
- oversight of the implementation and operation of the risk management framework and internal compliance and control frameworks throughout the BRCC Companies including ensuring that the risk management framework is reviewed at least annually to confirm that it continues to be sound and is operating effectively;
- oversight and reviewing the outcomes of stress testing of risk profiles including both scenario analysis and sensitivity analysis for BNZ's internal capital adequacy assessment process and internal liquidity adequacy assessment process;
- guiding management on establishing, promoting and maintaining a sound risk culture throughout the BRCC Companies;
- reviewing assurances which enable the BNZ Board and BRCC to support the NAB Board and NAB Board Risk Committee to make declarations to APRA on risk management;
- in relation to customer remediation, oversight and review progress on significant remediation projects and management reports on customer remediation to ensure adequate consideration of fairness, timeliness and good customer outcomes in accordance with BNZ's remediation principles;
- ensuring that the Chief Risk Officer has unfettered access to BRCC via the BRCC Secretary or Chair of BRCC; and

Board Committees *continued*

- referring any matters of significant importance to the BNZ Board for its consideration and attention.

As at March 31, 2023, the members of BRCC were Linley Wood (Chair), Louis Hawke, Warwick Hunt, Kevin Kenrick, Douglas McKay, Daniel Huggins, Barbara Chapman and Gary Lennon.

Board Due Diligence Committee
The Board Due Diligence Committee comprises three independent non-executive directors. It assists the BNZ Board in fulfilling certain of its statutory, fiduciary and regulatory responsibilities. It has particular responsibility to undertake, coordinate and/or oversee due diligence reviews, investigations and procedures relating to information contained in:

- disclosure documents required for offers proposed or made by BNZ or related companies (including offers of regulatory capital) under the Financial Markets Conduct Act 2013 or any other regulatory regime; and/or
- applications for regulatory licenses required to be applied for and held by BNZ or related companies under the Financial Services Legislation Amendment Act 2019 or any other regulatory regime.

As at March 31, 2023, the members of the Board Due Diligence Committee were Linley Wood (Chair), Louis Hawke and Warwick Hunt.

People and Remuneration Committee
The People and Remuneration Committee comprises two independent non-executive directors and one non-executive director and it assists the BNZ Board in fulfilling certain of its statutory, fiduciary and regulatory responsibilities.

The People and Remuneration Committee is responsible for assisting the BNZ Board in relation to the remuneration policies and practices of BNZ, with the objective that such policies and practices are, among other things, reasonable, fair and in-line with current governance, legal and regulatory requirements and support BNZ's purpose, values, strategic objectives and risk appetite and otherwise meet the needs of BNZ and the expectations and requirements of shareholders, customers and regulators.

The People and Remuneration Committee oversees health and safety materials and policies, reviews materials relating to BNZ's critical hazards, risks and control processes and makes recommendations to the BNZ Board as appropriate in relation to health and safety.

The People and Remuneration Committee is also responsible for monitoring, reviewing and recommending to the BNZ Board on a regular basis the following matters:

- culture and diversity; and
- the principles and framework required for measuring the conduct and behavioral requirements.

As at March 31, 2023, the members of the People and Remuneration Committee were Barbara Chapman (Chair), Kevin Kenrick and Douglas McKay.

Board Practices

As at March 31, 2023, the BNZ Board consisted of eight directors, five of whom were independent non-executive directors, two of whom were non-executive directors and one of whom was an executive director of BNZ. The BNZ Board's composition is reviewed when a vacancy arises or if it is considered that the BNZ Board would benefit from the services of a new director, given the existing mix of skills and experience of the BNZ Board.

Under the conditions of registration imposed by the RBNZ, no appointment of any director, the Chair of the BNZ Board, the CEO, or executive who reports to, or is accountable directly to, the CEO, shall be made unless a copy of the curriculum vitae of the proposed appointee has been provided to the RBNZ and the RBNZ has advised that it has no objection to the appointment. The conditions of registration require that at least half the directors of the BNZ Board be independent and that the Chair is not an employee of BNZ.

BNZ Constitution

BNZ's constitution was most recently amended on February 3, 2023 and is publicly available online at https://companies-register.companiesoffice.govt.nz. Under BNZ's constitution, the BNZ Board holds all necessary powers for the management of the business and the operation of BNZ. There are no restrictions in BNZ's constitution on BNZ borrowing or providing a guarantee.

The BNZ Board has the power to issue shares in different classes and on different terms and conditions. Under the constitution, the BNZ Board is expressly authorized, subject to any special rights conferred on the holders of any shares or class of shares, to allot or otherwise dispose of shares with such preferred, deferred or other rights and subject to such restrictions on dividends, voting, return of capital, payment of calls or otherwise to such persons, on such terms and for such consideration as it thinks fit. However, before allotting or disposing of any shares to any person who is not an existing holder of any shares, the directors of BNZ must first offer the shares to NAB and if NAB does not accept the offer, the directors of BNZ may offer the shares to any person. There are no restrictions in BNZ's constitution on changes in capital, rights to own securities or restrictions on foreign shareholders.

There is no shareholding qualification for directors of BNZ and no mandatory retirement age. NAB has the power to fix each director's remuneration and BNZ may give such indemnities as the directors of BNZ deem appropriate. Directors of BNZ are appointed and removed by NAB.

BNZ's constitution dictates that a director who is interested in a transaction to which BNZ is a party may attend a meeting of directors at which a matter relating to the transaction arises and be included among the directors present at the meeting for the purposes of a quorum but, subject to certain exceptions set out in the constitution, will not vote on the matter nor be present while the matter is being considered at the meeting.

Under the Companies Act, directors who are interested in a transaction of a company are required to disclose their interest. Failure to disclose this interest will not affect the validity of the transaction or the ability of the director to attend and vote at the relevant directors' meeting. However, the director can be personally liable and if the company does not receive fair value under the transaction, the transaction may be voided within three months of its disclosure to all shareholders of the company.

In regard to shareholders, the power to:

- alter, revoke or adopt a new constitution,
- approve a major transaction, or
- approve an amalgamation, put BNZ into liquidation or apply for the removal of BNZ from the register of companies,

must be exercised by special resolution of the shareholders under the Companies Act. All other powers reserved to shareholders may be exercised by an ordinary resolution of shareholders. Resolutions can be passed at a meeting of shareholders or pursuant to a written resolution in lieu of a meeting.

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