Bank of New Zealand

U.S. Debt Funding Information

For the year ended September 30, 2022

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 and Full 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 insurance operation in New Zealand. On September 30, 2022, NAB completed the sale of BNZ Life Insurance Limited to Partners Life Limited.

The consolidated full year financial statements of the Banking Group 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 historical information have been reclassified to align with the presentation used in the current financial year. These reclassifications have no material impact on the 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 in particular as a result of the COVID-19 pandemic. 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 ongoing impacts of the COVID-19 pandemic, the New Zealand and global economic environment and capital market conditions, including the impact of rising interest rates and inflationary conditions. Further information is contained under the caption "Risk Factors" in the offering circular, as supplemented by 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 statements contained in this document.

Certain Definitions

The Banking Group's financial year ends on September 30. The financial year ended September 30, 2022 is referred to as 2022 and other financial years 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 financial statements, which are included in the Disclosure Statement for the year ended September 30, 2022. 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 year ended September 30, 2022 has been translated from NZ dollars into U.S. dollars using the September 30, 2022 year end noon buying rate of USD 0.5642 = NZD 1.00.

Selected Financial Information

The selected financial information as at and for the years ended September 30, 2022, September 30, 2021, September 30, 2020, September 30, 2019 and September 30, 2018 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 for the year ended September 30, 2022 are provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein and the Disclosure Statement for the year ended September 30, 2022.

The financial information in the Disclosure Statement for the year ended September 30, 2022 has been audited by the Banking Group's external auditor, Ernst & Young, whose report on the audited financial statements is included in the Disclosure Statement for the year ended September 30, 2022.

The Disclosure Statement for the year ended September 30, 2022 has 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					
	2022	**2022**	2021	2020	2019	2018
Dollars in Millions	**USD[1]**	**NZD**	NZD	NZD	NZD	NZD
Interest income						
Effective interest income	**2,144**	**3,800**	2,891	3,440	3,904	3,716
Fair value through profit or loss	**65**	**116**	77	179	291	339
Interest expense	**797**	**1,412**	787	1,537	2,134	2,109
Net interest income	**1,412**	**2,504**	2,181	2,082	2,061	1,946
Gains less losses on financial instruments	**142**	**251**	277	88	129	191
Other operating income[2]	**212**	**376**	401	350	442	419
Total operating income	**1,766**	**3,131**	2,859	2,520	2,632	2,556
Operating expenses[2]	**607**	**1,076**	1,060	1,158	1,111	1,045
Total operating profit before credit impairment charge and income tax expense	**1,159**	**2,055**	1,799	1,362	1,521	1,511
Credit impairment charge/(write-back)	**50**	**89**	(37)	300	114	82
Total operating profit before income tax expense	**1,109**	**1,966**	1,836	1,062	1,407	1,429
Income tax expense on operating profit	**311**	**552**	514	300	385	400
Net profit attributable to the shareholder of the Bank	**798**	**1,414**	1,322	762	1,022	1,029

Performance Indicators

	Banking Group					
	2022	**2022**	2021	2020	2019	2018
	USD[1]	**NZD**	NZD	NZD	NZD	NZD
Ordinary shares, fully paid (number of shares in millions)	**5,076**	**5,076**	5,076	5,076	5,076	4,476
Dividend per ordinary share (cents per share)[3]	**6.22**	**11.03[4]**	-[4]	-[4]	23.07[4]	40.43
Net profit per ordinary share (cents per share)	**15.72**	**27.86**	26.04	15.01	20.13	22.99
Return on assets[5]	**1.12%**	**1.12%**	1.13%	0.66%	0.97%	1.03%
Return on equity[6]	**13.54%**	**13.54%**	13.64%	8.72%	13.10%	14.30%
Cost to income ratio[2,7]	**34.37%**	**34.37%**	37.08%	45.95%	42.21%	40.88%

[1] For the convenience of the reader, the financial data for the year ended September 30, 2022 has been translated from NZ dollars into U.S. dollars using the September 30, 2022 year end noon buying rate of USD 0.5642 = NZD 1.00.

[2] For the year ended September 30, 2018, investment management expenses were classified within operating expenses. Subsequently investment management expenses are classified within other operating income.

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

[4] The Bank paid dividends of $560 million on its ordinary shares in the year ended September 30, 2022 (September 30, 2021: nil; September 30, 2020: nil). On December 7, 2018, the Bank paid dividends of $945 million on its ordinary shares and issued 600 million ordinary shares.

[5] Net profit after tax divided by total average assets.

[6] Net profit after tax divided by total average equity (total average equity calculated by total average assets minus total average liabilities).

[7] Operating expenses divided by total operating income.

Selected Financial Information

Balance Sheet

Dollars in Millions	2022 USD[1]	2022 NZD	Banking Group 2021 NZD	2020 NZD	2019 NZD	2018 NZD
Assets						
Cash and liquid assets	**5,406**	**9,581**	9,722	3,933	2,740	2,489
Due from central banks and other institutions [3]	**210**	**372**	304	154	227	320
Collateral paid[3]	**1,588**	**2,814**	535	1,259	1,574	481
Trading securities	**4,183**	**7,414**	7,348	10,814	7,267	6,842
Derivative financial instruments	**5,382**	**9,540**	4,404	6,140	7,616	4,336
Loans and advances to customers [3]	**56,051**	**99,346**	94,691	87,518	87,674	82,993
Amounts due from related entities	**118**	**210**	179	1,053	615	1,253
Other assets	**572**	**1,013**	897	492	732	557
Deferred tax	**165**	**293**	283	295	197	196
Property, plant and equipment	**241**	**428**	466	423	177	172
Goodwill and other intangible assets	**231**	**409**	293	229	293	352
Total assets	**74,147**	**131,420**	119,122	112,310	109,112	99,991
Financed by:						
Liabilities						
Due to central banks and other institutions [3]	**2,911**	**5,160**	4,931	2,168	1,311	1,464
Collateral received[3]	**1,204**	**2,134**	570	654	527	482
Trading liabilities	**170**	**302**	537	54	91	181
Derivative financial instruments	**4,642**	**8,228**	3,189	4,711	6,106	3,053
Deposits and other borrowings[3]	**44,095**	**78,154**	77,995	71,839	67,963	63,435
Bonds and notes	**11,386**	**20,181**	17,518	19,512	21,121	19,760
Current tax liabilities	**188**	**333**	156	39	80	150
Amounts due to related entities	**1,219**	**2,160**	1,306	1,903	838	913
Other liabilities	**992**	**1,757**	1,089	824	1,194	1,228
Subordinated debt	**1,100**	**1,950**	1,950	1,949	1,948	1,946
Total liabilities	**67,907**	**120,359**	109,241	103,653	101,179	92,612
Net assets	**6,240**	**11,061**	9,881	8,657	7,933	7,379
Shareholder's equity						
Contributed equity – ordinary shares	**2,288**	**4,056**	4,056	4,056	4,056	3,456
Reserves	**167**	**296**	20	108	99	38
Retained profits	**3,785**	**6,709**	5,805	4,493	3,778	3,885
Total shareholder's equity	**6,240**	**11,061**	9,881	8,657	7,933	7,379

Performance Indicators

	2022 USD[1]	2022 NZD	Banking Group 2021 NZD	2020 NZD	2019 NZD	2018 NZD
Loan to deposit ratio[2,3]	**1.34**	**1.34**	1.33	1.30	1.39	1.39

¹ For the convenience of the reader, the financial data for the year ended September 30, 2022 has been translated from NZ dollars into U.S. dollars using the September 30, 2022 year end noon buying rate of USD 0.5642 = NZD 1.00.
² 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 year ended September 30, 2022.
³ Comparative balances have been restated to align with the presentation used in the current period. Refer to page 7 for further information.

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, 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, as supplemented by 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 audited consolidated full 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 and Full 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 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 banking market in New Zealand is very competitive, which impacts the Banking Group's profitability in terms of interest rate spreads, lending and deposit volume growth and overall operating income.

Significant Conditions Affecting the Banking Group's Financial Condition and Results of Operations

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 September 30, 2022, the Banking Group's Common Equity Tier 1, Tier 1 and Total qualifying capital ratios were 12.8%, 13.8% and 15.4%, 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.

In June 2021 the RBNZ published final Banking Prudential Requirements on regulatory capital, which took effect from October 1, 2021. The key capital requirements for BNZ include:

- an increase in the Tier 1 capital requirement 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 an increase in the total capital requirement to 18% of RWA, of which up to 2% can be in the form of Tier 2 capital;
- phased implementation of the increase in capital buffers from July 1, 2022, with a transition period of six years before banks are required to fully comply with the new rules;
- changes to the qualification requirements for AT1 and Tier 2 capital instruments. Phased derecognition of existing, non-qualifying AT1 and Tier 2 capital instruments over a transitional period which started on January 1, 2022;
- effective from October 1, 2022, an increase in the scalar for internal ratings based ("IRB") calculated credit RWA from 1.06 to 1.2, and a reduction in the scalar from 1.06 to 1 for credit RWA calculated under BPR131 *Standardised Credit Risk RWAs* such as for Bank and Sovereign asset classes; and
- since January 1, 2022, IRB banks have been required to calculate IRB and RBNZ standardized capital calculations and implement an output floor on IRB exposure at 85% of the value of those RWA that would be calculated under the RBNZ standardized approach.

The Banking Group's core funding ratio of 90.1% as at September 30, 2022, 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 year ended September 30, 2022, the Bank issued senior unsecured medium term notes in USD, NZD, CHF and AUD, and a covered bond in EUR.

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

Accounting Policies and Estimates

Basis for preparation

The Banking Group's financial statements are prepared in accordance with the requirements of 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. Refer to Note 1 Principal Accounting Policies of the Disclosure Statement for the year ended September 30, 2022 for information on the Banking Group's accounting policies.

Assumptions and estimates

The preparation of the financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. It also requires management to exercise judgement in the process of applying accounting policies. The notes to the financial statements explain areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Banking Group. Refer to Note 10 Allowance for Expected Credit Losses and Note 24 Classification of Financial Instruments and Fair Value Measurement of the Disclosure Statement for the year ended September 30, 2022 for further information.

Assumptions made as at each reporting date (e.g. the calculation of the allowance for expected credit losses and fair value adjustments), are based on management's best estimates at that date. Although the Banking Group has internal control systems in place to ensure reliable estimates, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the reporting period in which the estimates are revised and in any future periods affected.

Reclassification of financial information

Certain comparative balances have been reclassified to align with the presentation used in the current financial year, in particular to reflect the change in presentation of collateral paid and collateral received. Refer below for further detail. These reclassifications have no impact on the overall financial performance or financial position for the comparative periods.

Changes in accounting policies and disclosures

Interest Rate Benchmark ("IBOR") Reform

During the 2022 financial year the Banking Group has transitioned all contracts referencing IBORs subject to cessation at December 31, 2022. Additionally, 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 cessation date.

The Banking Group continues to meet jurisdictional regulatory guidance and national working group timelines to cease referencing LIBOR in new transactions and actively transition legacy contracts to alternative risk-free rates. The Banking Group continues to manage risk arising from transition to ensure a low probability of occurrence and impact to the Banking Group and its customers. As at September 30, 2022, the Banking Group had no material exposure from financial instruments which have not yet been restructured to transition to an alternative risk-free rate. Risks arising from the Banking Group's IBOR transition have not resulted in changes to the Banking Group's risk management strategy. These risks continue to be managed within the Banking Group's existing risk management framework.

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 results in two new balance sheet line items for collateral paid and collateral received, which now includes 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.

Collateral paid comprises the following amounts:

- $2,798 million previously presented in Due from central banks and other institutions as at September 30, 2022 (September 30, 2021: $505 million; September 30, 2020: $628 million).
- $16 million previously presented in Loans and advances to customers as at September 30, 2022 (September 30, 2021: $30 million; September 30, 2020: $631 million).

Collateral received comprises the following amounts:

- $969 million previously presented in Due to central banks and other institutions as at September 30, 2022 (September 30, 2021: $457 million; September 30, 2020: $652 million).
- $1,165 million previously presented in Deposits and other borrowings as at September 30, 2022 (September 30, 2021: $113 million; September 30, 2020: $2 million).

Results of Operations

Dollars in Millions	Banking Group 2022	2021	2020
Net interest income			
Net interest income	**2,504**	2,181	2,082
Average interest earning assets	**116,534**	108,031	103,929
Net interest margin[1]	**2.15%**	2.02%	2.00%

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

Net interest income 2022 vs 2021
Net interest income increased by $323 million or 14.8%, from $2,181 million in 2021 to $2,504 million in 2022. Net interest income growth was mainly due to lending growth and higher net interest margin supported by the higher interest rate environment.

Average volumes of gross loans and advances to customers grew by $6,678 million or 7.3%, from $91,478 million in 2021 to $98,156 million in 2022.[2] This was driven by growth in the housing and business lending portfolios.

Average volumes of deposits and other borrowings grew by $4,648 million or 6.1%, from $75,615 million in 2021 to $80,263 million in 2022.[2] This was largely driven by an increase in deposits from customers mainly due to an increase in term deposits.

Overall, net interest margin increased by 13 basis points, from 2.02% in 2021 to 2.15% in 2022. The overall yield on total average interest earning assets increased by 61 basis points, and the cost of total average interest bearing liabilities increased by 61 basis points.[3] The impact of average interest bearing deposits on net interest margin is reduced due to a proportionately smaller balance sheet size compared to interest earning assets.

Key influences on the net interest margin result included:

- average yield on interest earning loans and advances to customers increased by 56 basis points, from 3.22% in 2021 to 3.78% in 2022.[2] The increase was driven by an increase in New Zealand swap rates in line with official cash rate increases in 2022;
- average cost of bonds and notes increased by 116 basis points, from 1.43% in 2021 to 2.59% in 2022. This increase was driven by higher interest rates across major currencies; and
- average cost of interest bearing deposits and other borrowings increased by 47 basis points, from 0.66% in 2021 to 1.13% in 2022. This increase was due to increasing New Zealand swap rates and change in the deposit mix with growth in term deposits.

Net interest income 2021 vs 2020
Net interest income increased by $99 million or 4.8%, from $2,082 million in 2020 to $2,181 million in 2021. This was primarily driven by favorable deposit mix and lower funding costs combined with increased lending margins, partially offset by a lower earnings rate on deposits and capital due to the low interest rate environment.

Average volumes of gross loans and advances to customers grew by $2,914 million or 3.3%, from $88,564 million in 2020 to $91,478 million in 2021.[2] This was driven by growth in both the housing and business lending portfolios. Housing lending growth was supported by both the proprietary and broker channels.

Average volumes of deposits and other borrowings grew by $3,699 million or 5.1%, from $71,916 million in 2020 to $75,615 million in 2021.[2] This was largely driven by an increase in on-demand deposits and non-interest bearing accounts, partially offset by a reduction in term deposits.

Overall, net interest margin increased by 2 basis points, from 2.00% in 2020 to 2.02% in 2021. The overall yield on total average interest earning assets decreased by 73 basis points, while the cost of total average interest bearing liabilities decreased by 83 basis points.[3]

Key influences on the net interest margin result included:

- average yield on interest earning loans and advances to customers decreased by 77 basis points, from 3.99% in 2020 to 3.22% in 2021.[2] This decrease was due to the lower interest rate environment relative to 2020 and lending mix, with higher housing growth compared to business lending and other lending;
- average cost of bonds and notes decreased by 31 basis points, from 1.74% in 2020 to 1.43% in 2021. This decrease was driven by lower interest rates across major currencies; and
- average cost of interest bearing deposits and other borrowings decreased by 99 basis points, from 1.65% in 2020 to 0.66% in 2021. This decrease was due to the lower interest rate environment relative to 2020 and deposit mix, with growth in demand and short-dated deposits and a reduction in term deposits.

Dollars in Millions	Banking Group 2022	2021	2020
Gains less losses on financial instruments	**251**	277	88

Gains less losses on financial instruments 2022 vs 2021
Gains less losses on financial instruments decreased by $26 million or 9.4%, from a gain of $277 million in 2021 to a gain of $251 million in 2022. This was mainly driven by reductions in trading gains on financial instruments and movement in credit risk adjustments on financial assets held at fair value, partially offset by gains on cross currency basis spreads on swaps used to economically hedge foreign currency fixed rate medium term notes.

Gains less losses on financial instruments 2021 vs 2020
Gains less losses on financial instruments increased by $189 million or 214.8%, from a gain of $88 million in 2020 to a gain of $277 million in 2021. This was mainly driven by the increase in NZD interest rates and currency basis movements on cross-currency swaps.

[2] Comparative balances have been restated to align with the presentation used in the current period. Refer to page 7 for further information.
[3] 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 year ended September 30, 2022.

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

Results of Operations *continued*

Dollars in Millions	Banking Group 2022	2021	2020
Other operating income			
Money transfer fees	**84**	106	88
Fees earned on financial assets and liabilities	**201**	181	184
Other income	**91**	114	78
Total other operating income	**376**	401	350

Other operating income 2022 vs 2021
Total other operating income reduced by $25 million or 6.2%, from $401 million in 2021 to $376 million in 2022. Money transfer fees decreased by $22 million, due to a decrease in payments income and telegraphic transfer fees. Fees earned on financial assets and liabilities increased by $20 million, driven by higher business lending activity. Other income decreased by $23 million, driven by non-repeat of the reduction in customer remediation provisioning.

Other operating income 2021 vs 2020
Total other operating income increased by $51 million or 14.6%, from $350 million in 2020 to $401 million in 2021. Money transfer fees increased by $18 million, largely due to an increase in consumer spending. Other income increased by $36 million, primarily due to a reduction in customer remediation provisioning.

Dollars in Millions	Banking Group 2022	2021	2020
Operating expenses			
Amortization and depreciation	**142**	134	283
Personnel expenses	**663**	612	574
Other operating expenses	**271**	314	301
Total operating expenses	**1,076**	1,060	1,158

Operating expenses 2022 vs 2021
Total operating expenses increased by $16 million or 1.5%, from $1,060 million in 2021 to $1,076 million in 2022. This was largely due to additional colleagues to support service, compliance obligations and growth along with separation costs following the sale of BNZ Life Insurance Limited, NAB's insurance operation in New Zealand, partially offset by non-repeat of increased provisioning for historical holiday pay remediation from 2021 subsequently released in 2022.

Operating expenses 2021 vs 2020
Total operating expenses decreased by $98 million or 8.5%, from $1,158 million in 2020 to $1,060 million in 2021. Amortization and depreciation decreased by $149 million mainly due to the 2020 change in BNZ's software capitalization policy. Personnel expenses increased by $38 million largely due to higher performance-based remuneration. Other operating expenses increased by $13 million, mainly due to an increase in software and cloud computing costs, and increased provisioning for historical holiday pay remediation, partially offset by non-repeat of provision for restructure costs.

Dollars in Millions	Banking Group 2022	2021	2020
Credit impairment charge and credit risk adjustments on credit exposures			
Credit impairment charge/(write-back)	**89**	(37)	300
Credit risk adjustments on financial assets designated at fair value through profit or loss[1]	**5**	(13)	21
Total credit impairment charge and credit risk adjustments on credit exposures	**94**	(50)	321

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

For financial reporting purposes, as required by NZ IFRS, credit risk adjustments on financial assets designated at fair value through profit or loss are 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 on credit exposures 2022 vs 2021
Total credit impairment charge and credit risk adjustments increased by $144 million or 288.0%, from ($50) million in 2021 to $94 million in 2022. The increase in credit impairment charges was driven by increased collectively assessed impairment charges and non-repeat of a small number of larger individually assessed allowance write-backs in 2021. The increased collectively assessed impairment charge was mainly driven by movement in modelled inputs in the non-retail loan portfolio, increased stress in the base forecast assumptions and increased probability weighting to the downside scenario for forward looking adjustments.

Credit impairment charge and credit risk adjustments on credit exposures 2021 vs 2020
Total credit impairment charge and credit risk adjustments reduced by $371 million or 115.6%, from $321 million in 2020 to ($50) million in 2021. The decrease in credit impairment charges was driven by a lower level of collectively assessed impairment charges for forward looking adjustments and a lower number of individual impaired exposures, combined with write-backs for a small number of larger exposures.

Results of Operations *continued*

Dollars in Millions	Banking Group 2022	2021	2020
Assets			
Cash and liquid assets	**9,581**	9,722	3,933
Due from central banks and other institutions[1]	**372**	304	154
Collateral paid[1]	**2,814**	535	1,259
Trading securities	**7,414**	7,348	10,814
Derivative financial instruments	**9,540**	4,404	6,140
Loans and advances to customers[1]	**99,346**	94,691	87,518
Amounts due from related entities	**210**	179	1,053
Other assets	**1,013**	897	492
Deferred tax	**293**	283	295
Property, plant and equipment	**428**	466	423
Goodwill and other intangible assets	**409**	293	229
Total assets	**131,420**	119,122	112,310

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

Assets 2022 vs 2021

Total assets increased by $12,298 million or 10.3%, from $119,122 million in 2021 to $131,420 million in 2022, mainly due to an increase in derivative financial assets of $5,136 million, an increase in loans and advances to customers of $4,655 million and an increase in collateral paid of $2,279 million.

Collateral paid increased by $2,279 million or 426.0%, from $535 million in 2021 to $2,814 million in 2022, to meet derivative trading obligations.

Derivative financial assets increased by $5,136 million or 116.6%, from $4,404 million in 2021 to $9,540 million in 2022. This was primarily driven by the depreciation of the NZD against the USD.

Net loans and advances to customers increased by $4,655 million or 4.9%, from $94,691 million in 2021 to $99,346 million in 2022. This was primarily driven by an increase of $2,095 million in housing loans and an increase of $2,036 million in business term lending.

Assets 2021 vs 2020

Total assets increased by $6,812 million or 6.1%, from $112,310 million in 2020 to $119,122 million in 2021, mainly due to an increase in cash and liquid assets of $5,789 million and an increase in loans and advances to customers of $7,173 million, offset by a decrease in trading securities of $3,466 million and a decrease in derivative financial instruments of $1,736 million.

Cash and liquid assets increased by $5,789 million or 147.2%, from $3,933 million in 2020 to $9,722 million in 2021. This was primarily driven by an increase in transaction balances with central banks of $6,617 million.

Collateral paid decreased by $724 million or 57.5%, from $1,259 million in 2020 to $535 million in 2021, to meet derivative trading obligations.

Trading securities decreased by $3,466 million or 32.1%, from $10,814 million in 2020 to $7,348 million in 2021. This was primarily driven by decreased investment in government and semi-government securities for the purpose of liquidity management.

Derivative financial assets decreased by $1,736 million or 28.3%, from $6,140 million in 2020 to $4,404 million in 2021. This was primarily driven by increases in NZD interest rates.

Net loans and advances to customers increased by $7,173 million or 8.2%, from $87,518 million in 2020 to $94,691 million in 2021. This was primarily driven by an increase of $6,878 million in housing loans and an increase of $638 million in business lending.

Amounts due from related entities decreased by $874 million or 83.0%, from $1,053 million in 2020 to $179 million in 2021. This was mainly driven by a decrease in reverse repos held of $885 million.

Results of Operations *continued*

Dollars in Millions	Banking Group 2022	2021	2020
Liabilities			
Due to central banks and other institutions[1]	**5,160**	4,931	2,168
Collateral received[1]	**2,134**	570	654
Trading liabilities	**302**	537	54
Derivative financial instruments	**8,228**	3,189	4,711
Deposits and other borrowings[1]	**78,154**	77,995	71,839
Bonds and notes	**20,181**	17,518	19,512
Current tax liabilities	**333**	156	39
Amounts due to related entities	**2,160**	1,306	1,903
Other liabilities	**1,757**	1,089	824
Subordinated debt	**1,950**	1,950	1,949
Total liabilities	**120,359**	109,241	103,653
Shareholder's equity			
Contributed equity – ordinary shares	**4,056**	4,056	4,056
Reserves	**296**	20	108
Retained profits	**6,709**	5,805	4,493
Total shareholder's equity	**11,061**	9,881	8,657

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

Liabilities and equity 2022 vs 2021

Total liabilities increased by $11,118 million or 10.2%, from $109,241 million in 2021 to $120,359 million in 2022, primarily driven by an increase in derivative financial liabilities of $5,039 million, an increase in bonds and notes of $2,663 million and an increase in collateral received of $1,564 million.

Collateral received increased by $1,564 million or 274.4%, from $570 million in 2021 to $2,134 million in 2022, to meet derivative trading obligations.

Derivative financial liabilities increased by $5,039 million or 158.0%, from $3,189 million in 2021 to $8,228 million in 2022. This was primarily driven by the depreciation of the NZD against the USD.

Deposits and other borrowings increased by $159 million or 0.2%, from $77,995 million in 2021 to $78,154 million in 2022. This was primarily driven by an increase in term deposits of $3,740 million, offset by a decrease in on-demand and short-term deposits of $1,373 million and a decrease in commercial paper of $2,141 million.

Bonds and notes increased by $2,663 million or 15.2%, from $17,518 million in 2021 to $20,181 million in 2022. This was primarily due to a net increase in term debt issuances of $2,483 million and an increase due to foreign currency translation of $1,751 million as the NZD depreciated against major foreign currencies, partially offset by a decrease in fair value of $1,571 million as interest rates increased.

Amounts due to related entities increased by $854 million or 65.4%, from $1,306 million in 2021 to $2,160 million in 2022. This was primarily due to an increase in NAB collateral received of $833 million.

Total shareholder's equity increased by $1,180 million or 11.9%, from $9,881 million in 2021 to $11,061 million in 2022. This was mainly due to an increase in retained earnings of $904 million. Retained earnings includes net profit, partially offset by dividends paid of $560 million.

Liabilities and equity 2021 vs 2020

Total liabilities increased by $5,588 million or 5.4%, from $103,653 million in 2020 to $109,241 million in 2021, primarily driven by an increase in due to central banks and other institutions of $2,763 million and an increase in deposits and other borrowings of $6,156 million, offset by a decrease in derivative financial liabilities of $1,522 million and a decrease in bonds and notes of $1,994 million.

Due to central banks and other institutions increased by $2,763 million or 127.4%, from $2,168 million in 2020 to $4,931 million in 2021. This was primarily driven by an increase of $2,522 million in repurchase agreements held with central banks, driven by $1,000 million from the RBNZ Funding for Lending and $1,664 million from the RBNZ Term Lending Facility programs.

Derivative financial liabilities decreased by $1,522 million or 32.3%, from $4,711 million in 2020 to $3,189 million in 2021. This was primarily driven by increases in NZD interest rates.

Deposits and other borrowings increased by $6,156 million or 8.6%, from $71,839 million in 2020 to $77,995 million in 2021. This was primarily driven by an increase in on-demand and short-term deposits of $5,713 million, an increase in deposits not bearing interest of $3,374 million and an increase in certificates of deposit of $1,511 million, offset by a decrease in term deposits of $5,534 million.

Bonds and notes decreased by $1,994 million or 10.2%, from $19,512 million in 2020 to $17,518 million in 2021. This was primarily due to a net decrease in term debt issuances of $809 million and a decrease due to foreign currency translation of $809 million.

Amounts due to related entities decreased by $597 million or 31.4%, from $1,903 million in 2020 to $1,306 million in 2021. This was primarily due to a decrease in repurchase agreements of $939 million, offset by an increase in deposit from controlled entity of ultimate parent of $551 million.

Total shareholder's equity increased by $1,224 million or 14.1%, from $8,657 million in 2020 to $9,881 million in 2021. This was mainly due to an increase in retained earnings of $1,312 million. Retained earnings includes net profit, offset by dividends paid. There were no dividends paid during the year ended September 30, 2021.

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

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. 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 2022, 2021 and 2020.

Partnership Banking

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

	Banking Group		
Dollars in Millions	**2022**	2021	2020
Net interest income	**1,915**	1,706	1,568
Other income	**234**	220	223
Total operating income	**2,149**	1,926	1,791
Operating expenses	**869**	820	791
Total operating profit before credit impairment charge and income tax expense	**1,280**	1,106	1,000
Credit impairment charge/(write-back)	**43**	(78)	55
Total operating profit before income tax expense	**1,237**	1,184	945
Income tax expense on operating profit	**346**	332	264
Net profit attributable to the shareholder of the Bank	**891**	852	681

Partnership Banking results of operations 2022 vs 2021

Partnership Banking net profit after tax increased by $39 million or 4.6%, from $852 million in 2021 to $891 million in 2022. 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 $223 million or 11.6%, from $1,926 million in 2021 to $2,149 million in 2022. This increase was due to higher net interest income supported by balance sheet growth and higher net interest margin.

Operating expenses increased by $49 million or 6.0%, from $820 million in 2021 to $869 million in 2022. This was due to an increase in colleagues to support service, compliance obligations and growth, as well as an increase in allocated costs from support units, partially offset by productivity benefits achieved through continued simplification of the business.

Credit impairment charge/(write-back) increased by $121 million or 155.1%, from a write-back of $78 million in 2021 to a charge of $43 million in 2022. The increase in credit impairment charges was driven by movement in modelled inputs in the non-retail loan portfolio, and non-repeat of collectively and individually assessed allowance write-backs in September 2021.

Partnership Banking results of operations 2021 vs 2020

Partnership Banking net profit after tax increased by $171 million or 25.1%, from $681 million in 2020 to $852 million in 2021. This was largely driven by an increase in net interest income and lower credit impairment charges, partly offset by higher operating expenses.

Total operating income increased by $135 million or 7.5%, from $1,791 million in 2020 to $1,926 million in 2021. This was primarily driven by favorable deposit mix and lower funding costs combined with growth in both lending and deposit volumes.

Operating expenses increased by $29 million or 3.7%, from $791 million in 2020 to $820 million in 2021. This was due to an increase in allocated costs as well as higher performance-based remuneration, partly offset by productivity benefits achieved through continued simplification of the business.

Credit impairment charge/(write-back) reduced by $133 million or 241.8%, from a charge of $55 million in 2020 to a write-back of $78 million in 2021. This reduction was primarily due to a lower number of individual impaired exposures.

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

	Banking Group		
Dollars in Millions	2022	2021	2020
Net interest income	543	438	406
Other income	272	242	246
Total operating income	815	680	652
Operating expenses	166	158	151
Total operating profit before credit impairment charge and income tax expense	649	522	501
Credit impairment charge/(write-back)	2	(24)	93
Total operating profit before income tax expense	647	546	408
Income tax expense on operating profit	181	153	115
Net profit attributable to the shareholder of the Bank	466	393	293

Corporate and Institutional Banking results of operations 2022 vs 2021
Corporate and Institutional Banking net profit after tax increased by $73 million or 18.6%, from $393 million in 2021 to $466 million in 2022. 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 $135 million or 19.9%, from $680 million in 2021 to $815 million in 2022. This increase was due to higher net interest income supported by balance sheet growth and higher net interest margin. Higher other income was due to higher fees earned on business lending growth and higher customer risk management income.

Operating expenses increased by $8 million or 5.1%, from $158 million in 2021 to $166 million in 2022. This was due to an increase in colleagues to support compliance obligations as well as an increase in allocated costs from support units.

Credit impairment charge/(write-back) increased by $26 million or 108.3%, from a write-back of $24 million in 2021 to a charge of $2 million in 2022. The increase in credit impairment charges was driven by increased collectively assessed impairment charges and non-repeat of a small number of larger individually assessed allowance write-backs in September 2021.

Corporate and Institutional Banking results of operations 2021 vs 2020
Corporate and Institutional Banking net profit after tax increased by $100 million or 34.1%, from $293 million in 2020 to $393 million in 2021. This was largely driven by an increase in net interest income and lower credit impairment charges, partly offset by higher operating expenses.

Operating expenses increased by $7 million or 4.6%, from $151 million in 2020 to $158 million in 2021. This was due to an increase in allocated costs as well as higher performance-based remuneration.

Credit impairment charge/(write-back) reduced by $117 million or 125.8%, from a charge of $93 million in 2020 to a write-back of $24 million in 2021. This reduction was primarily due to a lower number of individual impaired exposures, combined with write-backs for a small number of larger 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 as part of the consolidated financial statements of the Banking Group for statutory financial reporting purposes; elimination entries on consolidation of the results and of the Banking Group's controlled entities in the preparation of the consolidated financial statements of the Banking Group; and results of an entity included for management reporting purposes (BNZ Life Insurance Limited, NAB's 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	2022	2021	2020
Net interest income/(expense)	46	37	108
Gains less losses on financial instruments[1]	251	277	88
Other income/(expense)	(130)	(61)	(119)
Total operating income	167	253	77
Operating expenses/(income)	41	82	216
Total operating profit before credit impairment charge and income tax expense	126	171	(139)
Credit impairment charge	44	65	152
Total operating profit/(loss) before income tax expense	82	106	(291)
Income tax expense on operating profit	25	29	(79)
Net profit/(loss) attributable to the shareholder of the Bank	57	77	(212)

[1] All gains less losses on financial instruments have been reported in the Other Segment.

Other Segment results of operations 2022 vs 2021

Net profit after tax for the Other Segment reduced by $20 million, from $77 million in 2021 to $57 million in 2022. This was largely driven by lower operating income partially offset by lower operating expenses and credit impairment charges.

Gains less losses on financial instruments decreased by $26 million or 9.4%, from a gain of $277 million in 2021 to a gain of $251 million in 2022. This was mainly driven by reductions in trading gains on financial instruments and movement in credit risk adjustments on financial assets held at fair value, partially offset by gains on cross currency basis spreads on swaps used to economically hedge foreign currency fixed rate medium term notes.

Other income/(expense) increased by $69 million or 113.1%, from an expense of $61 million in 2021 to an expense of $130 million in 2022. This was mainly driven by the non-repeat of the reduction in customer remediation provisioning in 2021 and an increase in elimination entries for customer risk management income.

Operating expenses reduced by $41 million or 50.0%, from $82 million in 2021 to $41 million in 2022. This was largely due to the non-repeat of increased provisioning for historical holiday pay remediation from 2021 subsequently released in 2022 partially offset by separation costs following the sale of BNZ Life Insurance Limited, NAB's insurance operation in New Zealand.

Credit impairment charge/(write-back) reduced by $21 million or 32.3%, from $65 million in 2021 to $44 million in 2022. This was primarily driven by lower collectively assessed impairment charges for forward looking economic adjustments compared to prior year.

Other Segment results of operations 2021 vs 2020

Net profit after tax for the Other Segment increased by $289 million, from a loss of $212 million in 2020 to a profit of $77 million in 2021. This was driven by a decrease in operating expenses, an increase in operating income, and a reduction in credit impairment charges.

Gains less losses on financial instruments increased by $189 million or 214.8%, from a gain of $88 million in 2020 to a gain of $277 million in 2021. This was mainly driven by the increase in NZD interest rates and currency basis movements on cross-currency swaps.

Other income/(expense) reduced by $58 million or 48.7%, from an expense of $119 million in 2020 to an expense of $61 million in 2021. This was primarily due to a reduction in customer remediation provisioning.

Operating expenses reduced by $134 million or 62.0%, from $216 million in 2020 to $82 million in 2021. This decrease was mainly due to the 2020 change in BNZ's software capitalization policy, increased provisioning for historical holiday pay remediation and non-repeat of provision for restructure costs.

Credit impairment charge/(write-back) reduced by $87 million, from $152 million in 2020 to $65 million in 2021. This is primarily due to a lower level of collectively assessed impairment charges for forward looking economic adjustments.

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

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 framework. Forming part of the Banking Group's risk management strategy, this starts with the BNZ Board approved Strategy, Risk Appetite and Financial Plans. 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 frameworks and provide insight, oversight 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 ("BRC") supports the framework for risk management across the Banking Group. Further details on the role of BRC 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 BRC 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 in 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.

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 the Banking Group's Asset, Liability and Capital Committee ("ALCCO"), which is a subcommittee of the Banking Group's ERCC.

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 BRC. To aid in the fulfilment of its guidance responsibilities, BRC receives regular reports on the Banking Group's liquidity management activity, risk limits and sensitivity metrics. ALCCO is responsible for approval and providing overview of the execution of the liquidity strategy and escalation of issues to ERCC.

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 will require BNZ, as a "climate reporting entity", to annually prepare and make public climate disclosures on the effects of climate change to its business, in accordance with climate-related disclosure standards, to be issued by the External Reporting Board. The External Reporting Board is expected to issue the first climate-related disclosure standards by December 2022, which means climate statements will be required to be published from early 2024 for accounting periods that start on or after January 1, 2023.

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:

- the maturity of 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 September 30, 2022, the Banking Group held $7,414 million (September 30, 2021: $7,348 million; September 30, 2020: $10,814 million) of trading securities. In addition, the Banking Group held $99,346 million (September 30, 2021: $94,691 million; September 30, 2020: $87,518 million) of net loans and advances to customers, of which $24,950 million (September 30, 2021: $22,786 million; September 30, 2020: $24,514 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 September 30, 2022 of $120,359 million (September 30, 2021: $109,241 million; September 30, 2020: $103,653 million), funding from customer deposits and certificates of deposit amounted to $75,866 million (September 30, 2021: $73,566 million; September 30, 2020: $68,502 million) or 63.0% (September 30, 2021: 67.3%; September 30, 2020: 66.1%). 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 $5,160 million as at September 30, 2022 (September 30, 2021: $4,931 million; September 30, 2020: $2,168 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 September 30, 2022, the Banking Group had on issue $22,131 million (September 30, 2021: $19,468 million; September 30, 2020: $21,461 million) of term debt securities (bonds, notes and subordinated debt) and $2,288 million (September 30, 2021: $4,429 million; September 30, 2020: $3,337 million) of commercial paper.

The net cash flow from operating activities in 2022 was an outflow of $5,500 million (2021: inflow of $5,049 million; 2020: inflow of $1,321 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 September 30, 2022 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

		Banking Group (2022)		
Dollars in Millions	Program Size	Amount Outstanding NZD	Issuing Entity	Principal Market
U.S. Commercial Paper Program – short term debt securities	USD10,000	2,288	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	1,661	BNZ	Domestic
Global Medium Term Note Program	USD100,000	11,825	BNZ and BNZ-IF[1]	Offshore
BNZ Covered Bond Program	NZD7,000	5,195	BNZ and BNZ-IF[2]	Offshore and Domestic
Debt Issuance Program (medium term notes)	Unlimited	3,161	BNZ	Domestic

[1] Securities issued by BNZ-IF are guaranteed by BNZ.

[2] 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.

Internal residential mortgage-backed securities program

In May 2008, the RBNZ expanded the range of acceptable collateral that banks can pledge and borrow against as part of changes to its liquidity management arrangements designed to help to ensure adequate liquidity for New Zealand financial institutions in the event that global market disruption were to intensify. From July 31, 2008, acceptable collateral included residential mortgage-backed securities ("RMBS") that satisfy the RBNZ's criteria.

Liquidity and Funding *continued*

The BNZ RMBS Trust Series 2008-1 (the "RMBS Trust") provides an internal RMBS program. As at September 30, 2022, included within the Banking Group's loans and advances to customers were housing loans held by the RMBS Trust with a carrying amount of $14,745 million (September 30, 2021: $12,646 million; September 30, 2020: $8,964 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 September 30, 2022, the Banking Group held RMBS of $15,000 million (September 30, 2021: $13,000 million; September 30, 2020: $9,000 million) of which $14,160 million (September 30, 2021: $12,240 million; September 30, 2020: $8,400 million) is eligible to be sold to the RBNZ under agreements to repurchase.

For liquidity purposes, from May 2021 there is a 5% limit on the Banking Group's total assets (previously 4%), giving a net balance of $6,394 million (September 30, 2021: $5,966 million; September 30, 2020: $4,650 million).

Additional RBNZ facilities

On March 20, 2020, the RBNZ announced that it would provide term funding through a Term Auction Facility ("TAF") to give banks the ability to access term funding using repurchase agreements with qualifying collateral for a term of up to twelve months. On March 10, 2021, the RBNZ announced the removal of the TAF. The Banking Group had no outstanding repurchase agreements with the RBNZ as at September 30, 2022 (September 30, 2021: nil; September 30, 2020: $100 million) under the TAF.

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 availability of the TLF to January 31, 2021 and extend the term to five years. On December 16, 2020, the RBNZ announced the extension of the availability of the TLF to July 28, 2021. The TLF is now closed for additional drawdowns. As at September 30, 2022, the Banking Group had repurchase agreements with the RBNZ with a value of $1,353 million (September 30, 2021: $1,664 million; September 30, 2020: $42 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 allows eligible participants to access three-year floating interest rate funding at the prevailing OCR within eighteen months for an initial allocation of 4% of eligible loans, with a further six months for an additional allocation of 2% of eligible loans, using qualifying collateral. As at September 30, 2022, the Banking Group had repurchase agreements with the RBNZ with a value of $2,100 million (September 30, 2021: $1,000 million; September 30, 2020: nil) under the FLP.

The underlying collateral accepted by the RBNZ in relation to the TLF and FLP facilities as at September 30, 2022, are RMBS to the value of $4,195 million (September 30, 2021: $3,184 million; September 30, 2020: $50 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 September 30, 2022, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $6,359 million held by the Covered Bond Trust (September 30, 2021: $5,098 million; September 30, 2020: $4,583 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 new "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.

From January 1, 2022, an IRB bank must also 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 1.06 scalar, apply a floor on IRB exposure equal to 85% of the value of those RWA recalculated using the standardized methodology.

Capital 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.

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 and 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 included below and on the following pages detail the capital calculation, capital ratios and capital requirements as at September 30, 2022, September 30, 2021 and September 30, 2020. During the financial year ended September 30, 2022 the Banking Group complied with all 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 2022**	Unaudited 2021	Unaudited 2020
Qualifying capital			
Common Equity Tier 1 capital			
Contributed equity - ordinary shares	**4,056**	4,056	4,056
Retained profits	**6,709**	5,805	4,493
Accumulated other comprehensive income and other disclosed reserves	**293**	18	105
Deductions from Common Equity Tier 1 capital:			
Goodwill and other intangible assets	**409**	293	229
Cash flow hedge reserve	**282**	27	113
Credit value adjustment on liabilities designated at fair value through profit or loss	**(37)**	(87)	(76)
Prepaid pension assets (net of deferred tax)	**6**	6	6
Deferred tax asset	**293**	283	295
Total expected loss less total eligible allowances for impairment	**-**	-	-
Credit enhancements	**-**	2	2
Total Common Equity Tier 1 capital	**10,105**	9,355	8,085
Additional Tier 1 capital			
Perpetual Notes[1]	**788**	900	900
Total Additional Tier 1 capital	**788**	900	900
Total Tier 1 capital	**10,893**	10,255	8,985
Tier 2 capital			
Revaluation reserves	**3**	2	3
Subordinated Notes[2]	**988**	1,050	500
Listed Subordinated Notes	**-**	-	550
Total eligible impairment allowance in excess of expected loss	**268**	187	132
Total Tier 2 capital	**1,259**	1,239	1,185
Total Tier 1 and Tier 2 qualifying capital	**12,152**	11,494	10,170

[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.

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 2022	**Unaudited 2022**	Unaudited 2021	Unaudited 2020
Common Equity Tier 1 capital ratio	**4.5%**	**12.8%**	13.8%	11.9%
Tier 1 capital ratio	**6.0%**	**13.8%**	15.1%	13.2%
Total qualifying capital ratio	**8.0%**	**15.4%**	16.9%	14.9%
Prudential capital buffer ratio	**3.5%**	**7.4%**	8.9%	6.9%

Liquidity, Funding and Capital Resources

Capital Resources *continued*

Total regulatory capital requirements

	Banking Group								
Dollars in Millions	**Total Exposure at Default after Credit Risk Mitigation[3] Unaudited 2022**	**Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited 2022**	**Total Capital Require-ment Unaudited 2022**	Total Exposure at Default after Credit Risk Mitigation[3] Unaudited 2021	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited 2021	Total Capital Require-ment Unaudited 2021	Total Exposure at Default Unaudited 2020	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited 2020	Total Capital Require-ment Unaudited 2020
Credit risk									
Exposures subject to the internal ratings based approach[1]	**111,677**	**43,583**	**3,487**	125,712	44,100	3,528	119,272	45,214	3,617
Specialized lending subject to the slotting approach[1]	**7,883**	**7,303**	**584**	8,106	7,348	588	8,123	7,589	607
Exposures subject to the standardized approach[1]	**20,614**	**2,631**	**211**	2,181	998	80	2,425	1,014	81
Equity exposures[1]	**1**	**5**	**-**	1	4	-	1	6	-
Credit value adjustment subject to BPR	**N/A**	**1,346**	**108**	N/A	1,007	81	N/A	2,007	161
Agribusiness supervisory adjustment[2]	**N/A**	**-**	**-**	N/A	2,829	226	N/A	1,438	115
Adjustment for standardized RWA floor[4]	**N/A**	**10,704**	**856**	N/A	-	-	N/A	-	-
Total credit risk	**140,175**	**65,572**	**5,246**	136,000	56,286	4,503	129,821	57,268	4,581
Operational risk	**N/A**	**9,138**	**731**	N/A	8,588	687	N/A	8,225	658
Market risk	**N/A**	**4,212**	**337**	N/A	3,089	247	N/A	2,725	218
Total	**140,175**	**78,922**	**6,314**	136,000	67,963	5,437	129,821	68,218	5,457

[1] In calculating the total capital requirement, a scalar of 1.06 has been applied to the risk-weighted assets, as required by the RBNZ in accordance with the Bank's Conditions of Registration.

[2] The agribusiness supervisory adjustment increases the risk weight of the Banking Group's rural lending portfolio to a minimum as specified by the RBNZ. Effective from March 31, 2022 the Banking Group is no longer required to overlay this adjustment.

[3] For the years ended September 30, 2022 and September 30, 2021, exposure at default is presented after credit risk mitigation. This presentational change has no impact on the calculation of risk-weighted exposures or implied risk-weighted exposures, or total capital requirements. Comparative balances for the year ended September 30, 2020 have not been restated.

[4] From January 1, 2022, the Banking Group's IRB RWA (after multiplying by the 1.06 scalar) are subject to a floor equal to 85% of the value of those RWA re-calculated using the standardized methodology.

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.

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 a 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.

Capital Resources *continued*

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

	Banking Group		
Dollars in Millions	2022	2021	2020
Contingent liabilities			
Bank guarantees[1]	473	436	372
Standby letters of credit	356	279	254
Documentary letters of credit	254	153	166
Performance related contingencies[1]	1,167	853	954
Total contingent liabilities	2,250	1,721	1,746
Credit related commitments			
Revocable commitments to extend credit[2]	5,904	9,735	9,164
Irrevocable commitments to extend credit[2]	14,433	12,662	12,599
Total credit related commitments	20,337	22,397	21,763
Total contingent liabilities and credit related commitments	22,587	24,118	23,509

[1]Comparative information has 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, the Banking Group has reclassified a portion of the facilities from revocable to irrevocable.

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 (2022)				
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]	3,546	9,316	5,524	3,745	22,131
Lease liabilities	40	63	42	134	279
Total contractual obligations	3,586	9,379	5,566	3,879	22,410

[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 21 Subordinated Debt in BNZ's Disclosure Statement for the year ended September 30, 2022 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 2022**	**Fair Value Liabilities 2022**	Fair Value Assets 2021	Fair Value Liabilities 2021	Fair Value Assets 2020	Fair Value Liabilities 2020
Trading derivatives (including economic hedges)	**8,786**	**7,748**	4,286	3,115	6,031	4,701
Hedging derivatives	**754**	**480**	118	74	109	10
Total derivative financial instruments	**9,540**	**8,228**	4,404	3,189	6,140	4,711

For details of trading and hedging derivative financial instruments, refer to Note 12 Derivative Financial Instruments of the Disclosure Statement for the year ended September 30, 2022.

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 Year		
Dollars in Millions	**2022**	2021	2020	**2022**	2021	2020
VaR at a 99% confidence level						
Foreign exchange risk	**0.46**	0.27	1.85	**0.33**	0.80	1.25
Interest rate risk	**1.73**	1.84	4.06	**2.81**	2.95	2.33
Volatility risk	**0.03**	0.04	-	**0.03**	0.05	0.01
Credit spread risk	**0.85**	0.35	0.47	**0.46**	0.55	0.37
Diversification benefit	**(1.19)**	(0.01)	(1.67)	**(0.49)**	(1.00)	(1.15)
Total VaR for physical and derivative positions	**1.88**	2.49	4.71	**3.14**	3.35	2.81

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.

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 November 2, 2022. 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

- There are increasing downside risks to the global economic outlook. Strong and broadening inflationary pressures are leading central banks to tighten monetary policy more aggressively than had previously been anticipated. Financial markets have been increasingly volatile, and there is high uncertainty about the extent to which economic activity will slow in response to the monetary policy tightening. Financial stability risks have increased as a result.
- House prices in New Zealand continue to decline as mortgage rates rise. Nationally, prices are down 11 percent from their November 2021 peak, with larger falls in Wellington and Auckland. Negative equity and mortgage servicing arrears are not widespread at present, but will grow if prices continue to fall and as mortgages reprice to higher interest rates. Significantly higher unemployment would lead to further stresses among households, and is the biggest risk to financial stability at present.
- Rising household debt servicing costs and declining household wealth will limit consumption growth over the next year. Additionally, the current conditions in the housing market are likely to lead to a decline in new residential construction once existing development projects are completed, which would contribute to slowing economic activity. Businesses in most industries have reduced their leverage in recent years, which will limit vulnerabilities as debt servicing costs increase and demand slows.
- Despite these challenges, New Zealand's financial system is well placed to support the economy in the face of a rising interest rate environment. Banks' capital and liquidity positions are strong, and profitability and asset quality remain high. Recent stress tests demonstrate banks' resilience to scenarios involving rising unemployment and interest rates, and declining house prices.
- While the financial system as a whole is resilient, some households and businesses will come under stress from the rising interest rate environment. It is important institutions take a long-term perspective in the face of the current economic uncertainties, making prudent lending decisions and providing ongoing access to credit for the wider economy, as well as supporting customers in stress.
- We continue to strengthen our regulatory, supervisory and enforcement frameworks to support the stability of the financial system over the longer term, and are guided in this by our assessment of the risks to it and its vulnerabilities. Financial institutions need to continue to invest in their systems, governance and risk management to build their long-term resilience."

"Chapter 2
Asset prices, households and businesses

The overall financial health of New Zealand households and businesses is sound, but looking ahead there are vulnerabilities. The global economic outlook is deteriorating as central banks tighten monetary policy to reduce inflation. There is uncertainty about the extent to which economic activity will slow. Domestically, some recent mortgage borrowers are at risk of debt servicing stress and negative equity as interest rates rise and house prices fall. Businesses have benefited from strong demand and have improved their balance sheets, but household spending is expected to weaken, and this could pose challenges for some industries. After a period of buoyant demand, prospects for the residential construction sector are deteriorating owing to the housing market downturn."

"Chapter 3
New Zealand's financial institutions

A sound and efficient financial system is fundamental to the overall health of New Zealand's economy. Financial institutions have continued to build their resilience in the past six months. Banks' capital positions have improved in preparation for higher regulatory requirements. Profitability has recovered to pre-pandemic levels, and asset quality remains high. Insurers have retained capital during the period of economic uncertainty. Developments in Financial Market Infrastructures will enable New Zealanders to send and receive funds in a more timely and convenient manner."

"Chapter 4
Regulatory policy initiatives

As part of our work to protect and promote financial stability, we continue to improve the regulatory structures of the New Zealand financial system, by prioritising work on major legislative reforms and other key initiatives linked to our assessment of vulnerabilities. This chapter provides updates on this work, with particular focus on seven key initiatives."

"Chapter 5
Supervisory and enforcement activities

We are expanding our capacity and activities as we become a more intensive prudential supervisor. We are empowered to take action when non-compliance with the relevant legislation and regulatory frameworks is identified. This chapter provides information on recent supervisory activities, identified instances of non-compliance, and enforcement action, to achieve our statutory objectives."

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		
Dollars in Millions	**2022**	2021	2020
Revenue from external customers			
New Zealand	**3,131**	2,859	2,520
Outside of New Zealand	**-**	-	-
Total revenue	**3,131**	2,859	2,520

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	
	2022	2021	2020	2022 vs 2021	2021 vs 2020
Number of full-time equivalent employees	**5,246**	4,785	4,720	461	65

The number of full-time equivalent employees within the Banking Group has increased by 461 or 9.6% from 2021 to 2022, 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 financial year ended September 30, 2022, 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 year ended September 30, 2022 (year ended September 30, 2021: nil; year ended September 30, 2020: nil).

Details of other transactions with related entities are outlined in Note 23 Related Entity Transactions of the Disclosure Statement.

Related Entity Transactions *continued*

	Banking Group		
Dollars in Millions	2022	2021	2020
Total balances with related entities			
Amounts due from related entities			
Loans outstanding to ultimate parent	195	150	1,037
Loans outstanding to controlled entities of ultimate parent	15	29	16
Total amounts due from related entities	210	179	1,053
Derivative financial assets with related entities	3,997	1,713	2,296
Amounts due to related entities			
Deposits from ultimate parent	1,123	366	1,497
Deposits from controlled entities of ultimate parent	1,037	940	406
Total amounts due to related entities	2,160	1,306	1,903
Derivative financial liabilities with related entities	3,112	1,352	1,989
Subordinated debt due to related entities	1,950	1,950	1,400

Management

BNZ Board

Composition of BNZ Board

As at September 30, 2022, 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
Bruce Ronald Hassall	Independent Non-Executive Director
Kevin John Kenrick	Independent Non-Executive Director
Linley Ann Wood	Independent Non-Executive Director
Louis Arthur Hawke	Independent Non-Executive Director
Gary Andrew Lennon	Non-Executive Director

Subsequent to September 30, 2022, Warwick Ean Hunt has been appointed as an independent non-executive director of BNZ, effective November 1, 2022.

As at September 30, 2022, 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 September 30, 2022, 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 BRC, 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, CMInstD
B.A. (Auckland), A.M.P. (Harvard Business School)
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, MEM, B.Com (Hons) majoring in Accounting and Finance
Daniel Huggins was appointed Managing Director and CEO of BNZ on October 1, 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.

Barbara Chapman
CNZM, B.Com. (Canterbury)
Barbara Chapman was appointed as an independent non-executive director of BNZ on October 1, 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).

Bruce Hassall
B.Com., FCA
Bruce Hassall was appointed as an independent non-executive director of BNZ in December 2015.

Mr. Hassall is a chartered accountant and was previously Senior Partner and CEO of PricewaterhouseCoopers New Zealand. Mr. Hassall has considerable commercial and strategic experience, together with technical audit, finance and governance knowledge. His areas of expertise include financial reporting and capital raising, and he has extensive industry knowledge across a wide range of sectors.

Directorships of listed entities: Fletcher Building Limited (Chair). Mr. Hassall's other directorships and interests include: Fletcher Building Industries Limited (Chair), Fonterra Co-operative Group Limited and The Farmers' Trading Company Limited (Chair).

Management

BNZ Board *continued*

Kevin Kenrick
BMS
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
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) and Melanesia Mission Trust.

Louis Hawke
BEc (Hons), MBA
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.

Gary Lennon
BEc (Hons) Sydney, FCA
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 Limited.

Warwick Hunt
B.Acc, FCA and MNZM
Warwick Hunt has been appointed as an independent non-executive director of BNZ, effective November 1, 2022.

Mr. Hunt is a chartered accountant and has been the Managing Partner and Chief Operating Officer of PricewaterhouseCoopers United Kingdom since 2018. Mr. Hunt has considerable commercial and strategic experience and has held governance and executive leadership roles in the United Kingdom, Europe, Middle East and Africa, the Asia Pacific region and in New Zealand.

Directorships of listed entities: Genesis Energy Limited. Mr. Hunt's other interests include: King's College London Business School Advisory Council (Chair).

Dates of appointment/reappointment of BNZ's directors as at September 30, 2022

Director	Date of Appointment	Last Date of Reappointment	Next Date of Reappointment
D A McKay	March 5, 2013	March 5, 2022	March 5, 2023
D J Huggins	October 1, 2021	N/A	N/A
B J Chapman	October 1, 2021	N/A	October 1, 2024
B R Hassall	December 21, 2015	December 21, 2021	December 21, 2022
K J Kenrick	July 1, 2016	July 1, 2022	July 1, 2025
L A Wood	April 14, 2020	N/A	April 14, 2023
L A Hawke	February 1, 2017	February 1, 2020	February 1, 2023
G A Lennon	May 1, 2019	N/A	N/A

Subsequent to September 30, 2022, Warwick Ean Hunt has been appointed as an independent non-executive director of BNZ, effective November 1, 2022.

Remuneration of BNZ directors
BNZ directors were paid aggregate directors' fees of $1,335,834, $1,263,563 and $1,220,300 for the years ended September 30, 2022, September 30, 2021 and September 30, 2020, 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 September 30, 2022, the members of the BNZET were:

Name	Position
Daniel James Huggins	Managing Director and Chief Executive Officer
Hayley Michelle Cassidy[1]	Executive, Chief General Counsel
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

[1] On November 15, 2022, BNZ announced that its Executive, Chief General Counsel, Hayley Cassidy, will be leaving BNZ with effect from January 13, 2023, and that a General Manager, Legal Services and General Counsel, reporting to the Executive – Commercial Services & Responsible Business, will be appointed as a replacement in due course.

Diversity

As at September 30, 2022, the proportions of female directors on the BNZ Board and female members of the BNZET were 25% and 42%, respectively (September 30, 2021: 38% and 40%).

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, BRC, 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, NAB and the National Wealth Management International Holdings Limited ("NWMIHL") 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; and
- tax risk and tax governance arrangements.

As at September 30, 2022, the members of NZRAC were Bruce Hassall (Chair), Barbara Chapman and Louis Hawke. Subsequent to September 30, 2022, Warwick Ean Hunt was appointed to NZRAC on November 1, 2022.

Board Risk and Compliance Committee

As at September 30, 2022, BRC comprised all directors of BNZ. BRC assists the BNZ Board in fulfilling certain of its statutory, fiduciary and regulatory responsibilities.

BRC is responsible for:

- oversight of the risk profile and risk management of BNZ, its subsidiaries and certain NAB and NWMIHL group entities operating in New Zealand (together, the "BRC Companies") within the context of the BNZ Board-determined risk appetite;
- making recommendations to the BNZ Board (and where applicable to the BRC Companies) concerning current and future risk appetite, risk management strategy and particular risks or risk management practices;
- reviewing management's plans to mitigate material risks faced by the BRC Companies;
- oversight of the implementation and operation of the risk management framework and internal compliance and control frameworks throughout the BRC 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 BRC Companies;
- reviewing assurances which enable the BNZ Board and BRC to support the NAB Board and NAB Board Risk Committee to make declarations to APRA on risk management;
- ensuring that the Chief Risk Officer has unfettered access to BRC via the BRC Secretary or Chair of BRC; and

Board Committees *continued*

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

As at September 30, 2022, the members of BRC were Linley Wood (Chair), Bruce Hassall, Louis Hawke, Kevin Kenrick, Douglas McKay, Daniel Huggins, Barbara Chapman and Gary Lennon. Subsequent to September 30, 2022, Warwick Ean Hunt was appointed to BRC on November 1, 2022.

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.

The Board Due Diligence Committee is responsible for ensuring due diligence is undertaken on disclosure documents in accordance with BNZ Board approved procedures.

As at September 30, 2022, the members of the Board Due Diligence Committee were Linley Wood (Chair), Bruce Hassall and Louis Hawke.

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 September 30, 2022, the members of the People and Remuneration Committee were Barbara Chapman (Chair), Kevin Kenrick and Douglas McKay.

Board Practices

As at September 30, 2022, 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. Effective November 1, 2022, Warwick Hunt has been appointed as an independent non-executive director. 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 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.