FIFTH SUPPLEMENT dated 29 May 2024 to the Offering Circular dated 15 November 2023

NATIONAL AUSTRALIA BANK LIMITED

(ABN 12 004 044 937)
(*incorporated with limited liability in the Commonwealth of Australia*)

BANK OF NEW ZEALAND

(*incorporated in New Zealand with limited liability under registered number 428849*)

BNZ INTERNATIONAL FUNDING LIMITED,
acting through its London Branch
(*incorporated in New Zealand with limited liability under registered number 1635202 and registered as a branch in England & Wales under numbers BR008377 and FC026206*)

U.S.$100,000,000,000 Global Medium Term Note Programme

unconditionally and irrevocably guaranteed in the case of Notes issued by BNZ International Funding Limited, acting through its London Branch by

BANK OF NEW ZEALAND

(*incorporated in New Zealand with limited liability under registered number 428849*)

This supplement (the **Supplement**) to the offering circular dated 15 November 2023, as previously supplemented by the supplements dated 21 November 2023 (in respect of BNZ and BNZ-IF only), 22 February 2024 (in respect of NAB only), 8 March 2024 (in respect of NAB only) and 3 May 2024 (together, the **Offering Circular**) and relating to the U.S.$100,000,000,000 Global Medium Term Note Programme (the **Programme**) constitutes:

(i) in relation to PR Notes issued by (a) BNZ or (b) BNZ-IF and guaranteed by the Guarantor, a supplement to the Offering Circular for the purposes of Article 23(1) of the Prospectus Regulation and has been approved as such by the *Commission de Surveillance du Secteur Financier* (the **CSSF**) as competent authority under the Prospectus Regulation; and

(ii) in relation to Exempt Notes issued by (a) BNZ or (b) BNZ-IF and guaranteed by the Guarantor, a supplement to the Offering Circular for the purposes of rule 206 of Part 2, Chapter 2 of the rules and regulations of the Luxembourg Stock Exchange and has been approved as such by the Luxembourg Stock Exchange as competent entity under Part IV of the Prospectus Act 2019.

This Supplement is prepared in connection with the Programme established by, *inter alios*, BNZ and BNZ-IF. Capitalised terms used but not otherwise defined in this Supplement shall have the meaning ascribed thereto in the Offering Circular. When used in this Supplement, **Prospectus Regulation** means Regulation (EU) 2017/1129 and **Prospectus Act 2019** means the Luxembourg act dated 16 July 2019 on prospectuses for securities.

This Supplement constitutes a supplement to, and should be read in conjunction with, the Offering Circular and all documents which are deemed to be incorporated therein by reference (see "*Documents Incorporated by Reference and Credit Ratings—(A) Documents Incorporated by Reference*" in the Offering Circular, as amended hereby).

BNZ and BNZ-IF accept responsibility for the information contained in this Supplement. To the best of the knowledge of BNZ and BNZ-IF (which have each taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Statements contained in this Supplement, including any statement incorporated by reference into the Offering Circular by this Supplement, will, to the extent applicable and whether expressly, by implication or otherwise, be deemed to modify or supersede statements incorporated in the Offering Circular (or the documents incorporated by reference in the Offering Circular).

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Offering Circular by this Supplement and (b) any other statement in, or incorporated by reference into, the Offering Circular, the statements in (a) will prevail.

The Arranger and the Dealers have not separately verified the information contained in this Supplement. None of the Dealers or the Arranger makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Supplement.

Purpose of the Supplement

The purpose of this Supplement is to (i) incorporate by reference the BNZ disclosure statement for the six months ended 31 March 2024 (the **March 2024 HY Disclosure Statement**) and the relevant sections (as set out below) of BNZ's U.S. Debt Funding Information for the six months ended 31 March 2024; (ii) include a new "*Significant change in the financial performance or financial position*" statement for BNZ; (iii) update the risk factors under the heading "*BNZ and BNZ-IF - Risks specific to BNZ and BNZ-IF*"; and (iv) include a new section headed, "*Description of BNZ – Financial Information Concerning BNZ's Assets and Liabilities, Financial Position and Profits and Losses – Financial Measures HY 2024*" on page 272 of the Offering Circular.

1. Documents incorporated by reference

On 23 May 2024, BNZ published the March 2024 HY Disclosure Statement. A copy of the March 2024 HY Disclosure Statement, which includes the consolidated unaudited financial statements of BNZ for the six months ended 31 March 2024 (together with the notes and the auditor's independent review report thereto, the **BNZ 2024 Half Year Financial Statements**), has been filed with the CSSF and the Luxembourg Stock Exchange and, by virtue of this Supplement, is incorporated by reference into, and forms part of, the Offering Circular, to the extent provided in the relevant cross-reference list below, and is available via *https://www.nabcapital.com.au/content/dam/nab-capital/documents-required-for-10-yrs/BNZ-March-2024-Disclosure-Statement.pdf*.

A copy of BNZ's U.S. Debt Funding Information for the six months ended 31 March 2024 has also been filed with the CSSF and the Luxembourg Stock Exchange and, by virtue of this Supplement, is incorporated by reference into, and forms part of, the Offering Circular, to the extent provided in the relevant cross-reference list below, and is available via *https://www.nabcapital.com.au/content/dam/nab-capital/documents-required-for-10-yrs/BNZ-USDFI-Mar24.pdf*.

The list of documents incorporated by reference on pages 93 to 98 (inclusive) of the Offering Circular (under the section headed, "*Documents Incorporated by Reference and Credit Ratings – (A) Documents Incorporated by Reference*") shall be construed accordingly.

The cross-reference lists below are to be read in conjunction with the cross-reference lists on pages 93 to 98 (inclusive) of the Offering Circular in the section headed, "*Documents Incorporated by Reference and Credit Ratings—(A) Documents Incorporated by Reference*".

Each of the following pages of the following documents is incorporated by reference herein:

BNZ 2024 Half Year Financial Statements:	
Bank of New Zealand Corporate Information	Page 2
Financial Statements	Pages 3 to 6
- Income Statement and Statement of Comprehensive Income	Page 3
- Statement of Changes in Equity	Page 4
- Balance Sheet	Page 5
- Cash Flow Statement	Page 6
Notes to and Forming Part of the Interim Financial Statements	Pages 7 to 38

Independent Auditor's Review Report Credit Ratings Conditions of Registration Directors' Statement	Pages 39 to 42 Page 43 Page 43 Page 44
BNZ 2024 Half Year U.S. Debt Funding Information Selected Financial Information Results of Operations	 Pages 4 to 5 Pages 8 to 13

The existing paragraph entitled "*Significant change in the financial performance or financial position of BNZ*" on page 272 of the Offering Circular shall be deemed deleted and replaced with the following:

"***Significant change in the financial performance or financial position of BNZ***

There has been no significant change in the financial performance or financial position of the BNZ Group since 31 March 2024.".

2. Update of Risk Factors

The risk factors under the heading "*BNZ and BNZ-IF - Risks specific to BNZ and BNZ-IF*" on pages 45 to 65 (inclusive) of the Offering Circular shall be deemed deleted in their entirety and replaced with the updated risk factors set out in the Annex to this Supplement.

3. BNZ Financial Measures

The following wording shall be inserted immediately below the existing paragraphs set out on page 272 of the Offering Circular under the heading "*Description of BNZ – Financial Information Concerning BNZ's Assets and Liabilities, Financial Position and Profits and Losses – Auditing of historical annual financial information*":

"***Financial Measures HY 2024***

The financial measures below (together the **Financial Measures** and each a **Financial Measure**) have been calculated based on line items included in the March 2024 HY Disclosure Statement and the "*Supplementary Business and Financial Disclosure*"[1] for the six months ended 31 March 2024. BNZ considers the Financial Measures to constitute alternative performance measures (**APMs**), as defined for the purposes of the European Securities and Markets Authority guidelines on APMs:

The cost to income ratio of BNZ as at 31 March 2024 was 36.21 per cent. and as at 31 March 2023 was 32.51 per cent.

The loan to deposit ratio of BNZ as at 31 March 2024 was 1.30 and as at 31 March 2023 was 1.35.

The net yield on interest earning assets of BNZ as at 31 March 2024 was 2.37 per cent. and as at 31 March 2023 was 2.45 per cent.

Potential investors in Notes issued by BNZ or BNZ-IF should review the Financial Measures in conjunction with the March 2024 HY Disclosure Statement and the relevant sections (as indicated in the table below) of the "*BNZ U.S. Debt Funding Information*" (the **USDFI**) each incorporated by reference in this Offering Circular which relates solely to BNZ's past performance for the six months ended 31 March 2024.

Financial Measure	**Definitions and basis for calculation**	**Rationale for inclusion**	**Reconciliation with the March 2024 HY Disclosure Statement or USDFI (in**

[1] This information package is available on: https://www.bnz.co.nz/about-us/governance/suppdisc.

			relation to non-New Zealand GAAP line items)
Cost to income ratio	This measure is calculated as (x) operating expenses divided by (y) total operating income	A measure of how well BNZ manages its cost base relative to its income	See the section entitled "Income Statement" of the March 2024 HY Disclosure Statement
Loan to deposit ratio	This measure is calculated as (x) loans and advances to customers divided by (y) customer deposits	A balance sheet strength measure indicating the portion of lending assets funded by customer deposits	See the section entitled "Balance Sheet" and the corresponding note "Deposits and Other Borrowings" of the March 2024 HY Disclosure Statement
Net yield on interest earning assets	This measure is calculated as (x) (i) annualised interest income minus (ii) annualised interest expense divided by (y) total average interest earning assets	A measure of net interest income generated by BNZ's assets	See the sections entitled "Selected Financial Information" and "Results of Operations" of the USDFI

The line items used to calculate the above Financial Measures can be located in the March 2024 HY Disclosure Statement or the USDFI, as indicated in the table below:

Documents	Line Items
March 2024 HY Disclosure Statement	customer deposits loans and advances to customers operating expenses total operating income interest expense interest income
USDFI	average interest earning assets interest expense interest income

Please note that the URL referred to in this section does not form part of this Offering Circular, and for the avoidance of doubt, attention should only be given to the specific line items referred to in the table above and the whole content of this URL and the USDFI is not incorporated by reference in this Offering Circular.".

Any non-incorporated parts of a document referred to in this Supplement (which, for the avoidance of doubt, means any parts not included in the relevant cross-reference list above) are either (i) not considered by BNZ and BNZ-IF, to be relevant for investors or (ii) included elsewhere in this Supplement.

Other than the URLs for the documents incorporated by reference into the Offering Circular by this Supplement, the content of any other websites or URLs referred to in this Supplement, or in any statement incorporated by reference into the Offering Circular by this Supplement, does not form part of this Supplement or the Offering Circular, and has not been scrutinised or approved by the CSSF.

Save as disclosed in this Supplement (and any supplement to the Offering Circular previously issued), there has been no other significant new factor, material mistake or material inaccuracy relating to information included in the Offering Circular in relation to each of BNZ and BNZ-IF, since the publication of the Offering Circular.

In relation to PR Notes, copies of this Supplement and all documents incorporated by reference in the Offering Circular and this Supplement can be obtained from the website of the Luxembourg Stock Exchange at *www.luxse.com*. In relation to Exempt Notes, pursuant to rule 206 of Part 2, Chapter 2 of the rules and regulations of the Luxembourg Stock Exchange, copies of this Supplement and all documents incorporated by reference in the Offering Circular and this Supplement can be obtained from the website of the Luxembourg Stock Exchange at *www.luxse.com* and, free of charge, from the registered office of each Issuer and the Guarantor. Copies may also be obtained, free of charge, from the specified office of the Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

ANNEX

(B) BNZ AND BNZ-IF - RISKS SPECIFIC TO BNZ AND BNZ-IF

Set out below are the principal risks and uncertainties associated with BNZ and its controlled entities (including BNZ-IF). It is not possible to determine the likelihood of these risks occurring with any certainty. However, the risk in each category that BNZ considers most material is listed first, based on the information available at the date of this Supplement and BNZ's best assessment of the likelihood of each risk occurring and the potential magnitude of the negative impact to BNZ should such risk materialise. In the event that one or more of these risks materialises, BNZ's reputation, strategy, business, operations, financial condition and future performance could be materially and adversely impacted.

BNZ's risk management framework and internal controls may not be adequate or effective in accurately identifying, evaluating or addressing risks faced by BNZ. There may be other risks that are unknown or deemed immaterial, but which may subsequently become known or material. These may individually, or in aggregate, adversely impact BNZ. Accordingly, no assurances or guarantees of future performance, profitability, distributions or returns of capital are given by BNZ or BNZ-IF.

Risk specific to BNZ-IF as an offshore funding entity of BNZ

BNZ-IF is an offshore funding entity

BNZ-IF is a funding entity, the primary business of which is carrying out offshore wholesale funding for BNZ through the issuance of debt securities (see "*Description of BNZ-IF*" on pages 273 to 275 of this Offering Circular for further details). BNZ-IF's debt securities are unconditionally and irrevocably guaranteed by BNZ to enable BNZ-IF to carry out such fundraising activities. As all funds raised by BNZ-IF will be on-lent to BNZ, the ability of BNZ-IF to fund its debt obligations in respect of Guaranteed Senior Notes will be entirely dependent on the ability of BNZ to fund its debt obligations to BNZ-IF.

Strategic Risk

Strategic risk is the risk to earnings, capital, liquidity, funding or reputation arising from an inadequate response to changes in the external environment and risk of failing to properly consider downstream impacts and achieve effective outcomes when executing material change programmes.

Strategic initiatives may fail to be executed, may not deliver all anticipated benefits or may otherwise change BNZ's risk profile

BNZ's corporate strategy sets its purpose, ambition and objectives.

BNZ prioritises, and invests significant resources in, the execution of initiatives that are aligned to its chosen strategy, including transformation and change programmes. These programmes primarily focus on customers, technology, digital and data assets, infrastructure, business improvement, cultural transformation, regulatory compliance and changes to associated controls and may have dependencies on external suppliers or partners. There is a risk that these programmes may not realise some or all of their anticipated benefits and outcomes. These programmes may also increase operational, compliance, and other risks, and new or existing risks may not be appropriately assessed or controlled.

BNZ's strategy includes ESG-related initiatives, including a climate strategy and various obligations, targets and goals. Setting and achieving BNZ's sector decarbonisation targets and managing risks including climate change-related financial risks and other ESG-related risks, targets and goals are influenced by BNZ's customers, policy makers, the emerging ESG-related regulatory and disclosure environment and other stakeholders.

Any failure by BNZ to deliver in accordance with its strategy, or to deliver strategic programmes effectively, may result in material losses to BNZ, reputational damage, or a failure to achieve anticipated benefits, and ultimately, may materially and adversely impact BNZ's operations and financial performance and position.

BNZ faces a rapidly changing external environment

BNZ operates in a dynamic macro-economic environment. The impact of slowing global and domestic economic growth, increases to unemployment rates and elevated interest rates, and falling consumer confidence can reduce demand for credit, adversely impacting BNZ's revenue, or increase the risk of defaults, adversely impacting BNZ's financial performance. In addition, BNZ expense plans may be at risk due to continued inflationary pressures, particularly with respect to employee remuneration and technology costs. External economic and geopolitical impacts may be further affected by election results in major economies in 2024, including the United States.

There is also substantial competition across the markets in which BNZ conducts business. BNZ faces competition from established financial services providers and other parties, including foreign banks and new market entrants, particularly non-bank competitors, such as fintechs and digital platforms, some of which have lower costs, or operating and business models, technology platforms or products that differ from or are more competitive than BNZ's and some of which are subject to less regulatory oversight.

An increasing number of non-regulated credit providers – 'private credit' – are competing with the regulated banking sector through provision of debt and other products to customers across personal, business and institutional segments. As a growing and unregulated sector, it is yet to be fully understood how the private credit sector will perform in periods of more acute financial stress and instability and the potential transmission effects back into the regulated banking sector.

In addition, evolving industry trends, technology changes, and environmental factors have impacted and may continue to impact customer needs and preferences and BNZ may not predict these changes accurately or quickly enough, or have the resources and flexibility to adapt in sufficient time, to meet customer expectations and keep pace with competitors. These risks are heightened in the current context in which technologies, including those that may impact the financial services industry, continue to evolve at a rapid pace.

Other trends and recent regulatory and legislative developments that may impact BNZ include, but are not limited to:

- increased focus on digital, data and analytics capabilities with the objective of creating easy and seamless customer experiences. The rapid development and deployment of AI capabilities has emerged as a key strategic consideration. Inadequate or lack of adoption of AI within business processes could pose a strategic disadvantage to BNZ relative to its competitors who deploy AI tools and could result in unwanted financial and non-financial consequences for BNZ. AI regulation is developing globally and its impact on BNZ's business is currently unknown;

- increased demand for green or sustainability-related products or increased lending to assist customers in achieving their ESG-related performance objectives, for example, sustainability-linked loans, or, correspondingly, increased scrutiny of products, lending or other activities that are perceived to be inconsistent with the ESG-related performance objectives of BNZ or its stakeholders;

- continued competitive pressures in home lending, particularly as the loans of customers of BNZ continue to adjust to higher rates as fixed rate periods expire on loans entered into at historically low rates in recent years. This increases the risk that customers will refinance outside BNZ;

- increased competition for customer deposits in the context of an elevated interest rate environment, with the risk of further increases to BNZ's cost of funds relative to its competitors;

- ongoing growth of the broker market and the risk of disintermediating customer relationships (inclusive of increasing use of brokers in the commercial business lending market);

- progress is being made in Open Banking in NZ. The NZ Government has decided to establish a CDR in NZ and for banking to be the first sector designated under the legislation. In May 2024, the Customer and Product Data Bill was introduced to the NZ Parliament. In March 2024, the NZ Commerce Commission published its personal banking services market study draft report. The report contained several draft recommendations, including recommending that the NZ Government should set clear deadlines and work with the industry to ensure Open Banking is fully operational by mid-2026. In March 2024, the NZ Commerce Commission opened consultation on its proposal to recommend the designation of the interbank payment network under the Retail Payment System Act 2022 which is aimed at promoting competition and efficiency in the retail payment system. Any decision regarding designation will occur after the consultation concludes. The adoption of Open Banking is designed to increase competition and innovation in NZ banking, payments and financial data services which leads to better products and services for customers, and may increase compliance costs for established institutions, including BNZ and limit BNZ's ability to charge for access to payments or data;

- the evolving and increasingly complex payments landscape, including increasing use of digital payments, new payments infrastructures and emerging technology, and shift away from traditional payment methods;

- the continued consumer adoption of cryptocurrencies and other digital assets. The rate of digital asset adoption, digital asset product creation (for example, stable coins and decentralised finance) and government responses. For example, in April 2024, the RBNZ opened consultation on the possibility of the RBNZ issuing a CBDC, which is expected to influence the future of the sector and its impact on BNZ. The introduction of a CBDC may increase competition for deposit funding or other products and services offered by BNZ which may have an adverse impact on BNZ's financial performance and position. In addition, regulation of digital assets is nascent, but emerging, across all markets in which BNZ conducts business, which may increase BNZ's costs, or require BNZ to invest in resources to adapt its products or systems to new technologies; and

- the market study into competition for personal banking services in NZ by the NZ Commerce Commission. The NZ Commerce Commission's preliminary view, stated in its draft report published in March 2024, is that NZ's four largest banks do not face strong competition when providing personal banking services. The report contained several draft recommendations to improve competition and produce better long term market outcomes for consumers. The NZ Commerce Commission's final report, which will set out its findings on factors that may affect competition for the supply and acquisition of personal banking services, including bank profitability, and any recommendations, is due to be released in August 2024.

Competition for customers can lead to compression in profit margins and loss of market share. Intense competition increases the risk of additional price pressure, especially in commoditised lines of business, such as mortgages, where the providers with the lowest unit cost may gain market share and industry profit pools may be eroded. Such factors may ultimately impact BNZ's financial performance and position.

Risks may arise from pursuing acquisitions and divestments

BNZ regularly considers a range of corporate opportunities, including acquisitions, divestments, joint ventures and investments.

Pursuit of corporate opportunities inherently involves transaction risks, including the risk that BNZ over-values an acquisition or investment, or under-values a divestment, as well as exposure to reputational damage or regulatory intervention. BNZ may encounter difficulties in integrating or separating businesses, including failure to realise expected synergies, disruption to operations, diversion of management resources, or higher than expected costs. These risks and difficulties may ultimately have an adverse impact on BNZ's financial performance and position.

BNZ may incur unexpected financial losses following an acquisition, joint venture, or investment if the business it invests in does not perform as planned or causes unanticipated changes to BNZ's risk profile. Additionally, there can be no assurance that customers, employees, suppliers, counterparties and other relevant stakeholders will remain with an acquired business following the transaction, and any failure to retain such stakeholders may have an adverse impact on BNZ's overall financial performance and position.

BNZ may also have ongoing exposures to divested businesses, including through any residual shareholding, the provision of continued services and infrastructure, or an agreement to retain certain liabilities of the divested businesses through warranties and indemnities. These ongoing exposures may have an adverse impact on BNZ's business and financial performance and position.

On 14 December 2023, NAB announced that it had entered into an agreement with Jarden Wealth to combine NAB's and Jarden Wealth's NZ wealth advice and asset management businesses into a newly formed entity FirstCape in which NAB, Jarden Wealth, and Funds advised by Pacific Equity Partners will be the shareholders. Under the FirstCape Transaction, BNZ sold its wholly-owned subsidiary, BNZ Investment Services Limited which is the manager and issuer of certain NZ managed investment schemes, to FirstCape. The FirstCape Transaction completed on 30 April 2024. As part of the FirstCape Transaction, BNZ also entered into a referral agreement and a manufacturing and distribution agreement with FirstCape. BNZ also provided FirstCape certain indemnities and warranties relating to certain completion matters and contractual covenants. A breach or triggering of these contractual protections may result in BNZ being liable to FirstCape.

BNZ is part of a larger business group, and decisions by that larger business group, or any financial or reputational damage to that larger business group, may adversely impact BNZ's business, financial condition, liquidity, results of operations and prospects

As BNZ is part of the NAB Group, it may be impacted by the decisions made by, or events that affect, the NAB Group, as well as any financial or reputational damage by virtue of its association with the NAB Group. If financial resources are withdrawn by the NAB Group, or the NAB Group makes a business, governance, personnel or corporate decision or is subject to actions, such as regulatory actions, that are not in BNZ's interests, this may adversely affect BNZ's business, financial condition, liquidity, results of operations and prospects. In addition, the reputational consequences of the occurrence of a risk event within the NAB Group, for example, a major operational failure, may have a material impact on BNZ's business, financial condition, reputation, liquidity, results of operations and prospects. There is a risk that if a major operational failure occurred within the NAB Group, BNZ's existing business continuity plans, including those prepared under the RBNZ's Outsourcing Policy (BS11), may fail or be ineffective, which may, in turn, have a material impact on BNZ's financial performance and position.

Credit Risk

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

A protracted period of elevated interest rates may result in deterioration in BNZ's credit risk profile in the short term through accelerated increases in defaulted loans

The increase in interest rates commencing in October 2021 to combat inflationary pressures has resulted in increases in arrears in the home loan and small business portfolios. A protracted period of elevated interest rates may continue to increase household and business financial stress across NZ, particularly for those customers who are highly geared and/or facing reduced income due to weaker economic activity. This may drive an increase in corporate and business bankruptcies, job losses and higher unemployment. Sectors exposed to changes in household discretionary spending are particularly vulnerable to financial stress in the event of modifications to consumer spending behaviour.

The heightened credit risk in affected sectors and elevated levels of household and business financial stress may result in an increase in losses if customers default on their loan obligations and/or if higher capital requirements are applied to BNZ through an increase in the probability of default.

Extreme weather events, and longer-term changes in climate conditions coupled with transition risk may lead to rising customer defaults

The following risks relating to climate change, combined with changes to future insurance affordability and availability, may result in increased losses from customer defaults, and may ultimately have an adverse impact on BNZ's financial performance and position:

- increasing number of extreme weather events (including substantial rainfall or drought);
- increasing weather volatility and longer-term changes in climatic conditions; and
- climate-related transition risks as the global economy transitions to low-carbon alternatives.

Some customers are facing significant challenges from extreme weather events such as the floods in NZ in 2023, which caused stock, crop, and plant and equipment loss and damage for customers across the home and business lending portfolios. While not resulting in material increases in customer defaults, the rising severity and prevalence of these events may pose a significant risk to the credit portfolio in the medium term.

A decline in property market valuations may give rise to higher losses on defaulting loans

Residential housing loans and commercial real estate (**CRE**) loans in NZ constitute a material component of BNZ's total gross loans and acceptances.

BNZ may have higher credit risk, or experience higher credit losses, to the extent its loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral. For example, BNZ's credit risk and credit losses can increase if borrowers who engage in similar activities are uniquely or disproportionately affected by extreme weather events, economic or market conditions, or by regulation, such as regulation related to climate change. A deterioration in economic conditions or real estate values in NZ, could result in higher credit losses and costs.

Residential and CRE prices in NZ increased for some years up until 2021, but experienced a decline in 2022 following the RBNZ's moves to increase interest rates. Residential real estate prices stabilised in 2023, with most markets recording price increases and recovering most of the declines recorded in 2022. When the value of residential or CRE used as collateral (including in business lending) reduces below the value of the loan, BNZ is exposed to losses in the event of any customer default. This may, in turn, impact BNZ's financial performance and position. The most significant impact, in the event of default, is likely to come through residential mortgage customers in high loan-to-value-ratio brackets.

Adverse business conditions in NZ, in the agricultural and other sectors, may give rise to increasing customer defaults

BNZ has a large market share among lenders to the NZ agricultural sectors. These sectors may be negatively impacted by several factors, including:

- vulnerability to labour constraints;
- trade restrictions and tariffs;
- volatility in commodity prices (particularly agricultural product prices);
- foreign exchange rate movements;
- changes in consumer preference;
- disease and introduction of pathogens and pests (e.g., the threat of a local foot and mouth disease outbreak);
- export and quarantine restrictions;
- supply chain constraints and increasing supply chain producer responsibility, traceability and transparency requirements;
- extreme weather events (including substantial rainfall or drought);
- increasing weather volatility and longer term changes in climate conditions; and

- expectations related to management of other nature-related risks such as deforestation, including both the environmental impacts and potential exposure from any illegal deforestation.

Adverse business conditions (including supply chain disruptions, labour constraints and rising input costs, constrained public sector spending, volatile commodity and energy prices and the impact of rapid technological change) may also lead to stress in other sectors.

Market declines and increased volatility may result in BNZ incurring losses

Some of BNZ's assets and liabilities comprise financial instruments that are carried at fair value, with changes in fair value recognised in BNZ's income statement. Movements in interest rates can affect prepayment assumptions and thus fair value. Market declines and increased volatility could negatively impact the value of such financial instruments and cause BNZ to incur losses.

Other macro-economic, geopolitical, climate, other nature-related or social risks may adversely affect BNZ and pose a credit risk

As BNZ primarily conducts business in NZ, BNZ's performance is dependent principally on the performance of the economy in NZ. Levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates, and other economic and financial market conditions and forecasts.

Domestic and international economic conditions and forecasts are influenced by a number of macro-economic factors, such as: economic growth rates, environmental and social issues (including emerging issues such as modern slavery and nature-related risks), cost and availability of capital, central bank intervention, inflation and deflation rates, level of interest rates, yield curves, market volatility, and uncertainty.

Deterioration in any of these factors may lead to the following negative impacts on BNZ:

- deterioration in the value and liquidity of assets (including collateral);
- the inability to price certain assets;
- environmental conditions and social and governance issues impacting the risk and return profile and/or value of customers' security or business operations;
- an increase in customer or counterparty default and credit losses;
- higher provisions for credit impairment;
- mark-to-market losses in equity and trading positions, including BNZ's HQLA portfolios;
- a lack of available or suitable derivative instruments for hedging purposes; and
- increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

Economic conditions may also be negatively impacted by climate change and major shock events, such as natural disasters, epidemics and pandemics, war and terrorism, cyber-attacks, political and social unrest, banking instability and sovereign debt restructuring and defaults.

The following macro-economic and financial market conditions are, as at the date of this Supplement, of most relevance to the credit risk facing BNZ, and may affect revenue growth and/or customer balance sheets:

- Global economic growth is forecast to slow in 2024 before a modest improvement in 2025, with growth across this period expected to be below its historic long-term average. Weaker economic conditions reflect the impact of tight monetary policy and lending standards, particularly in advanced economies, along with energy disruptions in Europe and weak growth rates in China. The risk of recessions in one or more major economies in 2024 remains, with NZ entering a recession in the last quarter of 2023.

- The scale of policy rate increases over the past two years has elevated rates to levels that are restrictive of economic activity. Potential delays in the path of rate cuts back to neutral levels may expose imbalances or weaknesses in balance sheets, including those of financial institutions, and asset markets that have built up over time. Risk of contagion due to financial system instability remains an ongoing concern for BNZ due to the interdependency of financial market participants. Where concerns over the viability of financial institutions arise, it can trigger contagion fears, potentially destabilising global markets and, in turn, negatively affecting economic activity.

- China is a major trading partner for NZ, with export incomes and business investment exposed to changes in China's economic growth and trade policies. China's economy continues to face substantial headwinds, with growth forecasted to slow in 2024, reflecting subdued household consumption, slowing demand for its exports and weakness in the property sector in China. This could negatively impact the global economy generally, and the NZ economy in particular. Due to NZ's export mix, its economy is exposed to any reduction in demand in exports in China, which could therefore have a negative impact on BNZ's customers with material exposure to China and its economy, and may give rise to increasing levels of customer defaults.

- As a commodity exporting economy, NZ is exposed to shifts in global commodity prices that can be sudden, sizeable, and difficult to predict. Fluctuations in commodity markets can affect key economic variables like national income tax receipts and exchange rates. Commodity price volatility remains substantial and, given BNZ's sizeable exposures to commodity producing and trading businesses, this volatility poses a credit risk to BNZ.

- Ongoing geopolitical instability, such as the Russia-Ukraine and the Israeli-Palestinian conflicts, has negatively impacted, and could continue to negatively impact, the global and NZ economies, including by causing supply chain disruptions, rising prices for oil and other commodities, volatility in capital markets and foreign currency exchange rates, rising interest rates and heightened cyber security risks. Prices may remain elevated for an extended period, which would negatively impact most businesses and households, and may lead to increased credit losses for BNZ.

- Other geopolitical risks continue to present uncertainty to the global economic outlook, with negative impacts on consumption and business investment. Tensions between China and the United States (along with other countries), including in relation to Taiwan and the South China Sea and China's trade and technology policies, as well as disruptions to trade through the Red Sea and the potential for widening conflict in Eastern Europe and the Middle East (including Israel-Iran), could impact global economic growth and global supply chains. Similarly, geopolitical tensions in the Asia-Pacific region could increase as a result of the AUKUS pact or other similar agreements.

A slowdown in economic growth in Australia and NZ and any resulting increase in unemployment may negatively impact debt servicing levels, increase customer defaults and negatively impact BNZ's financial performance and position and its profitability.

Market Risk

Market risk is the risk of loss from BNZ's trading activities. BNZ may suffer losses as a result of a change in the value of BNZ's positions in financial instruments, bank assets and liabilities, or their hedges due to adverse movements in market prices. Adverse price movements impacting BNZ may occur in credit spreads, interest rates, foreign exchange rates, and commodity and equity prices, particularly during periods of heightened market volatility or reduced liquidity. Market volatility has increased in response to increased geopolitical risk, rising inflation and central banks lifting interest rates.

The occurrence of any event giving rise to a material trading loss may have a negative impact on BNZ's financial performance and position.

BNZ is exposed to interest rate risk

BNZ's financial performance and capital position are impacted by changes in interest rates.

Interest rate risk is the risk of BNZ's trading activities being exposed to changes in the value of securities and derivatives as a result of changes in interest rates. BNZ's trading activities accumulate interest rate risk when BNZ provides interest rate hedging solutions for customers, holds interest rate risk in anticipation of customer requirements or undertakes market-making activity in fixed income securities or interest rate derivatives. The level of volatility in interest rate markets has increased in the post-pandemic period after a broadening of inflationary pressures saw major central banks unwind stimulus and rapidly tighten monetary policy. Market conditions remain volatile in response to ongoing geopolitical risk and with market prices factoring in interest rate cuts as inflation has, in all likelihood, passed its peak.

Balance sheet and off-balance sheet items can create an interest rate risk exposure within BNZ. As interest rates and yield curves change over time, BNZ may be exposed to a loss in earnings and economic value due to the interest rate profile of its balance sheet. Such exposure may arise from a mismatch between the maturity profile of BNZ's lending portfolio compared to its deposit portfolio (and other funding sources), as well as the extent to which lending and deposit products can be repriced should interest rates change, thereby impacting net interest margins. This may adversely impact BNZ's competitive position and financial performance and position.

When interest rates are increasing, BNZ can generally earn higher net interest income. However, higher interest rates can also lead to fewer originations of loans, less liquidity in the financial markets, and higher funding costs, each of which could adversely affect BNZ's revenues and its liquidity and capital levels. Higher interest rates can also negatively affect the payment performance on loans that are linked to variable interest rates. If borrowers of variable rate loans are unable to afford higher interest payments, those borrowers may reduce or stop making payments, thereby causing BNZ to incur losses and leading to increased operational costs related to servicing a higher volume of delinquent loans.

BNZ is exposed to credit spread risk

Credit spread risk is the risk that BNZ may suffer losses from adverse movements in credit spreads, including increases in credit spreads resulting from financial markets instability This is a significant risk in BNZ's trading and banking books.

BNZ's market operations and trading activities are exposed to movements in the value of securities and derivatives as a result of changes in the perceived credit quality of the underlying company or issuer. Credit spread risk accumulates in BNZ's market operations and trading activities when it provides risk transfer services to customers seeking to buy or sell fixed income securities (such as corporate bonds). BNZ may also be exposed to credit spread risk when holding an inventory of fixed income securities in anticipation of customer demand or undertaking market-making activity (i.e., quoting buy and sell prices to customers) in fixed income securities. BNZ's trading book is also exposed to credit spread risk through credit valuation adjustments. A widening of credit spreads could negatively impact the value of the credit valuation adjustment book.

Outside the trading book, BNZ's liquidity portfolio is also subject to credit spread risk through changes in spreads on securities held in its liquidity portfolio. BNZ hedges the interest rate risk from its liquidity portfolio. These positions form part of the required holdings of HQLAs used in managing BNZ's liquidity risk and can give rise to material profit and loss volatility within BNZ's portfolio during periods of adverse credit spread movements.

BNZ is exposed to foreign exchange risk

Foreign exchange risks are evident in BNZ's trading and banking books.

Foreign exchange and translation risks arise from the impact of currency movements on the value of BNZ's cash flows, profits and losses and assets and liabilities due to participation in global financial markets and international operations. As BNZ's business primarily operates in NZ, it is particularly exposed to fluctuations in the value of the New Zealand dollar.

BNZ's financial statements are prepared and presented in New Zealand dollars, and any fluctuations in the New Zealand dollar against other currencies in which BNZ invests or transacts and generates profits (or incurs losses) may adversely impact its financial performance and position.

BNZ may fail to, or be unable to, sell down its underwriting risk

As a financial intermediary, BNZ may underwrite or guarantee different types of transactions, risks and outcomes, including the placement of listed and unlisted securities. The underwriting obligation or guarantee may be over the pricing and placement of these securities, and BNZ may therefore be exposed to potential losses, which may be significant, if it fails to sell down some or all of this risk to other market participants.

Capital, Funding and Liquidity Risk

BNZ is exposed to funding and liquidity risk

Liquidity risk is the risk that BNZ 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. BNZ must also comply with APRA's prudential and regulatory liquidity obligations as part of the NAB Group. Any significant deterioration in BNZ's liquidity position may lead to an increase in BNZ's funding costs, constrain the volume of new lending or cause BNZ to breach its prudential or regulatory liquidity obligations. Advances in payment technology may allow for faster customer withdrawals of funds deposited with BNZ which may accelerate the risks associated with on-demand liabilities such as transactional and savings deposits. This may adversely impact BNZ's reputation and financial performance and position.

Funding risk is the risk that BNZ is unable to raise short and long-term funding to support its ongoing operations, regulatory requirements, strategic plans and objectives. BNZ accesses domestic and global capital markets to help fund its business, along with using customer deposits. BNZ relies on offshore wholesale funding to support its funding and liquidity position. Periods of heightened market volatility may limit BNZ's access to this funding source. Disruption in global capital markets, reduced investor interest in BNZ's securities and/or reduced customer deposits may adversely affect BNZ's funding and liquidity position. This may increase the cost of obtaining funds, reduce the tenor of available funds or impose unfavourable terms on BNZ's access to funds, constrain the volume of new lending, or adversely affect BNZ's capital position.

BNZ's capital position may be constrained by prudential requirements

Capital risk is the risk that BNZ does not hold sufficient capital and reserves to cover exposures and to protect against unexpected losses. Capital is the cornerstone of BNZ's financial strength. It supports BNZ's operations by providing a buffer to absorb unanticipated losses from its activities.

BNZ is required by its prudential obligations to hold minimum levels of capital relative to the size of its balance sheet and its operational risk profile.

BNZ must comply with prudential requirements in relation to capital in NZ. Compliance with these requirements and any further changes to these requirements may:

- limit payment of dividends or distributions on shares and hybrid instruments;
- require BNZ to raise more capital (in an absolute sense) or raise more capital of higher quality; and
- restrict balance sheet growth.

If the information or the assumptions upon which BNZ's capital requirements are assessed prove to be inaccurate, this may adversely impact BNZ's operations, financial performance and financial position.

A significant downgrade in BNZ's credit ratings or outlook may adversely impact its cost of funds and capital market access

Credit ratings are an assessment of a borrower's creditworthiness and may be used by market participants in evaluating BNZ and its products, services and securities. Credit rating agencies conduct ongoing review activities, which can result in changes to credit rating settings and outlooks for BNZ, or credit ratings of sovereign jurisdictions where BNZ conducts business. Credit ratings may be affected by operational and other market factors (e.g., ESG-related factors), or changes in a credit rating agency's rating methodologies.

A downgrade in the credit ratings or outlook of BNZ, BNZ's securities, any other member of the NAB Group or their securities, or the sovereign rating of one or more of the countries in which BNZ conducts business, particularly NZ, may increase BNZ's cost of funds or limit its access to capital markets. This may also cause a deterioration of BNZ's liquidity position and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. A significant downgrade to BNZ's credit ratings relative to its peers may also adversely impact BNZ's competitive position and financial performance and position.

Operational Risk

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

There are inherent risks within BNZ's operations due to the range of customers, products and services BNZ provides and the multiple markets and channels these products and services are delivered through.

Disruption to technology may adversely impact BNZ's reputation and operations

Most of BNZ's operations depend on technology, and therefore the reliability, resilience and security of BNZ's (and its third party vendors') information technology systems and infrastructure are essential to the effective operation of its business and consequently to its financial performance and position. The reliability, security and resilience of BNZ's technology 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 against BNZ or its external providers, including suppliers of cloud services to BNZ.

The rapid evolution of technology in the financial services industry and the increased expectations of customers for internet and mobile services on demand expose BNZ to changing operational scenarios and may lead to increased costs as BNZ moves to a cloud-based infrastructure.

Any disruption to BNZ's technology (including disruption to the technology systems of BNZ's external providers) may be wholly or partially beyond BNZ's control and may result in operational disruption, regulatory enforcement actions, customer redress, litigation, financial losses, theft or loss of customer data, loss of market share, loss of property or information, or may adversely impact BNZ's speed and agility in the delivery of change and innovation.

In addition, any such disruption may adversely affect the trust that internal and external stakeholders have in BNZ's ability to protect key information (such as customer and employee records) and infrastructure. This may in turn affect BNZ's reputation, which may result in loss of customers, ratings downgrades and regulatory censure or penalties.

Privacy, information security and data breaches may adversely impact BNZ's reputation and operations

BNZ collects, processes, stores and transmits large amounts of personal and confidential information through its people, technology systems and networks and the technology systems and networks of its external service providers. Threats to information security are constantly evolving, with the likelihood of cyber-attacks, scams and fraud increasing in the changing geopolitical environment, and techniques used to perpetrate cyber-attacks, scams and fraud are increasingly sophisticated. In addition, the number, nature and resources of adverse actors that could pose a cyber threat to BNZ is growing, including individual cybercriminals, criminal or terrorist syndicate networks, and large sophisticated foreign governments with significant resources and capabilities.

There is a risk that BNZ's efforts to improve its technology systems and networks and its information security policies, procedures and controls may not be adequate to address these threats. While BNZ participates in internal and external reviews and testing and is subject to regulatory oversight, which collectively help to identify weaknesses and areas for improvement, remediation of weaknesses is sometimes difficult to complete in a timely manner due to the complex technology environment (including third party involvement) and the rapidly evolving nature of the threats, which leads to the continuing emergence of new vulnerabilities.

As cyber threats continue to evolve, BNZ may be required to expend significant additional resources to continue to modify or enhance its layers of defence or to investigate and remediate any information security vulnerabilities. BNZ may also not always be able to anticipate a security threat, or be able to implement effective information security policies, procedures, and controls to prevent or minimise the resulting damage. BNZ may also inadvertently retain information which is not specifically required or is not permitted by legislation, thus increasing the impact of a potential data breach or non-compliance.

A successful cyber-attack could persist for an extended period before being detected, and, following detection, it could take considerable time for BNZ to obtain full and reliable information about the cyber security incident and the extent, amount and type of information compromised. During an investigation, BNZ may not necessarily know the full effects of the incident or how to remediate it, and actions and decisions that are taken or made to mitigate risk may further increase the costs and other negative consequences of the incident. Moreover, BNZ may be required to disclose information about a cyber security event before it has been resolved or fully investigated.

Additionally, BNZ uses select external providers (in NZ and overseas) to process and store confidential data and to develop and provide its technology services, including the increasing use of cloud infrastructure. While BNZ negotiates comprehensive risk-based controls with its service providers, it is limited in its ability to monitor and control the security protocols that service providers implement on a day-to-day basis. BNZ may also submit confidential information to its key regulators under a legal obligation and as part of regulatory reporting.

A breach of security at any of these external providers, regulators or within BNZ may result in operational disruption, theft or loss of customer or employee data, a breach of privacy laws, regulatory enforcement actions, civil penalties, customer or employee redress, litigation, financial losses, or loss of market share, property or information. This may be wholly or partially beyond the control of BNZ and may adversely impact its financial performance and position. For example, some large NZ organisations have experienced significant cyber-attacks in recent years leading to intense public reactions and increased political and regulatory focus.

In addition, any such event may give rise to increased regulatory scrutiny or adversely affect the view of ratings agencies. Social media commentary and responses to the relevant event, may exacerbate the impact on BNZ's reputation.

Generative AI continues to be a watch point. While AI has potential to support significant service advances for customers, it also has potential to assist, enable and enhance existing methods for criminals to perpetrate fraud, scams, and cyber threats against BNZ and its customers.

The use of AI and machine learning technologies, by the NAB Group generally and BNZ specifically, is subject to risks that algorithms and datasets are flawed or may be insufficient and could increase the risk of unintended deficiencies, result in inaccurate or ineffective decisions, predictions or analysis, and give rise to ethical and social risks associated with its use (e.g., unintended discrimination, bias and disinformation).

Complexity of infrastructure, processes and models, gives rise to a significant risk to BNZ's operations

BNZ is reliant on its policies, processes, controls and supporting infrastructure being designed effectively and functioning as designed, and on third parties appropriately managing their own operational risk and delivering services to BNZ as required. A failure in the design or operation of these policies, processes, controls, and infrastructure, failure of BNZ to manage external service providers, or the disablement of a supporting system, all pose a significant risk to BNZ's operations and consequently its financial performance, reputation and the timeliness and accuracy of its statutory and prudential reporting.

Reputational damage may adversely impact BNZ, including, among other things, by impacting its ability to pursue new business opportunities, increasing the risk premium being applied to BNZ, and impacting the cost of funding BNZ's operations or its financial condition.

Models are used extensively in the conduct of BNZ's business, for example, in calculating capital requirements or customer compensation payments and in measuring and stressing exposures. If the models used prove to be inadequate, or are based on incorrect or invalid assumptions, judgements or inputs, this may adversely affect BNZ's customers and BNZ's financial performance and position.

BNZ is exposed to the risk of human error

BNZ's business, including the internal processes and systems that support business decisions, relies on appropriate actions and inputs from its customers, employees, agents and external providers. BNZ is exposed to operational risk due to process or human error, including incorrect or incomplete data capture and records maintenance, incorrect or incomplete documentation to support activities, inadequate design of processes or controls or incorrect reporting. BNZ uses select external providers (in NZ and overseas) to provide services to BNZ and is exposed to similar risks arising from such failures in the operating environment of its external providers. The materialisation of any of these risks could lead to direct financial loss, loss of customer, employee or commercially sensitive data, regulatory penalties and reputational damage.

BNZ may not be able to attract and retain suitable talent

BNZ is dependent on its ability to attract and retain key executives, employees and Board members with a deep understanding of banking and technology, who are qualified to execute BNZ's strategy, including the technology transformation BNZ is undertaking to meet the changing needs of its customers. Potential weaknesses in employment practices, including diversity, anti-discrimination, workplace flexibility, payroll compliance, workplace health and safety and employee wellbeing, together with a competitive labour market for critical skills, are sources of operational risk that can impact BNZ's ability to attract and retain qualified personnel with the requisite knowledge, skills and capability. The effective management of psychosocial risk (including relating to workplace factors such as customer aggression, workload issues or poor change management) is an area of focus within BNZ to support employee wellbeing and retain talent. It is also an area of increasing regulatory scrutiny and reputational risk.

BNZ's capacity to attract and retain key talent, in addition to providing attractive career opportunities, also depends on its ability to adequately and appropriately respond to changes (internal or external) as well as design and implement effective remuneration and talent structures. This may be constrained by several factors, including by regulatory requirements (particularly in the highly regulated financial services sector), as well as community expectations. BNZ's ability to employ suitably trained people is also influenced by the NZ Government's immigration settings and strategy.

Competition from within the financial services industry and from businesses outside the financial services industry, including the technology industry, for qualified employees has often been intense. BNZ has experienced increased competition in hiring and retaining employees to address the demands of new regulatory requirements, expanding consumer-oriented businesses and its technology initiatives.

The unexpected loss of key resources or the inability to attract personnel with suitable experience may adversely impact BNZ's ability to operate effectively and efficiently, or to meet BNZ's strategic objectives. This risk may also impact third party vendors (including offshore vendors) engaged by BNZ, who may be experiencing similar personnel related challenges.

Events may adversely impact BNZ's operations

Operational risk can arise from external events such as biological hazards, climate change, natural disasters, widespread disease or pandemics, or acts of terrorism and geopolitical conflict.

BNZ has branches and office buildings in NZ that are prone to earthquakes and extreme weather events, as described under the risk factor entitled "*Extreme weather events, and longer-term changes in climate conditions coupled with transition risk may lead to rising customer defaults*" above.

Geopolitical risks continue to present uncertainty to BNZ's operations. Tensions between the United States and China, including in relation to Taiwan, the Russia-Ukraine and Israeli-Palestinian conflicts and China's trade and technology policies, continue to persist, which could impact BNZ operations adversely, for example, through disruption to global supply chains and availability of talent.

External events, such as extreme weather, natural disasters, biological hazards and acts of terrorism may also cause property damage and business disruption, which may adversely impact BNZ's financial performance. In addition, if BNZ is unable to manage the impacts of such external events, it may compromise BNZ's ability to provide a safe workplace for its personnel and/or lead to reputational damage. The environment BNZ is operating in has become more complex and more uncertain and could create operational risks that are yet to be identified.

Sustainability Risk

Sustainability risk is the risk that ESG events or conditions negatively impact the risk and return profile, value or reputation of BNZ or its customers and suppliers or its ultimate parent company. Inadequate management of ESG risks by BNZ or its customers may expose BNZ to other potential risks across risk categories such as strategic, credit, market, compliance, conduct, operational risk, capital, funding and liquidity risk, reputational risk and legal risk.

Physical and transition risks arising from climate change, other environmental impacts and nature-related risks may lead to increasing customer defaults and decrease the value of collateral

Extreme weather, increasing weather volatility and longer-term changes in climatic conditions, as well as environmental impacts such as land contamination and other nature-related risks such as deforestation, biodiversity loss and ecosystem degradation, may affect water security, property and asset values or cause customer losses due to damage, crop losses, existing land use ceasing to be viable, and/or interruptions to, or impacts on, business operations and supply chains.

Globally, an increasing number of countries are prone to, and have experienced, acute physical climate events. In NZ, these have included drought conditions, cyclones and flooding which highlight the risk of such physical climate events. Extreme weather events are expected to increase globally and locally in frequency and severity, which may have adverse macroeconomic impacts. The impact of extreme weather events can take time to be fully realised and be widespread, extending beyond residents, businesses and primary producers in highly impacted areas, to supply chains in other cities and towns relying on agricultural and other products from within these areas. The impact of these losses on BNZ may be exacerbated by a decline in the value and liquidity of assets held as collateral and the extent to which these assets are insured or insurable, which may impact BNZ's ability to recover its funds when loans default.

Climate-related transition risks are increasing as economies, governments and companies seek to transition to low-carbon alternatives and adapt to climate change. Certain customer segments may be adversely impacted as the economy transitions to renewable and low-emissions technology. Decreasing investor appetite and customer demand for carbon intensive products and services, increasing climate-related litigation, and changing regulations and government policies designed to mitigate climate change, may negatively impact revenue and access to capital for some businesses and/or BNZ's products or services that serve those customers. Furthermore, management of transition risk is more challenging given the presence of social risks such as modern slavery in relevant supply chains, e.g., input materials and equipment required to support the low carbon transition.

Nature-related risks (caused by impacts and dependencies on nature), such as deforestation and illegal land clearing, biodiversity loss and ecosystem degradation, may disrupt business activities and supply chains, and may cause business impacts including contributing to raw material and/or commodity price volatility, stranded assets, changes in customer demand and changes in the regulatory environment (e.g., the decline of bee populations which provide pollination services to agriculture, the collapse of fishing or agricultural yields, and a decrease in air, water or soil quality).

These risks may increase expected and actual levels of customer defaults, thereby increasing the credit risk facing BNZ and adversely impacting BNZ's financial performance and position. Physical and transition risks associated with climate change have led to regulatory change in NZ, such as the Climate Change Response (Zero Carbon) Amendment Act 2019, which commits NZ to a net zero carbon economy by 2050 or sooner. This regulatory change may disrupt the operations of BNZ's customers involved in a wide range of sectors and industries, and may impact the wider NZ economy. As NZ transitions to a net zero carbon economy, there is a risk that an increase in adoption of emission-reducing technology, changes to farming and manufacturing practices, changes to insurance practices, tax changes and revised land use regulation may impact collateral values. Changing physical conditions may also reduce the ability of businesses to service loans. Participants in the agricultural sector are particularly vulnerable including businesses in their supply chains. NZ could also see damage to its natural assets that may reduce tourism income. These risks may lead to changes to BNZ's operations, strategy and risk profile, which may adversely impact BNZ's financial performance and position.

In NZ, the climate-related disclosures regime under the Financial Markets Conduct Act 2013 requires mandatory climate-related reporting by large publicly listed companies, large licensed insurers, large investment managers, large banks, large building societies and large credit unions. It requires BNZ, as a "climate reporting entity", to annually prepare and make public climate statements with disclosures on how BNZ is considering the climate-related risks and opportunities that climate change presents for its activities over the short, medium and long term, in accordance with the Aotearoa New Zealand Climate Standards, issued by the External Reporting Board in December 2022. Climate statements are required to be published for accounting periods that start on or after 1 January 2023. BNZ's first mandatory reporting period commenced on 1 October 2023, with the first climate disclosure statement due no later than 31 January 2025.

BNZ, its customers, or its suppliers may fail to comply with legal, regulatory or voluntary standards or broader community and stakeholder expectations concerning ESG risk performance

ESG issues have been subject to increasing legal, regulatory, voluntary, and prudential standards and increasing (and sometimes differing) community and stakeholder expectations. These include:

- environmental issues – such as climate change, deforestation and illegal land clearing, biodiversity loss, ecosystem degradation, and pollution. Supervisory and regulatory guidance and requirements for banks are increasingly focusing on ESG risks, as regulators seek to understand and manage system-wide impacts such as those arising from climate-related risks. This focus is quickly evolving to broader environmental issues, such as nature-related risks, as the links between nature and economic prosperity and societal wellbeing are becoming better understood. This has been a particular focus of the Task Force on Nature-related Financial Disclosures, whose recommendations were released in September 2023, and the development of which has been supported by the Australian, NZ and UK governments;

- social issues – such as human rights (including modern slavery), compliance with recognised labour standards and fair working conditions (such as NZ's Recognised Seasonal Employer scheme and other immigration requirements), unfair and inequitable treatment of people including discrimination, product responsibility, appropriate remuneration, indigenous land rights and cultural heritage and animal welfare including any such potential impacts on these matters from a customer's operations and/or projects; and

- governance issues – such as bribery and corruption, tax avoidance, greenwashing and other false or misleading environmental or sustainability claims, poor governance, lack of transparency, supply chain traceability and not fulfilling accountabilities.

Performance against corporate ESG commitments is being more closely monitored by external stakeholders as their understanding of issues (and their associated risks) like climate change, human rights, responsible supply chain management and due diligence increases. Globally, and particularly in NZ, regulators have strengthened their policy guidance in relation to sustainability-related disclosures and governance practices, with particular emphasis on greenwashing.

ESG due diligence requirements may become mandatory in some jurisdictions in which BNZ conducts business, placing increasing demands on BNZ's processes and capability to manage, monitor and address ESG risks.

The impacts associated with climate change-related legislative and regulatory initiatives, customer requirements and the transition to a low carbon economy, including meeting new regulatory expectations, retrofitting of assets, energy efficient and low carbon investments, purchasing carbon credits or paying carbon taxes, may result in operational changes and additional expenditures that could adversely affect BNZ and/or its customers.

BNZ's reputation and business prospects may also be damaged if it does not, or is perceived not to, effectively prepare for the potential business and operational opportunities and risks associated with climate change, including through the development and marketing of effective and competitive products and services designed to address clients' climate risk-related needs. These risks include negative market perception, reduced market share and regulatory and litigation consequences associated with greenwashing claims or driven by association with clients, industries or products that may be inconsistent with BNZ's stated positions on climate change issues.

Failure by BNZ to:

- comply with ESG-related legislation, regulatory requirements or standards, including emerging ESG-related disclosure requirements such as the recent introduction of climate-related disclosure requirements in NZ, and arising from the release of the International Sustainability Standards Board's Sustainability and Climate Disclosure Standards;

- meet ESG-related voluntary commitments, goals and targets set by BNZ, or its ESG-related policy requirements;

- meet community and stakeholder expectations in relation to ESG;

- apply appropriate ESG standards to its customers, or to entities in BNZ's supply chain; or

- appropriately make representations about its ESG-related products and performance,

may adversely impact BNZ's reputation, and customer and employee sentiment towards BNZ, may increase the risk of ESG-related litigation against BNZ, or may result in regulatory fines or penalties, including litigation or regulatory action related to greenwashing.

BNZ has published decarbonisation targets under the Net Zero Banking Alliance and, in order to achieve these targets, it may need to make commercial decisions that impact the profile of its lending portfolio.

Certain products, services or industries may become subject to heightened public scrutiny, either generally or following a specific adverse event, or because of activism by investors or special interest groups. This could result in a sudden and significant decrease in demand for these products or services and a negative impact on revenue and access to capital for some businesses, and increasing litigation risk. Reputational damage to impacted suppliers, customers or customer sectors may give rise to associated reputational damage to BNZ. In addition, levels of customer defaults in an impacted sector may increase, adversely impacting BNZ's financial performance and position and its profitability.

Conduct Risk

Conduct risk is the risk that a behaviour, or action (or inaction) by either BNZ, or those acting on behalf of BNZ, does not lead to the appropriate outcome for BNZ's employees, customers, communities and other stakeholders.

BNZ is reliant on its employees, contractors and external suppliers acting in an appropriate and ethical way

Organisational culture can greatly influence individual and group behaviours. Poor culture can expose an organisation and lead to customer harm, financial loss and detriment. The behaviours that could expose BNZ to conduct risk include:

- failure to design products and services that are transparent, accessible and easy for BNZ's customers to understand;
- unmanaged conflicts of interest that could influence behaviour that is not in the customer's best interest;
- non-adherence to applicable learning and competency training requirements;
- selling, providing or unduly influencing customers to purchase or receive, products or services that may not meet their existing needs or that place the customer at risk of future hardship;
- use of AI that is inappropriate or inconsistent with community and customer expectations, or the overreliance on algorithmic outcomes without adequate human supervision;
- making representations to customers about products or services of BNZ which are inaccurate, misleading or deceptive, including representations which may mislead customers on the extent to which BNZ's practices are environmentally friendly, sustainable or ethical;
- being a party to fraud;
- failure to identify and appropriately manage customer communications, hardship cases and debt collection;
- failure to protect customers from fraud or scams when banking through digital channels or failure to respond adequately to customers impacted by external fraud or scams;
- non-adherence to applicable requirements or providing financial advice which is not appropriate or in a customer's interests;
- delays in appropriately escalating regulatory and compliance issues;
- failure to resolve issues and remediate customers in a timely manner and in accordance with community expectations;
- failure to deliver on product and service commitments;
- failure to remediate ineffective business processes and stop re-occurrence of issues in a timely manner; and
- failure to act in accordance with its Code of Conduct.

If BNZ's conduct-related controls were to fail significantly, be designed inappropriately, or not meet legal or regulatory requirements or community expectations, then BNZ may be exposed to, among other things:

- increased costs of compliance, fines, additional capital requirements, public censure, loss of customer confidence, representative actions and other litigation, settlements and restitution to customers or communities;
- increased supervision, oversight, or enforcement by regulators or other stakeholders;
- unenforceability of terms within contracts such as loans, guarantees and other security documents;

- enforced suspension of operations, amendments to licence conditions or loss of licence to operate all or part of BNZ's businesses; and
- other enforcement or administrative action or agreements, including legal proceedings.

A failure of BNZ's conduct-related controls to accurately reflect relevant legal, regulatory or community expectations may adversely impact BNZ's reputation, financial performance and position, profitability, operations and returns to investors and can result in customer harm, financial loss and detriment.

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 fair and equitable treatment of customers.

BNZ may be involved in a breach or alleged breach of laws governing bribery, corruption and financial crime

Supervision and regulation of financial crime and enforcement of ABC, anti-money laundering and countering financing of terrorism laws (collectively referred to as **AML/CFT**) continue to increase in recent years.

BNZ has reported a number of potential AML/CFT compliance issues to the RBNZ and has responded to a number of requests from the RBNZ requiring the production of documents and information. BNZ continues to investigate and remediate a number of potential AML/CFT compliance issues. As this work progresses, further compliance issues may be identified and reported to the RBNZ, and additional uplifting and strengthening of BNZ's systems and processes may be required. The potential outcome and total costs associated with the investigation and remediation process remain uncertain.

A negative outcome which may arise from any investigation or remediation process may adversely impact BNZ's reputation, business operations, financial position and results. Further, given the large volume of transactions that BNZ processes, the undetected failure of internal AML/CFT controls, or the ineffective remediation of compliance issues, could result in a significant number of breaches of AML/CFT obligations and significant civil penalties for BNZ.

As a bank engaged in global finance and trade, BNZ faces risks relating to compliance with AML/CFT, ABC and financial sanctions laws across multiple jurisdictions. Undetected failure of internal controls, or the ineffective remediation of compliance issues could lead to breaches of AML/CFT and/or ABC obligations or sanctions violations, resulting in potentially significant monetary and regulatory penalties, which, in turn, may adversely impact BNZ's reputation, financial performance, and position.

The risks of sanctions violations are increased in the context of additional and wide-ranging economic sanctions and export controls imposed in 2022 and 2023 as a result of the Russia-Ukraine conflict. This includes rising expectations from regulators concerning export control due diligence by financial institutions, as well as the continued attempts by those subject to sanctions to evade and circumvent their impact. BNZ's sanctions compliance function continues to monitor the sanctions issued as a result of rising tensions in the Middle East.

Refer to '*Notes to and Forming Part of the Interim Financial Statements—Note 17—Contingent Liabilities and Other Commitments*' on page 23 of BNZ's Disclosure Statement for the six months ended 31 March 2024 (the **March 2024 HY Disclosure Statement**), which is incorporated by reference in this Offering Circular, for more information.

BNZ may fail to comply with applicable laws and regulations which may expose BNZ to increased regulatory intervention, significant compliance and remediation costs, regulatory enforcement action or litigation, including representative actions

BNZ is highly regulated and subject to various regulatory regimes which differ across the jurisdictions in which it conducts its own business or has some connection through being a member of the NAB Group.

Ensuring compliance with all applicable laws is complex. There is a risk BNZ will be unable to implement adequate compliance arrangements including processes and controls required by relevant laws and regulations in a timely manner, or that BNZ's compliance arrangements will prove to be inadequate or ineffective in ensuring compliance. There is also a potential risk of misinterpreting new or existing regulations and non-compliance with detailed data requests from various regulators.

There is significant cost associated with the systems, processes, controls and personnel required to comply with applicable laws and regulations. Such costs may negatively impact BNZ's financial performance and position. Any failure to comply with relevant laws and regulations may have a negative impact on BNZ's reputation and financial performance and position, and may give rise to representative actions, litigation, or regulatory enforcement, which may in turn result in the imposition of civil or criminal penalties, or additional regulatory capital requirements, on BNZ.

BNZ may be involved from time to time in regulatory enforcement and other legal proceedings arising from the conduct of its business. There is inherent uncertainty regarding the possible outcome of any legal or regulatory proceedings involving BNZ. It is also possible that representative actions, regulatory investigations, compliance reviews, civil or criminal proceedings, or the imposition of new licence conditions or regulatory capital requirements could arise in relation to known matters or other matters of which BNZ is not yet aware. The aggregate potential liability and costs associated with legal proceedings cannot be estimated with any certainty.

A negative outcome to regulatory investigations or litigation involving BNZ may impact BNZ's reputation, divert management time from operations and affect BNZ's financial performance and position. Refer to '*Notes to and Forming Part of the Interim Financial Statements—Note 17—Contingent Liabilities and Other Commitments*' on page 23 of the March 2024 HY Disclosure Statement, which is incorporated by reference in this Offering Circular, for details in relation to BNZ's contingent liabilities which may impact BNZ.

Extensive regulatory change poses a significant risk to BNZ

Globally, the financial services and banking industries are subject to significant and increasing levels of regulatory change, reviews and political scrutiny, including in NZ.

The pace, volume and complexity of change may also expose BNZ to the increased risk of failure to adequately identify all applicable regulatory changes. Changes to laws and regulations or their interpretation and application can be unpredictable, are beyond BNZ's control, and may not be harmonised across the jurisdictions in which BNZ conducts business or has some connection through being a member of the NAB Group.

Regulatory change may result in significant capital and compliance costs, changes to BNZ's corporate structure, and increasing demands on management, employees and information technology systems. This may also impact the competitiveness of BNZ in certain parts of its businesses, the viability of BNZ's participation in certain markets or require the divestment of a part of BNZ's business.

Operationalising large volumes of regulatory change presents ongoing risks for BNZ. Extensive work is done to assess proposed design solutions and to test design effectiveness of controls for each regulatory change before the effective date, however, the operating effectiveness of some controls cannot be fully tested until the go-live date for the relevant regulatory change has occurred. There are also inherent risks associated with the dependency on third parties for the effectiveness of some controls.

Ongoing and proposed regulatory changes, reviews and inquiries relevant to BNZ include operational resilience (including cyber security), market risk capital reforms, liquidity reforms, governance, vulnerability (including hardship, domestic violence, accessible and inclusive banking and regional branch closures), financial advice reforms, market abuse or conduct-related regulations, changes to financial benchmarks, derivatives reform, modification of legislation applicable to deposit takers in NZ, consumer credit responsible lending and disclosure laws, payments, data quality, protection and privacy law reforms, competition inquiries, financial crime legislation, accounting, disclosure and reporting requirements (financial, sustainability and climate risk, reportable situations, complaints and remuneration), bankruptcy and personal and corporate insolvency, human rights, modern slavery, tax reform, clearing systems and the development of a CDR.

The NZ Government and its agencies, including the RBNZ and the Financial Markets Authority have supervisory oversight of BNZ, as does APRA, indirectly through its supervisory oversight of the NAB Group. BNZ expects a continued increase in regulatory focus on capital and liquidity requirements, macro-prudential tools, customer outcomes and other aspects of its business that may impose increased regulatory burdens. BNZ's failure to comply with applicable laws, regulations or codes of practice could result in the imposition of sanctions by agencies or compensatory action by affected persons, and could damage BNZ's reputation and financial performance and position.

BNZ is a registered bank under the Banking (Prudential Supervision) Act 1989 (**BPS Act**), which was previously named the Reserve Bank of New Zealand Act 1989, and is supervised by the RBNZ. BNZ is subject to conditions of registration imposed by the RBNZ (**Conditions of Registration**). The Conditions of Registration may be changed at any time and any changes may be beyond BNZ's control. If the RBNZ concluded that BNZ did not satisfy the Conditions of Registration, sanctions could be imposed on BNZ. These sanctions could include disclosure of the breach, increases in required levels of capital, fines, additional limitations on the conduct of BNZ's business and, in the case of a material breach or breaches, cancellation of BNZ's registration as a bank or a recommendation that BNZ be placed under statutory management (see also risk factor entitled "*Noteholders may be prevented from enforcing rights in connection with the Notes where BNZ and/or BNZ-IF have been placed into statutory management*"). In addition, the RBNZ could require BNZ to take additional steps and incur additional expense to comply with the Conditions of Registration.

Further inquiries and regulatory reviews impacting the financial services industry may be commissioned by the NZ Government, which, depending on its scope, findings and recommendations, may adversely impact BNZ.

Examples of specific reviews and regulatory reforms currently relevant to BNZ, and which present a potential material regulatory risk include those set out below:

- The NZ Government has undertaken a comprehensive review of the RBNZ's legislative framework. Changes that relate to the regulation of deposit takers are provided for in the Deposit Takers Act 2023. The Deposit Takers Act will create a single regulatory regime for all banks and non-bank deposit taking (**NBDT**) institutions (such as building societies and finance companies). It will also introduce a new depositor compensation scheme funded by industry levies that will protect up to NZ$100,000 per depositor, per institution in the event of a failure and make changes to the NZ bank crisis resolution framework. Until the Deposit Takers Act comes into force, the current regulatory framework for banks will continue under the BPS Act. Measures to implement the depositor compensation scheme will be prioritised to have the scheme operational from mid-2025, before the rest of the Act comes into force.

- The CoFI Act will create an oversight and licensing regime for regulating conduct in the banking, NBDT and insurance sectors. The CoFI Act is expected to come into force in early 2025. In May 2024, the NZ Ministry of Business, Innovation and Employment opened consultation on a review of the requirements applicable to financial institutions under the CoFI Act. Any amendments to the CoFI Act following the consultation will commence in 2026 at the earliest. As at the date of this Supplement, it is uncertain what impact this consultation will have on BNZ, however, it may result in increased compliance costs.

- In April 2024, the RBNZ released a consultation on the objectives, benefits and strategic design options for a CBDC as part of a multi-stage exploration until around 2030. Depending on the final form of this digital currency, it may impose additional and significant regulatory and operational requirements on BNZ, and it also has the potential to disintermediate existing payment services.

- New debt-to-income restrictions and updated loan-to-value ratio restrictions will apply to registered banks (including BNZ) in respect of new lending for residential properties in NZ from 1 July 2024.

- Globally, regulators increasingly expect that the financial services industry, including banks, will play a more substantive role in protecting customers from scams and other fraudulent activity. While recognising the potential for regulatory change to address the impact of scams, BNZ continues to proactively educate its customers about scams and further enhance its systems and processes to detect and protect customers and BNZ from scams and fraud. There are also a number of key industry initiatives underway in the NZ retail banking industry to support a co-ordinated, multi-sector approach to protecting New Zealanders from fraud and scams. In these ways, BNZ seeks to reduce the risk to customers from scam or fraud activity that may be difficult for BNZ to anticipate or control. The NZ Government's expectations for protection against scams were outlined in an open letter to the NZ banking sector in February 2024, which includes a voluntary reimbursement scheme for victims of authorised payment scams. Although the extent of government policy in relation to a contingent reimbursement scheme is not yet certain in NZ, BNZ's strategic planning and enhancement of systems and processes will also prepare it for potential regulatory change in this regard. Given the considerable growth in industry and customer losses from scams and fraud, the potential costs associated with actual or perceived control failures and the transferal of risk from the customer may be significant and may have a material impact on BNZ's reputation which is heightened if BNZ fails to deliver on industry initiatives.

- Proposed and incoming ESG-related regulatory regimes, including increasing obligations relating to modern slavery, human rights, sustainable finance, climate, and other sustainability risk-related prudential guidance, and regulatory and disclosure requirements. These include:

  - the climate-related disclosures regime under the Financial Markets Conduct Act 2013, which requires mandatory climate-related reporting in NZ from 2024;

  - the expected introduction in 2025 of similar requirements under the Corporate Sustainability Reporting Directive in the European Union which is likely to impact BNZ as a member of the NAB Group;

  - the final recommendations and guidance published by the Taskforce on Nature-related Financial Disclosures in September 2023; and

  - expansion of modern slavery and sustainability due diligence requirements in NZ. The previous NZ Government announced that it intended to introduce a Modern Slavery Bill in early 2024 that would bring in local reporting requirements. It is unclear if this legislation will progress under the current NZ Government.

The full scope, timeline and impact of current and potential inquiries and regulatory reforms such as those mentioned above, or how they will be implemented (if at all in some cases), is not known.

Depending on the specific nature of the regulatory change requirements and how and when they are implemented or enforced, they may have an adverse impact on BNZ's business, operations, structure, compliance costs or capital requirements, and ultimately its competitiveness, reputation, financial performance or financial position.

BNZ may be exposed to losses if critical accounting judgements and estimates are subsequently found to be incorrect

Preparation of BNZ's financial statements requires management to make estimates and assumptions and to exercise judgement in applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income, expenses and the disclosure of contingent liabilities. A higher degree of judgement is required for the recognition and estimates used in the measurement of provisions (including for customer-related remediation and other regulatory matters), the determination of income tax, the valuation of financial assets and liabilities (including fair value and credit impairment of loans and advances), and the valuation of intangible assets. If the judgements, estimates and assumptions used by BNZ in preparing the financial statements are subsequently found to be incorrect, there could be a significant loss to BNZ beyond that anticipated or provided for, which may adversely impact BNZ's reputation, financial performance and financial position.