

BNZ Subordinated Notes

Investment Statement 11 November 2015

Bank of New Zealand
as Issuer of the BNZ Subordinated Notes

National Australia Bank Limited
ABN 12 004 044 937
as Issuer of the NAB Shares if the BNZ
Subordinated Notes are Converted

*Arranger, Joint Lead Manager
and Organising Participant*



Joint Lead Managers

DeutscheCRAIGS
0800 226 263





FIRST NZ CAPITAL
0800 005 678



Co-Manager

JBWere
0800 555 555

This investment is riskier than a bank deposit. The securities are not call deposits or term deposits with Bank of New Zealand and may not be suitable for many investors.

National Australia Bank Limited is not a registered bank in New Zealand.

Important information.

(The information in this section is required under the Securities Act 1978.)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

> What sort of investment is this?	16
> Who is involved in providing it for me?	19
> How much do I pay?	20
> What are the charges?	20
> What returns will I get?	21
> What are my risks?	32
> Can the investment be altered?	42
> How do I cash in my investment?	43
> Who do I contact with inquiries about my investment?	44
> Is there anyone to whom I can complain if I have problems with the investment?	45
> What other information can I obtain about this investment?	45

The Financial Markets Authority regulates conduct in financial markets

The Financial Markets Authority regulates conduct in New Zealand's financial markets. The Financial Markets Authority's main objective is to promote and facilitate the development of fair, efficient, and transparent financial markets.

For more information about investing, go to <http://www.fma.govt.nz>

Financial advisers can help you make investment decisions

Using a financial adviser cannot prevent you from losing money, but it should be able to help you make better investment decisions.

Financial advisers are regulated by the Financial Markets Authority to varying levels, depending on the type of adviser and the nature of the services they provide. Some financial advisers are only allowed to provide advice on a limited range of products.

When seeking or receiving financial advice, you should check-

- > the type of adviser you are dealing with:
- > the services the adviser can provide you with:
- > the products the adviser can advise you on.

A financial adviser who provides you with personalised financial adviser services may be required to give you a disclosure statement covering these and other matters. You should ask your adviser about how he or she is paid and any conflicts of interest he or she may have.

Financial advisers must have a complaints process in place and they, or the financial services provider they work for, must belong to a dispute resolution scheme if they provide services to retail clients. So if there is a dispute over an investment, you can ask someone independent to resolve it.

Most financial advisers, or the financial services provider they work for, must also be registered on the financial service providers register. You can search for information about registered financial service providers at <http://www.fspr.govt.nz>

You can also complain to the Financial Markets Authority if you have concerns about the behaviour of a financial adviser.

FMA warning statement.

- This investment is riskier than a bank deposit. These Notes are complex instruments and might not be suitable for many investors.
- These Notes carry similar risks to shares in BNZ but do not have the same opportunity for growth as shares. The risks associated with these Notes could result in the loss of your investment and any associated income.
- The Notes are not guaranteed by BNZ or any other person.
- If BNZ or NAB experiences severe financial difficulty, the Notes may be converted to ordinary shares of NAB or written off.
- You will not have any choice as to whether a conversion or write off occurs, and you may not have a chance to sell your Notes before the conversion or write off.
- The value of the NAB Shares that you receive if this occurs is likely to be less than the amount you invest in these Notes.
- If conversion is required but is not possible, the Notes will be immediately written off in part or in whole and you will lose your investment.

The table shows how these Notes would rank upon a winding-up of BNZ if conversion does not occur and the Notes are not written off.

**Higher ranking/
Earlier priority/
First to be repaid**



**Lower ranking/
Later priority/
Last to be repaid**

	Examples	Examples of existing BNZ securities
Higher ranking than the Notes	Secured debt and creditors preferred by law	Secured creditors such as money held with clearing systems and covered bond programmes Liabilities given preference by law including employee entitlements and taxes
	Unsubordinated unsecured debt	Deposit accounts, senior bonds, and trade and general creditors
Equal ranking with the Notes	Term subordinated debt	Subordinated loans made by NAB and NEL
Lower ranking than the Notes	Perpetual subordinated unsecured debt	None currently on issue to the public
	Preference shares and other equally ranked instruments	Perpetual preference shares issued in 2008
	Ordinary shares	Ordinary shares of BNZ

We recommend that you consult an independent financial adviser before deciding whether or not to invest and that you make certain that you are comfortable that this investment is suitable for your needs.

Further information about key risks of this investment can be found on pages 32 to 42 of this investment statement.

Contents.

Important Information	1
Overview and Important Dates	4
Section 1 - Offer at a Glance	7
Section 2 - Answers to Important Questions	15
Section 3 - About BNZ	49
Section 4 - About NAB	57
Section 5 - Information about NAB Shares	66
Section 6 - Note Terms	68
Section 7 - Glossary	81
Section 8 - Application Instructions and Application Form	84
Corporate Directory	88



Overview and Important Dates.

This document is an investment statement for the purposes of the Securities Act 1978. It is an important document and should be read in its entirety.

Overview

This investment statement is dated 11 November 2015 and relates to the offer by Bank of New Zealand (**BNZ**) of subordinated unsecured notes (**BNZ Subordinated Notes** or **Notes**) to raise up to NZ\$300 million, with the ability to accept unlimited oversubscriptions (**Offer**).

The interest rate on the Notes is fixed for 5 years until the Optional Redemption Date (17 December 2020) when it will be reset for another 5 years. Interest payments are subject to BNZ satisfying the Solvency Condition.

The Notes have a term of 10 years and are scheduled to be repaid on the Maturity Date (17 December 2025). BNZ may at its option repay some or all of your Notes on the Optional Redemption Date or on any Scheduled Interest Payment Date falling after that date and may repay all (but not some only) of your Notes if a Regulatory Event or Tax Event occurs. Repayment is subject to BNZ satisfying the Solvency Condition and (in the case of early repayment) other conditions and will not occur unless those conditions are complied with. You have no right to request that your Notes be repaid early, except in limited circumstances if BNZ is in liquidation and your Notes have not been Converted or Written Off. You should not assume that BNZ will elect to repay the Notes early.

Some or all of your Notes will be required to Convert into ordinary shares (**NAB Shares**) in BNZ's parent company, National Australia Bank Limited (ABN 12 004 044 937) (**NAB**), if a Non-Viability Trigger Event occurs. A Non-Viability Trigger Event can occur if BNZ or NAB encounters severe financial difficulty. If for any reason Notes are not Converted into NAB Shares when required following a Non-Viability Trigger Event then those Notes will be Written Off, and you will lose your investment.

Defined terms

Capitalised terms used in this investment statement have defined meanings which appear in Section 7 - Glossary.

Clause 20.1 of the terms of the Notes (**Note Terms**) which are set out in Section 6 also contains defined terms that apply to the Notes. If there is any inconsistency between the definitions in this investment statement and the Note Terms, the definitions in the Note Terms prevail.

Governing law

This investment statement and the contract which is formed when BNZ accepts your application are governed by New Zealand law.

The Notes and the Note Terms are governed by the laws of New Zealand, other than clauses 5, 6 and 14 of the Note Terms, which are governed by the laws of Victoria, Australia.

No representations other than in this investment statement

No person is authorised by BNZ or NAB to give any information or make any representation in connection with the Offer that is not contained in this investment statement. Any information or representation not contained in this investment statement may not be relied upon as having been authorised by BNZ or NAB.

The financial information in this investment statement is for information purposes only. It is not a forecast of operating results expected in future periods.

Important dates

Important dates for the Offer

Bookbuild and Rate Set Date (for setting the Margin and the initial interest rate)	20 November 2015
------------------------------------------------------------------------------------	------------------

Opening Date	23 November 2015
--------------	------------------

Closing Date	14 December 2015
--------------	------------------

Issue Date	17 December 2015
------------	------------------

Important dates for the Notes¹

Expected date of quotation and commencement of trading on the NZX Debt Market	18 December 2015
-------------------------------------------------------------------------------	------------------

Interest Payment Dates	17 March, 17 June, 17 September and 17 December in each year
------------------------	--------------------------------------------------------------

First Interest Payment Date	17 March 2016
-----------------------------	---------------

Optional Redemption Date	17 December 2020
--------------------------	------------------

Maturity Date	17 December 2025
---------------	------------------

Dates may change

BNZ may change any of the “Important dates for the Offer” (listed above) or withdraw the Offer without notice. If BNZ changes any of the “Important dates for the Offer”, the changes will be announced via NZX as soon as reasonably practicable.

If the Offer is withdrawn, BNZ will refund your subscription money (without interest) within 5 business days of the withdrawal.

1. Interest is payable quarterly in arrear, subject to satisfaction of the Solvency Condition and provided that the Notes are still on issue at the time and have not previously been Converted or Written Off on account of a Non-Viability Trigger Event, or redeemed. Any early redemption of the Notes is subject to conditions including the prior written approval of the RBNZ and APRA.



Section 1

Offer at a Glance.

This Section provides an overview of the Notes that are being offered in this investment statement along with some more general terms of the Offer. You should read this investment statement in full before deciding whether to invest.

1.1 The Notes.

Topic	Summary	Where to find more information
Issuer	Bank of New Zealand (BNZ).	Section 3
Purpose of the Offer	The proceeds of the Offer will be used for general corporate purposes. The Notes will be treated as Tier 2 Capital for BNZ and for the NAB Level 2 Group.	Section 3.4
Type of instrument	The Notes are subordinated unsecured notes. In certain circumstances, the Notes may be repaid early or, if a Non-Viability Trigger Event occurs, Converted into NAB Shares or Written Off.	Section 2.1
Interest rate	<p>The interest rate will be set on the Rate Set Date (20 November 2015) and then reset on the Optional Redemption Date (17 December 2020).</p> <p>From the Issue Date (17 December 2015) to the Optional Redemption Date the interest rate will be the sum of the 5 Year Swap Rate (a benchmark interest rate for a term of 5 years) on the Rate Set Date plus the Margin.</p> <p>From the Optional Redemption Date to the Maturity Date, the interest rate will be the sum of the 5 Year Swap Rate on the Optional Redemption Date plus the Margin.</p> <p>The Margin will be determined on the Rate Set Date through the Bookbuild. The Margin will not change over the term of the Notes. The Margin and the initial interest rate will be announced via NZX on or before the Opening Date (23 November 2015). The interest rate that is reset on the Optional Redemption Date will be announced via NZX on that date.</p>	Section 2.5.1
Interest payments	<p>Interest is scheduled to be paid quarterly in arrear on each Interest Payment Date. Interest payments are subject to BNZ satisfying the Solvency Condition. The Solvency Condition is described below.</p> <p>If a Note is Converted or Written Off, any rights to receive interest on that Note (including any accrued but unpaid interest) are also terminated and written off.</p>	Section 2.5.1
Maturity Date	The Notes have a term of 10 years and are scheduled to be repaid on the Maturity Date (17 December 2025). Repayment of the Notes is subject to the Solvency Condition.	Section 2.5.2
Early repayment	BNZ may at its option repay some or all of your Notes on the Optional Redemption Date (17 December 2020) or on any Scheduled Interest Payment Date falling after that date and may repay all (but not some only) of your Notes on any date if a Regulatory Event or Tax Event occurs. Early repayment is subject to BNZ obtaining the prior written approval of the RBNZ and APRA, the Solvency Condition and certain other conditions and will not occur unless those conditions are complied with. You have no right to request that your Notes be repaid early, except in limited circumstances if BNZ is in liquidation and your Notes have not been Converted or Written Off.	Sections 2.5.2 and 2.5.6
Solvency Condition	The payment of amounts on the Notes is subject to BNZ satisfying the Solvency Condition on the relevant payment date. BNZ will satisfy the Solvency Condition if it is Solvent on the relevant payment date and will remain Solvent immediately after making the payment.	Section 2.5.3

You have limited rights if BNZ fails to make a payment	A failure by BNZ to pay amounts due under the Notes will result in an Event of Default only in limited circumstances. You have limited rights to take enforcement action against BNZ following an Event of Default. You have no right to take action against NAB in respect of obligations of BNZ.	Section 2.5.6
Unpaid amounts accumulate	Unpaid payments are cumulative. This means that if BNZ does not pay an amount on the Notes because it has not satisfied the Solvency Condition, BNZ must pay that amount on the first date on which it is able to make the payment and satisfy the Solvency Condition. Interest will accrue daily (at the interest rate then applicable to the Notes) on any interest that is not paid when scheduled as a result of BNZ not satisfying the Solvency Condition on the relevant payment date.	Section 2.5.3
Conversion following a Non-Viability Trigger Event	<p>Some or all of your Notes will be Converted into NAB Shares if a Non-Viability Trigger Event occurs. A Non-Viability Trigger Event occurs if:</p> <ul style="list-style-type: none"> • the RBNZ directs BNZ to convert or write off the Notes or a New Zealand statutory manager is appointed to BNZ and decides BNZ must convert or write off the Notes; or • APRA notifies NAB that it considers that NAB would become non-viable unless either: (1) the Notes are converted or written off or (2) NAB receives a public sector injection of capital or similar support, <p>and may occur if BNZ or NAB encounters severe financial difficulty.</p> <p>If any of your Notes are Converted following a Non-Viability Trigger Event, the value of the NAB Shares you receive may be significantly less than the aggregate principal amount of those Notes. Following Conversion there is no certainty as to the future value of the NAB Shares.</p>	Sections 2.5.4, 2.5.5 and 3.4
Write Off	If for any reason your Notes are not Converted into NAB Shares when required following a Non-Viability Trigger Event then those Notes will be Written Off. This means you will receive nothing further in relation to those Notes, your rights under them (including rights to payment of interest and principal) will be cancelled and you will lose all of your investment in them. You will not receive any compensation, and have no right to take action against BNZ or NAB, if any of your Notes are Written Off.	Section 2.5.4
Subordination	<p><i>Ranking if no Conversion or Write Off</i></p> <p>If BNZ is put into liquidation (and your Notes have not been Converted or Written Off), your claim for payment on the Notes will rank:</p> <ul style="list-style-type: none"> • ahead of claims of holders of ordinary shares of BNZ; • ahead of claims of holders of securities that rank below the Notes; • equally with claims of other holders of Notes and holders of other securities that rank equally with the Notes; and • behind BNZ’s depositors and all other claims on BNZ. <p>See page 2 for a simplified illustration of the ranking in a liquidation of BNZ.</p> <p><i>Ranking on Conversion or Write Off</i></p> <p>You will have no claim in the liquidation of BNZ if all of your Notes are Converted or Written Off.</p> <p><i>Ranking of NAB Shares</i></p> <p>If any of your Notes are Converted, you will become a holder of NAB Shares. In a winding-up of NAB, your NAB Shares will rank equally with existing NAB Shares on issue and behind claims of holders of all other securities and debts of NAB.</p>	Sections 2.6.6 and 5.1

Substitution of issuer of shares on Conversion	BNZ may, subject to certain conditions, substitute a “non-operating holding company” (or NOHC) for NAB as the issuer of ordinary shares on Conversion.	Section 2.7
Credit rating	The Notes are rated BBB+ by Standard & Poor’s and A3 (hyb) by Moody’s. Credit ratings are not a recommendation to buy, sell or hold the Notes and may be revised or withdrawn at any time.	Section 2.1.2
Notes are not deposit liabilities or protected accounts and are not guaranteed	The Notes are not deposit liabilities or protected accounts of BNZ or NAB for the purposes of the Australian Banking Act. The Notes are not guaranteed by any person, and NAB does not guarantee the obligations of BNZ. NAB is not a registered bank in New Zealand.	

1.2 Risks.

There are a number of risks associated with investing in the Notes. The principal risks associated with the Notes are described in Section 2.6. You should read that Section in full before deciding to invest in the Notes. Those risks include:

Risks associated with BNZ’s and NAB’s businesses which may impact the financial performance of BNZ and NAB. If one or more of these risks eventuates, that may:

- affect BNZ’s ability to make payments on the Notes;
- if it were sufficiently serious for the RBNZ or APRA to consider BNZ or NAB non-viable or for a New Zealand statutory manager to be appointed to BNZ, result in a Non-Viability Trigger Event; and/or
- adversely affect the market price and liquidity of the Notes.

If a Non-Viability Trigger Event occurs, some or all of your Notes will be either:

- **Converted into NAB Shares**, in which case there is a risk that you may receive a number of NAB Shares with a value which is significantly less than the aggregate principal amount of your Notes. The NAB Shares you will receive on Conversion are also a different type of investment to the Notes. For example, the NAB Shares have no scheduled interest payments and no maturity date, and their market price may be more volatile than the market price of the Notes. Following Conversion there is no certainty as to the future value of the NAB Shares; or
- **Written Off**, in which case you will lose your investment, your rights under the relevant Notes will be cancelled and you will not receive any compensation.

Risks associated with the Notes specifically. For example:

- the Notes are subordinated and unsecured obligations of BNZ and are not guaranteed by any person;
- you have no right to request early repayment of your Notes, whereas BNZ has the option to repay your Notes early in certain circumstances (subject to the prior written approval of the RBNZ and APRA); and
- BNZ will not make any payment on the Notes unless it satisfies the Solvency Condition on the payment date.

Market-related risks. For example:

- the liquidity of the Notes may be low, which means that, at certain times, you may be unable to sell your Notes when you want to, at an acceptable price, or at all;
- the market price of the Notes may fluctuate due to various factors; and
- during the term of the Notes, the interest rate on the Notes may become less attractive compared to returns on other investments.

1.3 The Offer.

Topic	Summary
Issue amount	Up to NZ\$300 million plus unlimited oversubscriptions.
Issue Price	NZ\$1.00 per Note.
Minimum application	NZ\$5,000, and in multiples of NZ\$1,000 thereafter.
How to apply	You can apply for Notes from 23 November 2015 to 14 December 2015 (although BNZ can change these dates and accept late applications). You must apply using the application form attached to this investment statement. You should contact your financial adviser for details on how your application can be submitted (see “Offer process” below). You should ensure that you understand what fees and charges may be payable to your financial adviser in relation to the Notes.
Early Bird Interest	<p>BNZ will pay you interest on your subscription money at 3.75% per annum (less any applicable withholding taxes) for the period from (and including) the date on which your subscription money is banked to (but excluding) the Issue Date. BNZ will pay the Early Bird Interest within 5 business days of the Issue Date.</p> <p>If BNZ refuses your application or accepts your application in part or the Offer is withdrawn, no Early Bird Interest will be paid on the subscription money returned to you.</p>
Offer process	<p>All Notes, including oversubscriptions, will be reserved for subscription by clients of the Joint Lead Managers, the Co-Manager, Primary Market Participants (as defined in the NZX Participant Rules) and other persons invited to participate in the Bookbuild.</p> <p>There will be no public pool.</p>
Brokerage	<p>You do not have to pay brokerage to BNZ or NAB on your application for Notes. BNZ will pay brokerage in respect of applications for Notes. No brokerage is payable by you if your Notes are Converted into NAB Shares.</p> <p>You may have to pay brokerage on any purchases or sales of Notes or NAB Shares through a financial intermediary.</p>
No underwriting	The Offer is not underwritten.
Restrictions on sale in foreign jurisdictions	This investment statement only constitutes an offer of Notes in New Zealand. BNZ has not taken and will not take any action which would permit a public offering of the Notes, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). The Notes may only be offered for sale or sold in conformity with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered. Any information memorandum, prospectus, circular, advertisement or other offering material in respect of the Notes may be published, delivered or distributed only in or from any country or jurisdiction under circumstances which will result in compliance with all applicable laws, regulations and listing rules of any applicable securities exchange.
You indemnify BNZ and others	Under the Note Terms, each holder of Notes indemnifies BNZ, NAB, the Registrar, the Arranger, each Joint Lead Manager and the Co-Manager in respect of any loss incurred as a result of that holder breaching the restrictions on sale described above.
Scaling	BNZ may scale oversubscriptions at its discretion.

1.4 Regulatory information.

Topic	Summary
Securities Act exemptions	<p>The Notes are offered by BNZ in reliance on the Securities Act (Banks' Regulatory Capital) Exemption Notice 2014. The exemption notice exempts NAB from the requirement to register a prospectus and provide a separate investment statement for NAB Shares that will be issued to you if the Notes are Converted, on the condition that potential investors receive relevant up-front and ongoing information about the Notes and the NAB Shares. The exemption notice also allows information about the assets of both BNZ and NAB that is relevant to the Offer to be included in this investment statement.</p> <p>The exemption notice is subject to certain conditions, including the following:</p> <ul style="list-style-type: none"> • the Notes must remain quoted on the NZX Debt Market for so long as they remain outstanding, unless they are delisted by a statutory manager, an administrator, a liquidator or by NZX; • NAB Shares (or other equity securities of the same class) must be quoted on ASX or NZX at the time that NAB Shares are allotted on a Conversion of the Notes, unless the NAB Shares are delisted by a statutory manager, an administrator, a liquidator or by ASX or NZX; • ongoing information in relation to the Notes and the NAB Shares must be published in accordance with, and within the timeframe required by, the continuous disclosure rules of NZX (in the case of the Notes) and ASX (in the case of the NAB Shares) (Continuous Disclosure Information) unless the Notes or the NAB Shares have been delisted; • if either the Notes or the NAB Shares have been delisted, for so long as the Notes are outstanding: <ul style="list-style-type: none"> - Continuous Disclosure Information in relation to the delisted security that would have been required to be disclosed if the security had not been delisted must be published on NZX (in the case of the NAB Shares being delisted) or ASX (in the case of the Notes being delisted) within the timeframe required by the relevant market; and - a link to that Continuous Disclosure Information must be published on the website of BNZ (in the case of the Notes being delisted) or NAB (in the case of the NAB Shares being delisted); and • if both the Notes and the NAB Shares have been delisted, a link to Continuous Disclosure Information in relation to the Notes and the NAB Shares (which would have been required to be disclosed if the securities had not been delisted) must be published on the website of BNZ and NAB for so long as the Notes are outstanding. <p>The above conditions apply for the benefit of initial subscribers for the Notes and any subsequent holders of the Notes. If an approved non-operating holding company (or NOHC) is substituted as the issuer of ordinary shares on Conversion (as described in Section 2.7), the conditions specified above in relation to the NAB Shares will apply in relation to the ordinary shares of that NOHC.</p>
NZX Debt Market quotation	<p>Application has been made to NZX for permission to quote the Notes on the NZX Debt Market. All of NZX's requirements relating to that application that can be complied with on or before the date of this investment statement have been complied with. However, the Notes have not yet been approved for quotation and NZX accepts no responsibility for any statement in this investment statement. NZX is a licensed market operator and the NZX Debt Market is a licensed market under the Financial Markets Conduct Act 2013. The Notes are expected to be quoted on a yield basis.</p>
NZX Debt Market ticker code	BNZ090
NZX waivers	<p>NZX has provided a number of technical waivers from the NZX Listing Rules that reflect the nature of the Notes and that BNZ is a registered bank. These are:</p> <ul style="list-style-type: none"> • that no trustee is required to be appointed as required by NZX Listing Rule 3.2.1(a);

Topic	Summary
<p>NZX waivers (cont)</p>	<ul style="list-style-type: none"> • that the 10 business days' notice requirement in NZX Listing Rule 7.12.2 does not apply to routine payments of interest or if the Notes are Converted following a Non-Viability Trigger Event; and • that BNZ is able to provide its quarterly Disclosure Statements as a registered bank instead of complying with NZX Listing Rules 10.3 and 10.4. <p>The waiver from NZX Listing Rule 7.12.2 is subject to the following conditions:</p> <ul style="list-style-type: none"> • that this investment statement discloses (i) the timing of, and record date for, routine payments of interest; (ii) the process for determining the interest rate and the date on which the interest rate will be announced via NZX; and (iii) the information required by NZX Listing Rule 7.12.2 regarding Conversion which is known at the date of this investment statement; • that the interest rate that will apply until the Optional Redemption Date is announced via NZX on or before the Issue Date; and • that a notice under NZX Listing Rule 7.12.2 following a Conversion must be given as soon as practicable and in any event before the NZX Debt Market opens for trading on the business day after Conversion occurs. <p>NZX has approved, under Listing Rule 11.1.5, the inclusion of provisions in the Note Terms allowing BNZ to refuse a transfer of the Notes if the transfer is not in multiples of NZ\$1,000 of principal amount or would result in a transferee or transferor holding Notes having an aggregate principal amount of less than NZ\$5,000.</p>
<p>ASX waivers</p>	<p>ASX has confirmed that:</p> <ul style="list-style-type: none"> • ASX Listing Rule 7.1 has been waived to permit NAB to issue NAB Shares following a Non-Viability Trigger Event in accordance with the Note Terms without NAB Shareholder approval; and • ASX Listing Rule 10.11 has been waived to the extent necessary to permit NAB directors and certain related persons (being spouses, parents, children and associates of NAB directors) to receive NAB Shares issued on Conversion of the Notes without NAB Shareholder approval. <p>ASX has also confirmed that both waivers will extend to the issue of ordinary shares of a NOHC, if those NOHC ordinary shares are listed on ASX in substitution for NAB Shares.</p> <p>ASX takes no responsibility for the content of this investment statement.</p>
<p>ASIC</p>	<p>ASIC has granted relief under section 741 of the Australian Corporations Act on the terms of ASIC Class Order 10/322 so that where BNZ offers Notes to investors in New Zealand and those Notes are Converted into NAB Shares or ordinary shares of a NOHC, those shares may be on-sold to retail investors in Australia without the lodgement of a prospectus being required in Australia at the time of the sale.</p> <p>This investment statement is not an Australian prospectus for the purposes of the Australian Corporations Act. However, a form of this document will be released to ASX as a notice under section 708A of the Australian Corporations Act (as notionally modified by ASIC Class Order 10/322 and the relief referred to above).</p> <p>ASIC takes no responsibility for the content of this investment statement.</p>
<p>Consents</p>	<p>Each of the parties listed in the Corporate Directory (except BNZ in its capacity as issuer of the Notes and NAB):</p> <ul style="list-style-type: none"> • has given and has not, before the date of this document, withdrawn its consent to be named in this document in the form and context in which it is named; • has not made any statement in this document or any statement on which a statement made in this document is based, other than as specified below; and • to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements or omissions from this document, other than the reference to its name and/or statement or report included in this document with the consent of that party. <p>Ernst & Young has given its consent to the inclusion of references in this document to the audited financial statements of BNZ and the NAB Group, in the form and context in which they appear. Ernst & Young has not been involved in the preparation of this document, and has not authorised or caused the issue of this document.</p>





Section 2
Answers to Important Questions.

2.1 What sort of investment is this?

The Notes are subordinated unsecured notes with a maturity date of 17 December 2025. In certain circumstances, the Notes may be repaid early at BNZ's option. If a Non-Viability Trigger Event occurs, some or all of the Notes must be Converted into NAB Shares or Written Off.

The Notes are scheduled to pay interest quarterly in arrear on the Scheduled Interest Payment Dates and on the date of repayment of the Notes. **All payments on the Notes are subject to BNZ satisfying the Solvency Condition.**

The Notes will be treated as Tier 2 Capital for BNZ and the NAB Level 2 Group. What this means is explained in Section 3.4.

2.1.1 Comparison of the Notes to other securities issued to the public by BNZ or a related company of BNZ

The Notes are different from BNZ Senior Bonds that BNZ issues from time to time and the perpetual non-cumulative shares (referred to as "BNZIS" and "BNZIS 2" shares) issued by related companies of BNZ in 2008 and in 2009 (respectively). The table below summarises these differences. You should consider these differences in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) before deciding whether to apply for Notes.

	BNZ Senior Bonds (issued from time to time)	The Notes	BNZIS shares (issued by BNZ Income Securities Limited in 2008)	BNZIS 2 shares (issued by BNZ Income Securities 2 Limited in 2009)
Term	Varies	10 years	Perpetual	Perpetual
Margin	Varies	To be announced on or before the Opening Date	2.20%	4.09%
Interest/distribution rate	Varies (fixed or floating)	Fixed, with a reset on the Optional Redemption Date	Fixed for 5 yearly periods	Fixed for 5 yearly periods
Interest/distribution payment dates	Typically half-yearly	Quarterly	Quarterly	Quarterly
Conditions to payment of interest or distribution	No	Yes, subject to BNZ satisfying the Solvency Condition	Yes, subject to BNZ Income Securities Limited satisfying conditions and to the directors' discretion	Yes, subject to BNZ Income Securities 2 Limited satisfying conditions and to the directors' discretion
Dividend restriction on BNZ if interest or distribution not paid	No	No	Yes	Yes
Transferable	Yes	Yes, expected to be quoted on NZX Debt Market as "BNZ090"	Yes, previously quoted on NZX Debt Market as BISHA	Yes, previously quoted on NZX Debt Market as BNSPA

	BNZ Senior Bonds (issued from time to time)	The Notes	BNZIS shares (issued by BNZ Income Securities Limited in 2008)	BNZIS 2 shares (issued by BNZ Income Securities 2 Limited in 2009)
Issuer's early repayment options	No	Yes, after 5 years or any Scheduled Interest Payment Date thereafter, or if a Regulatory Event or a Tax Event occurs	Yes, after 5 years or any dividend payment date thereafter, or if a tax event, regulatory event or certain other events occur	Yes, after 5 years or any dividend payment date thereafter, or if a tax event, regulatory event or certain other events occur
Non-Viability Trigger Event conversion or write off	No	Yes, if a Non-Viability Trigger Event occurs in respect of BNZ or NAB some or all of the Notes will be converted into NAB Shares or Written Off	No	No
Capital classification	None	Tier 2 Capital	Tier 1 Capital	Tier 1 Capital
Right to vote at or attend a general meeting of BNZ's shareholders	No	No	No	No
Ranking	Higher than the Notes	Lower than BNZ Senior Bonds and higher than ordinary shares in BNZ	The BNZIS shares were deeply subordinated and have now been repurchased from the public	The BNZIS 2 shares were deeply subordinated and have now been repurchased from the public and cancelled
Credit rating: Standard & Poor's	AA-	BBB+	BBB+ (at the time the BNZIS shares were called)	BBB+ (at the time the BNZIS 2 shares were called)
Credit rating: Moody's	Aa3	A3 (hyb)	Baa1 (hyb) (at the time the BNZIS shares were called)	Baa1 (hyb) (at the time the BNZIS 2 shares were called)

2.1.2 Credit ratings of the Notes

As at the date of this investment statement, the Notes have a credit rating of BBB+ from Standard & Poor's and A3 (hyb) from Moody's.

BNZ's senior long term debt has credit ratings of:

- AA- from Standard & Poor's;
- Aa3 from Moody's; and
- AA- from Fitch.

The Notes have a lower credit rating than BNZ's senior long term debt because the Notes are subordinated securities. In addition, their rating reflects the fact that if a Non-Viability Trigger Event occurs some or all of the Notes must be Converted into NAB Shares or Written Off if the relevant Notes are not Converted when required.

A credit rating in respect of an entity is an independent opinion of the capability and willingness of an entity to repay its debts - in other words, its financial strength or creditworthiness. A credit rating in respect of a note is an independent opinion of the capability and willingness of an entity to repay the debt under that note. A rating is not a guarantee that the notes being offered are a safe investment or that any or all amounts payable under those notes will be paid. Credit ratings should be considered alongside all other relevant information when making an investment decision.

Standard & Poor's gives (non-default) ratings from "AAA" through to "C" and Moody's gives (non-default) ratings from "Aaa" through to "C" as set out in the table below. Credit ratings of "AAA" to "BBB" by Standard & Poor's and "Aaa" to "Baa" by Moody's are considered to be "investment grade". Credit ratings below "BBB" by Standard & Poor's and "Baa" by Moody's are generally called "speculative grade" or "non-investment grade".

	Standard & Poor's	Moody's	Description of Grade
Investment grade	AAA	Aaa	Ability to repay principal and interest is extremely strong. This is the highest investment category.
	AA	Aa	Very strong ability to repay principal and interest.
	A	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in financial conditions.
	BBB	Current Notes rating A3 (hyb)*	
Speculative grade	Current Notes rating BBB+	Baa	Adequate ability to repay principal and interest. More vulnerable to adverse changes.
	BB	Ba	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.
	B	B	Greater vulnerability and therefore greater likelihood of default.
	CCC	Caa	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.
	CC to C	Ca to C	Highest risk of default.
	D	-	Obligations currently in default.

Credit ratings by Standard & Poor's may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories. Moody's apply numeric modifiers 1, 2 and 3 to show relative standing within the major rating categories with 1 indicating the higher end of that category and 3 indicating the lower end.

** A (hyb) indicator is appended by Moody's to the ratings of all hybrid securities issued by banks.*

These ratings are not a recommendation by Standard & Poor's or Moody's to buy, sell or hold the Notes or any securities issued by BNZ. Ratings are subject to suspension, revision or withdrawal at any time. The Notes are not rated by Fitch.

2.2 Who is involved in providing it for me?

Issuer of the Notes

BNZ is the issuer of the Notes.

BNZ's address is set out in the Corporate Directory.

BNZ's directors are: Douglas McKay (ONZM) (Chair), Anthony Healy (Managing Director and Chief Executive Officer), Mai Chen, Prudence Flacks, Michaela Healey, Dr Susan Macken, Stephen Moir, Dr Andrew Pearce and Gavin Slater.

BNZ's address and directors are current as at the date of this investment statement, but may change from time to time. You can find out BNZ's current address and directors on www.business.govt.nz/companies by searching "Bank of New Zealand".

BNZ's activities

BNZ is a registered bank under the RBNZ Act. BNZ has been in the business of financial services in New Zealand since 1861 when the first BNZ office opened in Queen Street, Auckland. A comprehensive range of banking and financial products and services is provided including deposit taking, credit and debit cards, corporate, domestic and multi-currency based lending, dealing in interest rate and foreign exchange products and their derivatives, trade finance, the distribution of life and general insurance, managed funds, and KiwiSaver products, and the provision of investment advice.

See Section 3 for more information about BNZ.

Promoter of the Notes and issuer of NAB Shares

NAB and each of its directors are promoters of the Notes. NAB is also the issuer of the NAB Shares that will be issued to you if any of your Notes are Converted.

NAB is not a registered bank in New Zealand. Its address in Australia is set out in the Corporate Directory.

NAB's directors are: Michael Chaney AO (Chair), Andrew Thorburn (Managing Director and Chief Executive Officer), David Armstrong, Daniel Gilbert AM, Peeyush Gupta, Kenneth Henry AC, Geraldine McBride, Paul Rizzo, Jillian Segal AM and Anthony Yuen.

As previously announced by NAB, Mr Chaney will retire as Chairman of NAB's board of directors, and Dr Henry will succeed Mr Chaney as Chairman, immediately following NAB's Annual General Meeting in December 2015.

NAB's address and directors are current as at the date of this investment statement, but may change from time to time. You can find out NAB's current address on www.nab.com.au/contact-us and NAB's current directors on www.nab.com.au/about-us/our-business-at-a-glance/board-of-directors

See Section 4 for more information about NAB.

No trustee

BNZ has not appointed a trustee because it is exempt under the Securities Act 1978 from this requirement in respect of the Notes. Instead, there is a Deed Poll made by BNZ in favour of each person who is from time to time a holder of the Notes. The Deed Poll is described in Section 2.11.

Registrar

Computershare Investor Services Limited is the Registrar of the Notes. Computershare Investor Services Limited's address is set out in the Corporate Directory.

2.3 How much do I pay?

Issue Price and minimum application

The Issue Price of each Note is NZ\$1.00. This is the amount you must pay to BNZ for each Note.

The minimum amount of the Notes you can apply for is NZ\$5,000 (and you must apply for multiples of NZ\$1,000 thereafter). There is no maximum amount of the Notes you can apply for.

Payments

You must pay for the Notes by cheque, direct debit or through the NZClear System.

If you pay by cheque, your cheque must be in NZ dollars drawn on a New Zealand branch of a registered bank and made payable to “BNZ Subordinated Notes Offer” and must not be post-dated.

If you pay by direct debit, the subscription money must be in your account and available the day the Registrar activates the direct debit. You should check that your account is able to be direct debited and that you are authorised on that account as a signatory for a direct debit transaction.

Institutions that normally settle via the NZClear System can do so by making arrangements prior to the Closing Date and settling with the Registrar on or before the Issue Date.

The Issuer will hold your subscription money in trust until the Issue Date.

Applications

To apply for the Notes, you must follow the instructions below and in Section 8.

You should contact your financial adviser for details of how to submit your application. All Notes, including oversubscriptions, will be reserved for subscription by clients of the Joint Lead Managers, the Co-Manager, Primary Market Participants (as defined in the NZX Participant Rules) and other persons invited to participate in the Bookbuild. This means that there is no public pool for the Notes and your completed application form (attached to this investment statement), together with means of payment, must be provided to a Joint Lead Manager, the Co-Manager, a Primary Market Participant or any other person invited to participate in the Bookbuild in time for your application to be forwarded to the Registrar by 5.00pm on the Closing Date.

Right of refusal

BNZ may refuse all or any part of your application without giving a reason. BNZ may also decide not to accept any applications. BNZ may change the Rate Set Date, the Opening Date, the Closing Date, and the Issue Date.

If BNZ refuses your application, BNZ will refund your subscription money (without interest) within 5 business days of the Issue Date.

If BNZ accepts your application in part, BNZ will refund the balance of your subscription money (without interest) within 5 business days of the Issue Date.

If your payment for the Notes is dishonoured, BNZ may not issue you Notes, may cancel your Notes and may pursue you for any loss BNZ suffers.

No cooling-off

There is no cooling-off period during which you can cancel your investment in the Notes. Once your application has been lodged, you cannot withdraw or revoke it (unless BNZ permits this in its sole discretion).

2.4 What are the charges?

You pay no charges or fees to BNZ or NAB to invest in the Notes. However, you may have to pay charges to any person from whom you receive a firm allocation and who recommends the investment to you or who arranges your application for you. In addition, if you sell your Notes you may have to pay sale charges.

You may have to pay charges if any of your Notes are Converted into NAB Shares following a Non-Viability Trigger Event and the NAB Shares are issued to a nominee instead of you. This will occur if you are not a New Zealand or Australian resident at the time of Conversion, if you have notified BNZ that you do not want to receive NAB Shares or if NAB does not have all information in relation to you that it

requires in order to issue NAB Shares to you. If NAB Shares are issued to the nominee instead of you, the nominee will sell those NAB Shares and pay you the proceeds less the sale charges.

BNZ will pay brokerage and firm allocation fees

BNZ will pay brokerage on total applications of 0.75% to the Arranger. Such brokerage will be distributed as appropriate to Primary Market Participants and approved financial intermediaries for applications carrying that firm's stamp. A firm allocation fee of 0.50% in respect of the Notes allocated pursuant to a firm allocation will also be paid to the Arranger and distributed as appropriate to Primary Market Participants or approved financial intermediaries that have provided valid applications pursuant to a firm allocation.

2.5 What returns will I get?

You should read the information in this Section together with the information in relation to risks in Section 2.6.

Type of returns

Your returns will be the amount of interest you receive on your Notes and the repayment of the Issue Price (NZ\$1.00 per Note) when your Notes are repaid.

In addition, your returns on your Notes may be by way of:

- › any gains you make if you sell or transfer any of your Notes for a net price that is greater than the amount you paid for your Notes (although the market price of your Notes may also decline, making them worth less than the amount you paid for them); and
- › if any of your Notes are Converted into NAB Shares following a Non-Viability Trigger Event, you receiving a number of NAB Shares in exchange for those Notes (although the value of the NAB Shares you receive on Conversion may be significantly less than the principal amount of your Notes that are Converted). See Section 5 for a description of the rights attaching to NAB Shares.

However, if any of your Notes are Written Off because they are not Converted into NAB Shares when required following a Non-Viability Trigger Event, you will receive nothing further in relation to those Notes, your rights under them will be cancelled and you will lose all of your investment in them.

It is not possible to quantify, as at the date of this investment statement, the exact amount of returns you will receive. No amount of returns is promised.

Key factors that determine your returns on your Notes

Certain events could reduce or eliminate your returns. The key factors that determine your returns are:

- › the interest rate that applies to the Notes;
- › whether your Notes are repaid early;
- › whether BNZ is able to satisfy the Solvency Condition and so make payments on the Notes when expected;
- › whether you sell your Notes;
- › if a Non-Viability Trigger Event occurs and your Notes are Converted into NAB Shares or Written Off;
- › how many NAB Shares are issued to you if your Notes are Converted;
- › the financial condition of each of BNZ and NAB, and the NAB Group as a whole;
- › any applicable taxes; and
- › the other risk factors described in Section 2.6.

Early Bird Interest

BNZ will pay you interest on your subscription money at 3.75% per annum (less any applicable withholding taxes) for the period from (and including) the date on which your subscription money is banked to (but excluding) the Issue Date (**Early Bird Interest**). BNZ will pay the Early Bird Interest within 5 business days of the Issue Date. If BNZ refuses your application or accepts your application in part, or the Offer is withdrawn, no Early Bird Interest will be paid on the subscription money returned to you.

2.5.1 Interest

This Section contains a summary of when interest will be paid on your Notes and how it is calculated.

Interest		Note Terms reference
Interest rate	<p>The interest rate will be set on the Rate Set Date (20 November 2015) and is then fixed for 5 years from the Issue Date until the Optional Redemption Date (17 December 2020) when it will be reset for another 5 years.</p> <p>The interest rate from the Issue Date (17 December 2015) to (but excluding) the Optional Redemption Date will be the sum of the 5 Year Swap Rate on the Rate Set Date plus the Margin.</p> <p>The interest rate from (and including) the Optional Redemption Date to the Maturity Date will be the sum of the 5 Year Swap Rate on the Optional Redemption Date plus the Margin.</p> <p>The initial interest rate will be announced via NZX on or before the Opening Date. The interest rate that is reset on the Optional Redemption Date will be announced via NZX on that date.</p>	Clause 3.3
Margin	<p>The Margin will be determined on the Rate Set Date through the Bookbuild and announced via NZX on or before the Opening Date. The Bookbuild is the process conducted prior to the opening of the Offer whereby certain investors lodge bids for Notes and, on the basis of those bids, BNZ and the Arranger determine the Margin. The Margin will not change over the term of the Notes.</p>	Clause 3.3
5 Year Swap Rate	<p>A swap rate is a benchmark fixed interest rate used in the New Zealand financial markets and is commonly used as a reference by major financial institutions. The 5 Year Swap Rate is the reference rate for an instrument with a 5 year term. Swap rates change to reflect market conditions over time.</p> <p>The 5 Year Swap Rate that will apply for the purposes of setting the interest rate on the Notes will be determined by BNZ on the relevant date and adjusted as necessary to a quarterly rate.</p> <p>The 5 Year Swap Rate, adjusted to a quarterly rate, as at 6 November 2015 was 3.05% per annum. The actual 5 Year Swap Rate that is used to set the interest rate on the Notes may be higher or lower than that rate.</p>	Clause 3.3
Interest Payment Dates	<p>Interest is scheduled to be paid quarterly in arrear on 17 March, 17 June, 17 September and 17 December in each year and on the date of repayment of the Notes. The first Interest Payment Date is 17 March 2016.</p> <p>The payment of interest on the Notes on an Interest Payment Date is subject to BNZ satisfying the Solvency Condition - see Section 2.5.3.</p>	Clause 3.2
Calculation of interest	<p>Interest on each Note is calculated by reference to an Interest Period and the interest rate that applies to the Interest Period.</p> <p>An Interest Period is the period from (and including) an Interest Payment Date (or the Issue Date in the case of the first Interest Period) to (but excluding) the next Interest Payment Date.</p> <p>In general, interest on the Notes will be calculated on an annual basis and will be payable in equal quarterly amounts. However, if a Note is repaid early on a date that is not a Scheduled Interest Payment Date, the amount of interest will be adjusted to reflect the actual number of days in the relevant Interest Period. If a Note is Converted or Written Off, any rights to receive interest on that Note (including any accrued but unpaid interest) are also terminated and written off.</p>	Clauses 3.4 and 20.1

2.5.2 Repayment of the Issue Price

This Section contains a summary of when, and what happens if, your Notes are repaid.

Repayment		Note Terms reference
Maturity Date	<p>Your Notes are scheduled to be repaid by BNZ on the Maturity Date (17 December 2025).</p> <p>The repayment of the Notes on the Maturity Date is subject to BNZ satisfying the Solvency Condition - see Section 2.5.3.</p>	Clause 4.1
Early repayment	<p>BNZ may at its option repay all or some of the Notes on the Optional Redemption Date (17 December 2020) or on any Scheduled Interest Payment Date falling after that date and may repay all (but not some only) of the Notes if a Regulatory Event or Tax Event occurs. You should not assume that BNZ will elect to repay the Notes early.</p> <p>Broadly, a Regulatory Event will occur if:</p> <ul style="list-style-type: none"> • BNZ receives legal advice that, as a result of a change of law or regulation in New Zealand or Australia announced on or after the Issue Date (which BNZ did not expect at the Issue Date), additional requirements would be imposed on BNZ or NAB in relation to the Notes which BNZ’s directors determine to be unacceptable; or • BNZ’s directors determine that, as a result of a change of law or regulation in New Zealand or Australia announced on or after the Issue Date (which BNZ did not expect at the Issue Date), BNZ or NAB will not be entitled to treat some or all of the Notes as Tier 2 Capital. <p>Broadly, a Tax Event will occur if BNZ determines that there has been or will be a change in New Zealand or Australian law, regulation, ruling or directive, or a change in application, interpretation or administration of any New Zealand or Australian law, regulation, ruling or directive, or a member of the NAB Group is or will be required to comply with any such change, in each case that applies or is to apply after the Issue Date, which directly or indirectly affects the tax treatment of the Notes, provided such event is not minor and which BNZ did not expect when the Notes were issued.</p> <p>You have no right to request that your Notes be repaid early, except in limited circumstances if BNZ is in liquidation and the Notes have not been Converted or Written Off, as described below.</p>	Clauses 4.2, 4.3, 4.4, 10.2 and 20.1
Early repayment is subject to conditions	<p>BNZ may not repay Notes early unless:</p> <ul style="list-style-type: none"> • it obtains the prior written approval of the RBNZ and APRA; and • broadly, either the Notes that are repaid are replaced with a capital instrument of the same or better quality for regulatory purposes, or the RBNZ and APRA confirm that they are satisfied that the Notes do not have to be replaced. <p>You should not assume that the RBNZ or APRA will give their approval to an early repayment.</p> <p>The early repayment of the Notes is also subject to BNZ satisfying the Solvency Condition - see Section 2.5.3.</p>	Clause 4.8
What you receive on repayment	<p>When your Notes are repaid BNZ will pay you the Issue Price (NZ\$1.00) for each of those Notes and you will have no further rights in respect of them. Interest is also payable on the repayment date - see Section 2.5.1.</p>	Clause 4

Repayment		Note Terms reference
Repayment if BNZ is in liquidation	If BNZ is in liquidation and the Notes have not been Converted or Written Off an Event of Default will occur and holders of the Notes may resolve by Ordinary Resolution to declare by notice to BNZ that the Issue Price of each Note and accrued but unpaid interest is payable on a date specified in the notice. In this circumstance, the claims of holders of the Notes will be subordinated as described in Section 2.6.6 and you may be unable to recover all or some of the Issue Price of your Notes or any accrued but unpaid interest on your Notes.	Clauses 10.1 and 10.2

2.5.3 Payments on the Notes are subject to the Solvency Condition

This Section explains the Solvency Condition and how it affects your entitlement to payment of amounts on the Notes.

Solvency Conditions		Note Terms reference
Payment of amounts on the Notes is subject to the Solvency Condition	The payment of amounts on the Notes is subject to BNZ satisfying the Solvency Condition on the relevant payment date. BNZ will satisfy the Solvency Condition if BNZ is Solvent on the relevant payment date and will remain Solvent immediately after making the payment. For these purposes, Solvent means satisfying the solvency test in section 4 of the Companies Act. Section 4 of the Companies Act provides that a company satisfies the solvency test if (a) the company is able to pay its debts as they become due in the normal course of business and (b) the value of the company's assets is greater than the value of its liabilities, including contingent liabilities.	Clause 2.2
Unpaid amounts accumulate	Amounts that are not paid on the Notes because BNZ has not satisfied the Solvency Condition accumulate and are payable by BNZ on the first date on which BNZ is able to make the payment and satisfy the Solvency Condition. Interest will accrue daily (at the interest rate then applicable to the Notes) on any interest that is not paid when scheduled as a result of BNZ not satisfying the Solvency Condition on the relevant payment date.	Clauses 2.4 and 3.6
No Event of Default	No Event of Default arises if BNZ fails to pay an amount on the Notes on account of not satisfying the Solvency Test. See Section 2.5.6 for a description of Events of Default.	Clause 10.2

2.5.4 Conversion and Write Off following a Non-Viability Trigger Event

This Section provides a summary of what happens if your Notes are required to be Converted following a Non-Viability Trigger Event.

Conversion		Note Terms reference
<p>Conversion following a Non-Viability Trigger Event</p>	<p>If any of your Notes are Converted following a Non-Viability Trigger Event, you will no longer hold those Notes and instead you will hold NAB Shares.</p> <p>You will no longer hold those Notes because, on the Trigger Event Conversion Date, Notes that are to be Converted automatically will be transferred to National Australia Group (NZ) Limited (NAGNZ), a related company of BNZ, free of any encumbrance. If for some reason this transfer does not occur (for example, because you are bankrupt and your bankruptcy official somehow impedes the transfer), then all of your rights in those Notes will be terminated and written off.</p> <p>If any of your Notes are required to be Converted following a Non-Viability Trigger Event then all of your rights in relation to those Notes are suspended until Conversion occurs or those Notes are Written Off if they are not Converted when required.</p> <p>If any of your Notes are Converted following a Non-Viability Trigger Event, the value of the NAB Shares you receive may be significantly less than the aggregate principal amount of those Notes. Following Conversion there is no certainty as to the future value of the NAB Shares.</p>	<p>Clauses 5.1, 5.2, 5.3 and 6</p>
<p>Non-Viability Trigger Event</p>	<p>A Non-Viability Trigger Event will occur if:</p> <ul style="list-style-type: none"> • the RBNZ gives BNZ a direction under the RBNZ Act requiring BNZ to exercise its right of conversion or write off of its Tier 2 Capital instruments; or • BNZ is made subject to statutory management under the RBNZ Act and the New Zealand statutory manager announces his or her decision to convert or write off BNZ’s Tier 2 Capital instruments; or • APRA has provided a written determination to NAB that without: <ul style="list-style-type: none"> - the conversion or write off of a class of capital instruments of the NAB Group which includes the Notes; or - a public sector injection of capital into, or equivalent capital support with respect to, NAB, <p>APRA considers that NAB would become non-viable.</p> <p>The RBNZ may give BNZ a direction that affects the Notes under the RBNZ Act if the RBNZ has reasonable grounds to believe, based on BNZ’s financial position, that:</p> <ol style="list-style-type: none"> (a) BNZ is insolvent or is likely to become insolvent; (b) BNZ is about to suspend payment or is unable to meet its obligations as and when they fall due; (c) the affairs of BNZ are being conducted in a manner prejudicial to the soundness of the financial system; (d) the circumstances of BNZ are such as to be prejudicial to the soundness of the financial system; or (e) the business of BNZ has not been, or is not being, conducted in a prudent manner. 	<p>Clause 5.1</p>

Conversion		Note Terms reference
Non-Viability Trigger Event (cont)	<p>Whether a Non-Viability Trigger Event will occur is at the discretion of the RBNZ, the New Zealand statutory manager of BNZ or APRA (as applicable) and there are currently no precedents for this. A Non-Viability Trigger Event may occur on more than one occasion.</p> <p>A Non-Viability Trigger Event can occur where APRA determines NAB has become non-viable, even if the RBNZ does not have similar concerns about BNZ's viability at that time.</p>	Clause 5.1
Conversion may be of all or only some Notes	<p>If Conversion is required following a Non-Viability Trigger Event, all Notes will be Converted unless the RBNZ, the New Zealand statutory manager of BNZ or APRA (as applicable) is satisfied that BNZ or NAB (as applicable) will not become non-viable if only some of the Notes are Converted.</p> <p>All Notes will be Converted where APRA determines NAB will become non-viable without a public sector injection of funds or equivalent capital support.</p>	Clause 5.1
NAB Shares may be issued to a nominee instead of you	<p>If you are not a New Zealand or Australian resident at the time of Conversion, if you have notified BNZ that you do not want to receive NAB Shares or if NAB does not have all information in relation to you that it requires in order to issue the NAB Shares to you and any of your Notes are to be Converted following a Non-Viability Trigger Event, the NAB Shares may be issued to a nominee instead of you. If this occurs, the nominee will sell those NAB Shares and pay you the proceeds less the sale charges.</p>	Clauses 6.10, 6.12 and 20.1
Notes will be Written Off if Conversion does not occur	<p>If Conversion is required following a Non-Viability Trigger Event and your Notes are not Converted into NAB Shares for any reason, those Notes will be Written Off. This means you will receive nothing further in relation to those Notes, your rights under them will be cancelled and you will lose all of your investment in them. You will not receive any compensation, and have no right to take action against BNZ, NAB or any member of the NAB Group, if any of your Notes are Written Off.</p>	Clauses 5.3 and 6.13
Change in circumstances	<p>A change in circumstances occurring between the Issue Date and the Trigger Event Conversion Date could materially affect the NAB Shares (including their price) or NAB. NAB will issue the relevant number of NAB Shares to you on the Trigger Event Conversion Date, even if there are adverse circumstances that make this investment statement false or misleading in a material particular by reason of failing to refer, or give proper emphasis, to those circumstances.</p>	These statements are required by the Securities Act (Banks' Regulatory Capital) Exemption Notice 2014

2.5.5 NAB Shares received on Conversion

This Section summarises how the number of NAB Shares you will receive on Conversion is calculated. It contains a summary of the formulas used to determine how many NAB Shares you will receive on Conversion (see “Base Conversion Number” and “Maximum Conversion Number” below) followed by two worked examples showing how the number of NAB Shares you would receive varies in different circumstances. The number of NAB Shares that will be issued to you on Conversion will be affected by the NAB Share price and the NZ\$/A\$ exchange rate at the time of Conversion.

Number of NAB Shares received on Conversion		Note Terms reference
Base Conversion Number	<p>The number of NAB Shares that will be issued to you for each Note you hold that is Converted on the Trigger Event Conversion Date will be equal to the Base Conversion Number, unless the Maximum Conversion Number applies.</p> <p>The Base Conversion Number is calculated in accordance with the following formula:</p> $\text{Base Conversion Number} = \frac{\text{Issue Price}}{99\% \times \text{NZD-VWAP}}$ <p>Where:</p> <ul style="list-style-type: none"> • Issue Price is NZ\$1.00; • NZD-VWAP broadly is the NZ dollar equivalent (using the exchange rate at the time of Conversion) of the average of the daily volume weighted average sale prices of NAB Shares sold on ASX; • for the purposes of the formula above, NZD-VWAP is calculated during the period (the VWAP Period) of 5 business days on which trading in NAB Shares took place on ASX immediately preceding (but not including) the Trigger Event Conversion Date; and • multiplying NZD-VWAP by 99% results in a 1% discount to the price of NAB Shares which is intended to assist you in covering the potential transactional costs of selling the NAB Shares issued to you on Conversion. <p>The formula above is designed to operate so that, if the NZD-VWAP has not fallen to below a level where the Maximum Conversion Number applies, you will receive approximately NZ\$1.01 worth of NAB Shares for each of your Notes that is Converted. However, you may receive significantly less than NZ\$1.01 worth of NAB Shares for each of those Notes when they are Converted because:</p> <ul style="list-style-type: none"> • the NZD-VWAP during the VWAP Period may differ from the NZ dollar equivalent of the NAB Share price on the Trigger Event Conversion Date; and • the number of NAB Shares you will receive for each of those Notes will be capped at the Maximum Conversion Number if the NZD-VWAP has fallen significantly as described below in relation to the Maximum Conversion Number. <p>In addition, if the total number of NAB Shares to be issued to you following a Non-Viability Trigger Event includes a fraction of a NAB Share, that fraction will be disregarded.</p>	<p>Clauses 6.1(b) and 6.1(c)</p>
Maximum Conversion Number	<p>The number of NAB Shares you receive on Conversion will not in any circumstances exceed the Maximum Conversion Number. This means that if the Maximum Conversion Number is less than the Base Conversion Number, the number of NAB Shares issued for each Note that is Converted on the Trigger Event Conversion Date will be limited to the Maximum Conversion Number.</p> <p>The Maximum Conversion Number will apply if the NZD-VWAP has fallen by 80% or more from the NZD-Issue Date VWAP. This could occur due to a decrease in the market price of NAB Shares, or an increase in the NZ\$/A\$ exchange rate, or both.</p>	<p>Clause 6.1(b)</p>

Number of NAB Shares received on Conversion	Note Terms reference
Maximum Conversion Number (cont)	<p>The Maximum Conversion Number is calculated in accordance with the following formula:</p> $\text{Maximum Conversion Number} = \frac{\text{Issue Price}}{\text{NZD-Issue Date VWAP} \times 0.2}$ <p>Where:</p> <ul style="list-style-type: none"> • Issue Price is NZ\$1.00; • NZD-Issue Date VWAP broadly is the NZD-VWAP calculated during the period of 20 business days on which trading in NAB Shares took place on ASX immediately preceding (but not including) the Issue Date (using the exchange rate on the Issue Date); and • multiplying NZD-Issue Date VWAP by 0.2 is a requirement of APRA designed to limit the number of NAB Shares that will be issued if Conversion occurs. <p>If the Maximum Conversion Number applies, you may receive less, or significantly less, than NZ\$1.01 worth of NAB Shares for each of your Notes that is Converted and you may lose a significant amount of the money you invested as a consequence.</p>
Adjustments to NZD-VWAP and NZD-Issue Date VWAP	<p>The NZD-VWAP, and consequently the Base Conversion Number, will be adjusted to reflect a division, consolidation or reclassification of NAB Shares and any dividend, distribution or entitlement (which is reflected in the quotation price) as set out in the Note Terms.</p> <p>The NZD-Issue Date VWAP, and consequently the Maximum Conversion Number, will be adjusted to reflect a division, consolidation or reclassification of NAB Shares and pro rata bonus issues as set out in the Note Terms (but not other transactions, including rights issues, which may affect the capital of NAB).</p>
Worked examples of Conversion following a Non-Viability Trigger Event	<p>Below are two worked examples of Conversion following a Non-Viability Trigger Event using:</p> <ul style="list-style-type: none"> • a NZD-VWAP of NZ\$1.00 (ie in extreme circumstances); and • a NZD-VWAP of NZ\$10.00 (ie in less severe circumstances). <p>Both examples assume an NZD-Issue Date VWAP of NZ\$33.00 and are based on a holder of 10,000 Notes (having an aggregate Issue Price of NZ\$10,000). The NZD-Issue Date VWAP used is calculated based on a VWAP of A\$30.00 and an A\$/NZ\$ exchange rate of 1.10 (ie A\$30.00 x 1.10 = NZ\$33.00).</p>
Example One: NZD-VWAP decreases from NZ\$33.00 to NZ\$1.00	<p>1. Using a NZD-VWAP of NZ\$1.00</p> <p>Assume that on 17 December 2019 a Non-Viability Trigger Event occurs and that the NZD-VWAP in the VWAP Period is NZ\$1.00, which means it has fallen by approximately 97% since the Issue Date.</p> $\text{Base Conversion Number} = \frac{\text{NZ\$1.00}}{99\% \times \text{NZ\$1.00}} = 1.0101 \text{ NAB Shares per Note}$ <p>which exceeds</p> $\text{Maximum Conversion Number} = \frac{\text{NZ\$1.00}}{\text{NZ\$33.00} \times 0.2} = 0.1515 \text{ NAB Shares per Note}$ <p>and so the Maximum Conversion Number applies.</p> <p>In this example the Maximum Conversion Number is less than the Base Conversion Number, which means the total number of NAB Shares to which a holder of 10,000 Notes would be entitled would be the Maximum Conversion Number of 0.1515 x 10,000, that is 1,515.</p>

Number of NAB Shares received on Conversion

Note Terms
reference

The NZ dollar equivalent of the market value of the NAB Shares received based on the Maximum Conversion Number and a prevailing market price equal to the NZD-VWAP of NZ\$1.00 is NZ\$1,515 (ie 1,515 x NZ\$1.00), which is considerably less than NZ\$10,000 (the Issue Price of 10,000 Notes).

Example Two: NZD-VWAP decreases from NZ\$33.00 to NZ\$10.00

2. Using a NZD-VWAP of NZ\$10.00

In this example, assume that the NZD-VWAP in the VWAP Period is NZ\$10.00, which means it has fallen by approximately 70% since the Issue Date.

The Base Conversion Number calculated according to the above formula would be 0.101 and the Maximum Conversion Number would again be 0.1515.

Since the Base Conversion Number is less than the Maximum Conversion Number, the total number of NAB Shares to which a holder of 10,000 Notes would be entitled would be the Base Conversion Number of 0.101 x 10,000, that is 1,010.

The NZ dollar equivalent of the market value of the NAB Shares received in this case based on a prevailing market price equal to the NZD-VWAP of NZ\$10.00 would be NZ\$10,100 (ie 1,010 x NZ\$10.00), which is slightly more than NZ\$10,000 (the Issue Price of 10,000 Notes).

The above examples are for illustrative purposes only. The figures in it are not forward looking statements and do not indicate, guarantee or forecast the NZD-Issue Date VWAP or future NZD-VWAP or other price of NAB Shares.

2.5.6 Events of Default

The Note Terms have very limited Events of Default and your rights are restricted if an Event of Default occurs, as described below.

Event of Default	Consequences	Note Terms reference
<p>1. Payment default</p> <ul style="list-style-type: none">• BNZ does not pay any Issue Price due in respect of the Notes within 7 days of its due date.• BNZ does not pay any interest due in respect of the Notes within 30 days of its due date. <p>To the extent that BNZ is not required to make a payment due to the operation of the Solvency Condition described in Section 2.5.3, the amount is not due and payable and a payment default cannot occur.</p>	<p>If a payment default occurs, you may bring proceedings:</p> <ul style="list-style-type: none">• to recover any amount then due and payable but unpaid on your Notes (subject to BNZ being able to make the payment and remain Solvent);• to obtain an order for specific performance of any other obligation in respect of your Notes; or• for the liquidation of BNZ.	<p>Clauses 10.1 and 10.2</p>
<p>2. Liquidation</p> <ul style="list-style-type: none">• On the commencement of liquidation of BNZ.	<p>In addition to the consequences listed above, in the case of the commencement of liquidation of BNZ, holders of Notes may resolve by Ordinary Resolution to declare that the Issue Price and accrued but unpaid interest is due and payable.</p> <p>In this circumstance, the claim of holders of Notes will be subordinated as described in Section 2.6.6.</p>	<p>Clauses 10.1 and 10.2</p>

The occurrence of an Event of Default will not prevent or delay the Conversion (or, if applicable, Write Off) of your Notes if a Non-Viability Trigger Event occurs.

2.5.7 Payments

BNZ will pay interest or any other amount payable on each Note to the person registered as the holder of the Note on the Record Date for the payment. The **Record Date** is generally 10 calendar days before the relevant payment date. BNZ will make payments to the bank account you nominate on your application form or such other bank account as you may advise the Registrar in writing from time to time (provided you advise the Registrar prior to the Record Date for the payment).

BNZ may deduct from any payment the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such amount. BNZ may also make a deduction on account of FATCA, as described in Section 2.5.9. BNZ is not required to pay an additional amount (or take any further action) where it has made a deduction on account of any withholding or other tax, duty, levy or FATCA.

There are no reserves or retentions that will impact on returns to investors.

2.5.8 Person legally responsible to pay returns

BNZ is the person that is legally responsible for paying amounts on the Notes. The Notes are not guaranteed by any person, and NAB does not guarantee the obligations of BNZ.

2.5.9 Tax

The returns on your Notes will be affected by taxes. If a law requires BNZ to deduct an amount in respect of taxes from a payment under a Note, then BNZ will deduct the amount and pay it to the relevant authority. BNZ is not obliged to pay you any additional amounts in relation to any such deduction.

Under the Note Terms, you indemnify BNZ in respect of any tax which BNZ becomes liable to pay on your behalf. BNZ may deduct any indemnity payment from future amounts payable.

You must notify the Registrar:

- › of your country of residence for tax purposes;
- › if you are not a New Zealand tax resident, whether you are engaged in business in New Zealand through a fixed establishment; and
- › if your country of residence for tax purposes changes.

The following information does not constitute tax advice to you or any other holder of Notes. The information set out below is general in nature. BNZ understands it to be correct as at the date of this investment statement. Tax laws are subject to change, and such changes may materially affect your tax position with respect to an investment in the Notes. You should seek qualified, independent financial and tax advice in relation to your circumstances before deciding to invest.

Resident withholding tax

If you are either a New Zealand resident for tax purposes or you are engaged in business through a fixed establishment (as defined in the Tax Act) in New Zealand, BNZ will deduct resident withholding tax (**RWT**) from the gross amount of interest (and other payments deemed to be interest) paid to you in accordance with the provisions of the Tax Act.

If you are an individual or hold the Notes as trustee, and have supplied your IRD number to the Registrar, you may elect for RWT to be deducted at a rate of 10.5%, 17.5%, 30% or 33%. You may elect a rate of 10.5% only if you are an individual (not acting as a trustee) and you have a reasonable expectation at the time of making the election that your income for the income year applicable to you (e.g. 1 April 2015 to 31 March 2016) will be NZ\$14,000 or less, or if you are holding the Notes as trustee of certain testamentary trusts.

If you are an individual or hold the Notes as trustee and you do not supply your IRD number to the Registrar, BNZ will deduct RWT at 33%.

If the Commissioner of Inland Revenue determines that the rate you have notified to BNZ is inconsistent with your marginal tax rate, the Commissioner may require BNZ to deduct RWT at a different rate to the rate you elected.

BNZ will deduct RWT at 28% from interest paid to a holder of Notes that is a company (not acting as a trustee) that has supplied its IRD number to the Registrar and that has not elected that RWT be deducted at 33%. BNZ will deduct RWT at 33% from interest paid to a company that has not supplied its IRD number to the Registrar or that has elected that RWT be deducted at 33%.

BNZ will not deduct RWT if you provide a copy of an appropriate RWT exemption certificate to the Registrar at least five business days before the Record Date for the relevant payment.

Non-resident withholding tax

If at any time you hold a Note and are not a New Zealand tax resident and you are not engaged in business through a fixed establishment (as defined in the Tax Act) in New Zealand (**Non-resident Holder**), BNZ will deduct non-resident withholding tax (**NRWT**), where appropriate, at the rate required by law from payments made to you.

If BNZ is lawfully able to pay approved issuer levy (as defined in section 86F of the Stamp and Cheque Duties Act 1971 (New Zealand)) (**AIL**) instead of deducting NRWT in respect of any payment of interest (or deemed interest) to you, BNZ expects that the Notes will qualify for the 0% rate of AIL under section 86IB of the Stamp and Cheque Duties Act 1971 (New Zealand), in which case, BNZ will not deduct any amount from the interest (or deemed interest) payable to you on account of AIL or NRWT.

If the Notes do not qualify for the 0% rate of AIL, BNZ will pay the AIL (currently equal to 2% of such payments of interest) to the appropriate authority and will deduct the amount payable from the interest (or deemed interest) payable to you in lieu of deducting NRWT.

If BNZ is not lawfully able to apply AIL instead of deducting NRWT in respect of any payment of interest (or deemed interest) to you, NRWT will be deducted from that payment.

If you are a Non-resident Holder you may request in writing that NRWT be deducted from interest (or deemed interest) paid to you instead of AIL.

If you are a Non-resident Holder and derive interest under the Notes jointly with one or more New Zealand tax residents, withholding tax will be deducted from interest paid or credited at the applicable RWT rate. Non-resident Holders may then claim a refund from the Inland Revenue to the extent that tax was withheld in excess of their applicable NRWT rate (taking into account any applicable double tax treaty).

Financial arrangements rules

If you are either a New Zealand resident for tax purposes or you hold your Notes for the purposes of a business carried on through a fixed establishment (as defined in the Tax Act) in New Zealand, gains (or losses) you make on the sale or other disposal (other than on a repayment or Conversion) of your Notes will generally be taxable (or deductible) to you under the financial arrangements rules. If you are a non-resident for tax purposes and do not hold the Notes for the purposes of a business carried on through a fixed establishment in New Zealand, the financial arrangements rules will not apply but you may still be subject to tax on such gains. You should consult your own taxation adviser about the effect of taxes on your investment in any Notes.

None of BNZ, NAB or the Registrar is obliged to gross-up, indemnify or otherwise compensate or pay any additional amounts to you as a consequence of, or otherwise in connection with, any deduction or amount payable on account of tax.

NAB Shares

If your Notes are Converted following a Non-Viability Trigger Event, your return on your NAB Shares will be affected by taxes. If you are tax resident in New Zealand for New Zealand tax purposes, dividends on your NAB Shares will generally be taxable to you. However, a tax credit will generally be available to the extent that any New Zealand imputation credits are attached to the dividend and may be available for any withholding tax imposed by Australia on the dividends. Depending on your particular circumstances any gains (or losses) you make on the sale or other disposal of your NAB Shares may also be taxable (or deductible).

See Section 5 for information about the Australian taxation of the NAB Shares you will be issued if any of your Notes are Converted.

FATCA

FATCA means the Foreign Account Tax Compliance Act provisions, sections 1471 through 1474 of the U.S. Internal Revenue Code (including any regulations or official interpretations issued, agreements entered into or non-US laws enacted with respect to those provisions). The New Zealand Government entered into an agreement with the U.S. Government (**IGA**) on 12 June 2014 for the implementation of FATCA in New Zealand. The IGA requires New Zealand Financial Institutions to report on certain accounts held by certain U.S. persons and U.S. controlled entities. In order to comply with FATCA, it is possible that BNZ (or, if Notes are held through another financial institution, such other financial institution) may be required to request certain information from you or the beneficial owners of your Notes, which information may in turn be provided to the Inland Revenue Department (**IRD**) for exchanging with the U.S. Internal Revenue Service (**IRS**) (if you are a U.S. taxpayer or, in some cases, a non-U.S. entity with substantial U.S. owners). BNZ may also be required to withhold U.S. tax on some

portion of payments in relation to your Notes made after 31 December 2018 if such information is not provided or if payments are made to certain foreign financial institutions that have not entered into an agreement with the IRS to provide the IRS with such information in respect of its account holders (and are not otherwise exempt from, or in deemed compliance with, FATCA).

This information is based on regulations and guidance issued by the U.S. Department of Treasury, the IRS and the IRD as at the date of this investment statement. Future regulations, guidance or international agreements implementing the same may affect the application of FATCA to BNZ, holders or beneficial owners of the Notes.

In addition, New Zealand has committed to the automatic exchange of information on a broader basis (pursuant to the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters), expected to be implemented from 1 January 2018 with reporting to the IRD from early 2019. It is possible that BNZ (or, if Notes are held through another financial institution, such other financial institution) may be required to request certain information from you or the beneficial owners of your Notes, which information may in turn be provided to the IRD for exchanging with a tax authority in another jurisdiction.

2.6 What are my risks?

The Notes are an investment and there are some risks you need to be aware of.

This Section summarises the principal risks of:

- ▶ you not recovering your money in full; and
- ▶ you not receiving the returns referred to in Section 2.5.

The risks outlined in this Section are not exhaustive and there may be other risks that affect the performance of the Notes.

You need to consider how these risks apply to your personal circumstances and BNZ recommends that you talk to an authorised financial adviser about the investment options available to you before deciding whether to invest in the Notes.

Investments in the Notes are an investment in BNZ and may be affected by the ongoing performance, financial position and solvency of BNZ. The Notes may also be affected by the ongoing performance, financial position and solvency of NAB. BNZ's and NAB's businesses are exposed to risks which may impact the financial performance of BNZ and NAB. A material deterioration in the financial performance of BNZ or NAB may:

- ▶ affect BNZ's ability to make payments on the Notes;
- ▶ if it were sufficiently serious for the RBNZ or APRA to consider BNZ or NAB non-viable or for a statutory manager to be appointed to BNZ, result in a Non-Viability Trigger Event; and/or
- ▶ adversely affect the market price and liquidity of the Notes.

2.6.1 Risks associated with BNZ's and NAB's businesses

BNZ and NAB may be adversely impacted by macroeconomic risks and financial market conditions

The NAB Group conducts business across a range of jurisdictions including Australia, New Zealand, the United Kingdom, Europe, the United States and Asia. The business activities of BNZ and NAB are dependent on the level of banking and financial services and products required by their customers globally. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates and macroeconomic and financial market conditions and forecasts.

Domestic and international economic conditions and forecasts are influenced by a number of factors such as economic growth rates, cost and availability of capital, central bank intervention, inflation and deflation rates and market volatility and uncertainty. Economic conditions may also be impacted by major shock events such as natural disasters, war and terrorism, political and social unrest, and sovereign debt restructuring and defaults.

In New Zealand, the sharp fall in global prices for major dairy products, the country's biggest merchandise export sector, is having an adverse effect on export earnings and national income. The loss of income may also have a flow on effect to other sectors of the economy, and is already being reflected in lower business and customer confidence. Regions that are heavily reliant on the dairy industry are further exposed to potentially significant impacts on growth, investment and unemployment.

The performance of BNZ and NAB is influenced by the level and cyclical nature of business activity in New Zealand and Australia. A material downturn in the New Zealand or Australian economies could adversely impact BNZ's and NAB's results of operations, liquidity, capital resources and financial condition.

BNZ and NAB are subject to extensive regulation. Regulatory changes may adversely impact BNZ's and NAB's operations, financial performance and position

The NAB Group is highly regulated in Australia and New Zealand and in the other jurisdictions in which it operates, trades or raises funds.

Regulations vary across jurisdictions, and are designed to protect the interests of depositors, policy holders, security holders and the banking and financial services system as a whole. Changes to laws and regulations or changes to regulatory policy or interpretation can be unpredictable, are beyond BNZ's and NAB's control, and may not be harmonised across the jurisdictions in which the NAB Group operates. Regulatory change may result in significant capital and compliance costs, changes to corporate structure and increasing demands on management, employees and information technology systems.

The full effect of all current and potential regulatory reforms, or how they will be implemented (if at all in some cases), is not known. Depending on the specific nature of any requirements and how they are enforced, they may have an adverse impact on BNZ's and NAB's operations, structure, compliance costs or capital requirements, and ultimately BNZ's and NAB's financial performance and position.

APRA has engaged authorised deposit taking institutions (**ADIs**) in Australia (including NAB) in relation to eliminating all non-equity exposures to their New Zealand subsidiaries (which, in the case of NAB, includes BNZ) and branches during ordinary times, other than routine day-to-day exposures which are to be maintained at prudent levels. Consultation with APRA is ongoing regarding these arrangements and their potential impact on the non-equity financial support that can be provided from NAB to BNZ. However, at this stage, BNZ considers that it is well-placed to meet any resulting requirements given NAB currently has no outstanding senior unsecured loans to BNZ and does not conduct any business through a branch structure in New Zealand.

BNZ and NAB face intense competition, which may adversely impact their financial performance and position

There is substantial competition across the markets in which BNZ and NAB operate. Increasing competition for customers can lead to compression in profit margins or loss of market share. BNZ and NAB face competition from established financial services providers as well as new market entrants, including foreign banks and non-bank competitors with lower cost operating models. It is difficult to predict the types of new entrants into the financial services industry, the rapid changes in technology and the impact these will have, including impacts on customer needs and preferences. The NAB Group may not have the resources and flexibility to predict these changes and to adapt in sufficient time to keep pace with industry developments and to meet customer expectations. BNZ's and NAB's financial performance and position may be adversely affected by competitive market conditions and industry trends.

BNZ and NAB are exposed to credit risk, which may adversely impact their financial performance and position

Credit risk is the potential that a counterparty or customer will fail to meet its obligations to BNZ or NAB in accordance with agreed terms. Lending activities account for most of BNZ's and NAB's credit risk, however other sources of credit risk also exist. Adverse business or economic conditions, including deterioration in property valuations, employment markets or the political environment, may result in failure by counterparties and customers to meet their obligations in accordance with agreed terms. BNZ's and NAB's portfolios of interest-only loans across retail and non-retail segments, in addition to the residential investor mortgage portfolio, may be particularly susceptible to losses in the event of a decline in property prices.

BNZ and NAB may also be exposed to the increased risk of counterparty or customer default should interest rates rise above the record lows, or near record lows, of recent years.

BNZ's and NAB's large business lending market share in New Zealand and Australia exposes BNZ and NAB to potential losses should adverse conditions be experienced across this sector. Similarly, BNZ and NAB have a large market share in the New Zealand and Australian agricultural sectors respectively, particularly the dairy sector in New Zealand. As a consequence, volatility in commodity prices, foreign exchange rate movements, climatic events (including drought), disease, export restrictions, quarantine restrictions, the introduction of pathogens and pests, and other risks that

may impact this sector, may have an adverse impact on BNZ's and NAB's financial results. More specifically, the New Zealand dairy market has come under pressure due to a lower milk solid payout rate. A prevailing low payout environment has the potential to drive an increase in bad and doubtful debts.

BNZ and NAB provide for losses in relation to loans, advances and other assets. Estimating losses incurred in the loan portfolio is, by its very nature, uncertain. The accuracy of these estimates depends on many factors, including general economic conditions, forecasts and assumptions, and involves complex modelling and judgements. If the information or the assumptions upon which assessments are made prove to be inaccurate, the provisions for credit impairment may need to be revised. This may adversely impact BNZ's and NAB's financial performance and position.

BNZ and NAB may suffer losses due to their exposure to operational risks

Operational risk is the risk of loss resulting from inadequate internal processes and controls, people and systems or from external events. Operational risk includes legal risk but excludes strategic or reputational risk. Operational risks are a core component of doing business as they arise from the day-to-day operational activities of BNZ and NAB as well as strategic projects and business change initiatives. An operational risk event may give rise to substantial losses, including financial loss, fines, penalties, personal injuries, reputational damage, loss of market share, theft of property, customer redress and litigation. Losses from operational risk events may adversely impact BNZ's or NAB's financial performance and position.

Models are used extensively in the conduct of BNZ's and NAB's business. 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 and NAB's financial performance and position.

BNZ and NAB may be exposed to risk from non-compliance with laws, regulations or standards, which may adversely impact their financial performance and position

BNZ and NAB are exposed to compliance risk arising from failure or inability to comply with applicable laws, regulations, licence conditions, standards and codes. If BNZ's or NAB's compliance controls were to fail significantly, be set inappropriately, or not meet legal or regulatory expectations, BNZ or NAB may be exposed to fines, public censure, litigation, settlements, restitution to customers, regulators or other stakeholders, enforced suspension of operations or loss of licence to operate all or part of BNZ's and NAB's businesses. This may adversely impact BNZ's and NAB's financial performance and position.

The NAB Group has ongoing discussions with key regulators on industry-wide issues and matters specific to the NAB Group. The global banking and financial services industry is increasingly subject to information requests, scrutiny and investigations by its conduct based regulators, which have led to a number of international firms facing high profile enforcement actions, including substantial fines, for breaches of laws or regulations. Regulators globally are continuing their investigation into manipulation of financial benchmarks. In Australia, such investigations include examining potential wrongdoing by the NAB Group and other market participants in the bank bill swap reference rate and foreign exchange markets.

When carrying out their day-to-day business activities, BNZ and NAB advocate customer fairness and seek to act in the best interests of their customers and their customer's desired outcomes. Despite BNZ's and NAB's focus on customer fairness and appropriate management of conduct risk, risk may still arise through inappropriate conduct by employees in breach of BNZ's or NAB's policy, regulatory standards, and industry codes of conduct. This may include detrimental practices such as selling or coercing customers into inappropriate products and services, conducting inappropriate market practices, non-adherence to fiduciary requirements or provision of inappropriate financial advice. Since September 2014, the Australian Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including potential unethical or misleading financial advice and compensation processes for consumers impacted by that advice. The Committee is due to report by 1 February 2016. NAB is aware that two plaintiff law firms have advertised that they are investigating claims on behalf of the NAB Group's customers who have suffered losses as a result of financial advice received from the NAB Group's advisers. No formal action has yet been taken against the NAB Group in this regard.

In common with the wider United Kingdom retail banking sector, Clydesdale Bank PLC (Clydesdale) continues to deal with complaints and redress issues arising out of historic sales of payment protection insurance, the sale of certain historic interest rate hedging products to small and medium-sized businesses, and other conduct-related matters. Since 1 April 2013, Clydesdale has been regulated by the Financial Conduct Authority (FCA) and the PRA. Proactive regulation of conduct related matters by the FCA may impact the manner in which the NAB Group's United

Kingdom operations deal with, and the ultimate extent of, conduct related customer redress and associated costs.

Provisions held in respect of conduct and litigation matters are based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of subjective judgement based on, where appropriate, external professional advice. Risks and uncertainties remain in relation to these assumptions and the ultimate costs of redress to the NAB Group. These factors mean that the eventual costs of conduct and compliance related matters may differ materially from those estimated and further provisions may be required, adversely impacting the financial performance and position of the NAB Group.

BNZ and NAB may be involved from time to time in legal proceedings arising from the conduct of their business. The aggregate potential liability in respect thereof cannot be accurately assessed. Any material legal proceedings may adversely impact the NAB Group's reputation, financial performance and position.

For further details in relation to BNZ's ongoing legal proceedings and conduct matters, refer to "Bank of New Zealand Corporate Information" and "Notes to and Forming Part of the Interim Financial Statements", Note 17 - *Contingent Liabilities and Credit Related Commitments* in BNZ's unaudited Disclosure Statement for the six months ended 31 March 2015. Section 2.11 explains how you can obtain a copy of this Disclosure Statement.

For further details in relation to NAB's ongoing legal proceedings and conduct matters, including ongoing United Kingdom conduct matters, refer to "Notes to the Consolidated Financial Statements", Note 13 - *Contingent Liabilities* in NAB's 2015 full year results announcement. Section 2.11 explains how you can obtain a copy of this announcement.

Disruption of technology systems or breaches of data security may adversely impact BNZ's or NAB's operations, reputation and financial position

Most of the day-to-day operations of BNZ and NAB are computer-based, and therefore the reliability and security of BNZ's and NAB's information technology systems and infrastructure are essential to BNZ's and NAB's businesses. Technology risk may arise from events including a failure of these systems to operate effectively, an inability to restore or recover such systems in acceptable timeframes, a breach of data security, or other form of cyber-attack. These events may be wholly or partially beyond the control of BNZ and NAB. Such events may result in disruption to operations, reputation damage, litigation, loss or theft of customer data, or regulatory investigations and penalties. This may adversely impact BNZ's or NAB's financial performance and position.

Transformation and change programmes across the NAB Group may not deliver some or all of their anticipated benefits

The NAB Group has invested significantly in its enterprise-wide technology and infrastructure transformation, including the upgrade of its Australian core banking platform. As many of these newly delivered capabilities are deployed across the NAB Group, there is a risk that their implementation may not realise some or all of the anticipated benefits. The NAB Group also continues to pursue business process improvement initiatives and invest in technology in order to achieve its strategic objectives, meet ongoing customer expectations and to respond to competitive pressures. As these changes are being undertaken in an environment of economic uncertainty and increased regulatory activity and scrutiny, operational and compliance risks are increased, which may adversely impact the NAB Group's financial performance and position.

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

The preparation of BNZ's and NAB'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 and expenses.

If the judgements, estimates and assumptions used by BNZ and NAB in preparing their respective financial statements are subsequently found to be incorrect there could be a significant loss beyond that anticipated or provided for, which may adversely impact BNZ's and NAB's financial performance and position.

A significant downgrade in BNZ's or NAB's credit ratings may adversely impact their borrowing costs, market access and competitive position

Credit ratings are an important reference for market participants in evaluating BNZ and NAB and their products, services and securities. Credit rating agencies conduct ongoing review activity

which can result in changes to credit rating settings and outlooks for BNZ and NAB or for sovereign governments in countries in which the NAB Group conducts business. A downgrade in the credit ratings of BNZ or NAB or of their securities, or a downgrade in the sovereign rating of one or more of the countries in which the NAB Group operates, may increase BNZ's and NAB's borrowing costs or limit their access to the capital markets. A downgrade may also trigger additional collateral requirements in derivative contracts and other secured funding arrangements. A downgrade to BNZ's or NAB's credit ratings relative to peers could also adversely impact BNZ's and NAB's competitive position.

Certain strategic decisions, including acquisitions or divestments, may adversely impact BNZ's and NAB's financial performance and position

There is a risk that the assumptions on which BNZ's and NAB's strategic decisions are based are, or may prove to be, incorrect or that the conditions underpinning those strategic decisions may change. In addition, any one or more of BNZ's and NAB's strategic initiatives may prove to be too difficult or costly to execute effectively.

BNZ and NAB regularly examine a range of corporate opportunities (including acquisitions, divestments and joint ventures) and evaluate these opportunities against strategic priorities and risk appetite and consider their ability to enhance their financial performance, position or prospects. Any corporate opportunity that is pursued may change BNZ's and/or NAB's risk profile and capital structure, which, in turn, may contribute to negative sentiment or a negative impact on BNZ's or NAB's credit ratings.

Risks associated with the execution of a transaction may result from an over-valuation of an acquisition or joint venture, or an under-valuation of a divestment or joint venture. There may be reputational and financial risks associated with ongoing exposure to a divested business, for example through the provision of continued services and infrastructure, or the retention of liabilities. Other risks may also arise through BNZ's or NAB's integration or separation of a business (including the proposed separation from NAB of CYBG PLC and MLC Limited) including failure to realise expected synergies, loss of customers, disruption to operations, application of additional regulation, diversion of management resources or higher than expected costs. Once commenced or executed, corporate actions or other strategic initiatives may be unable to be reversed. These factors may adversely impact BNZ's or NAB's financial performance and position.

BNZ and NAB may suffer significant losses from their respective trading activities

Traded market risk is the risk of losses arising from trading activities, including proprietary trading, undertaken by BNZ and NAB. Losses can arise from a change in the value of positions in financial instruments or their hedges due to adverse movements in market prices. Any significant losses from such trading activities may adversely impact BNZ's and NAB's financial performance and position.

The NAB Group is exposed to life insurance risk, which may adversely impact its financial performance and position

Life insurance risk is the potential for losses when life insurance claims and other outgoings exceed those anticipated in the premiums collected and underlying investment income earned. Life insurance risk may arise due to inadequate or inappropriate underwriting, inadequate reserving, poor business claims management, product design or pricing processes or investment profit, all of which may adversely impact the financial performance and position of the NAB Group.

Damage to BNZ's and NAB's reputations may adversely impact their financial performance and position

BNZ's and NAB's reputations may be damaged by the actions, behaviour or performance of the NAB Group, its employees, affiliates, suppliers, intermediaries, counterparties or customers, or the financial services industry generally. Reputational damage may adversely impact BNZ's and NAB's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities. It may result in a higher risk premium being applied to the NAB Group, and also impact the cost of funding, its operations, or its financial condition.

BNZ and NAB are exposed to non-traded market risks, which may adversely impact their financial performance and position

Non-traded market risk includes all market risks which are not designated as traded market risk such as interest rate risk, funding risk, liquidity risk, capital risk and foreign exchange risk, as well as pension risk and equity risk.

Interest rate risk is the risk to BNZ's and NAB's financial performance and position caused by changes in interest rates. As interest rates and yield curves change over time, BNZ and NAB may be exposed to a loss in earnings and economic value due to the interest rate profile of its balance sheet. Such exposure commonly arises from the mismatch between the maturity profile of a bank's lending portfolio compared to its deposit portfolio (and other funding sources). Interest rate risk also includes the risk arising out of customers' demands for interest rate-related products with various repricing profiles. Further, it is possible that both short and long-term interest rates may change in a way that BNZ and NAB have not correctly anticipated, and this may have an adverse impact on BNZ's and NAB's financial performance and position.

Funding risk is the risk that BNZ and NAB are unable to raise short and long-term funding to support their ongoing operations, strategic plans and objectives. BNZ and NAB access domestic and global capital markets to help fund their businesses. Any dislocation in these capital markets, or a reduction in investor appetite for holding BNZ's or NAB's securities, may adversely affect BNZ's and NAB's ability to access funds or require BNZ or NAB to access funds at a higher cost or on unfavourable terms.

Liquidity risk is the risk that BNZ and NAB are unable to meet their financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of borrowings and loan capital as they mature, the payment of interest on borrowings, and the payment of operating expenses and taxes. Any significant deterioration in BNZ's and NAB's liquidity position may lead to an increase in the cost of BNZ's and NAB's borrowings or constrain the volume of new lending. This may adversely impact BNZ's and NAB's profitability, financial performance and position.

Capital risk is the risk that BNZ and NAB do not have sufficient capital and reserves to meet prudential standard requirements, achieve their strategic plans and objectives, cover the risks to which they are exposed, or protect against unexpected losses. The NAB Group is required, in all jurisdictions in which it undertakes regulated activities, to maintain minimum levels of capital and reserves relative to the balance sheet size and risk profile of its operations. Any changes, including regulatory changes arising from the Basel capital adequacy reforms, may limit the ability of BNZ and NAB to manage capital across the entities within the NAB Group or may require them to raise or use more higher quality capital. Additionally, if the information or the assumptions upon which assessments of capital requirements are made prove to be inaccurate, this may adversely impact BNZ's and NAB's operations, financial performance and position.

Foreign exchange and translation risk arises from the impact of currency movements on the value of BNZ's and NAB's cash flows, profit and loss, and assets and liabilities as a result of participation in global financial markets and international operations. The NAB Group's ownership structure includes investment in overseas subsidiaries and associates and exposures from known foreign currency transactions (such as repatriation of capital and dividends from off-shore subsidiaries). The NAB Group also conducts business outside of New Zealand and Australia and transacts with customers, banks and other counterparties in different currencies. The NAB Group's businesses may therefore be affected by a change in currency exchange rates, a full or partial break-up of the Eurozone, or a change in the reserve status of any of these currencies. Any unfavourable movement in foreign exchange rates may adversely impact BNZ's and NAB's financial performance and position.

Climate-related, geological and other extrinsic events could adversely impact BNZ's and NAB's operations and financial performance and position

BNZ and NAB may be exposed to geological or extreme weather events, plant or animal diseases or other extrinsic events. These events may severely disrupt normal business activity and have an adverse impact on BNZ's and NAB's business, operations and financial performance and position, as well as an adverse impact on the macroeconomic conditions in the affected region.

A failure of BNZ's and NAB's risk management framework may adversely impact their reputation, financial performance and position

BNZ and NAB operate within a risk management framework comprising systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and mitigate risks. As with any risk management strategy, there is no guarantee that this framework is sufficient to mitigate known risks or to address or rapidly adapt to unanticipated existing, changing or emerging risks. As such, perceived or actual ineffectiveness or inadequacies in the risk management framework and its implementation may adversely impact BNZ's and NAB's reputation, financial performance and position.

2.6.2 Risks associated with a Non-Viability Trigger Event

Notes may be Converted into NAB Shares upon the occurrence of a Non-Viability Trigger Event

If a Non-Viability Trigger Event occurs, some or all of your Notes must be Converted into NAB Shares. If that occurs, the conversion formula is designed to operate so that, if the NZD-VWAP of NAB Shares has not fallen below a level where the Maximum Conversion Number applies, you will receive approximately NZ\$1.01 worth of NAB Shares for each of your Notes that is Converted. However, if the Maximum Conversion Number applies (which is quite likely if a Non-Viability Trigger Event has occurred), you may receive significantly less than NZ\$1.01 worth of NAB Shares for each of your Notes that is Converted and you may lose a significant amount of the money you invested as a consequence. The Maximum Conversion Number could apply due to a significant decrease in the market price of NAB Shares, or a significant increase in the NZ\$/A\$ exchange rate, or both. The market price of NAB Shares and the NZ\$/A\$ exchange rate fluctuate due to various factors. Following Conversion there is no certainty as to the future value of the NAB Shares.

In addition, the NZ dollar equivalent of the NAB Share price used to calculate the number of NAB Shares you will receive on Conversion may differ from the NAB Share price on or after the date of Conversion. You may not be able to sell the NAB Shares issued to you on Conversion at the NZ dollar equivalent of the price of the NAB Shares on which the Conversion calculation was based, or at all.

Whether a Non-Viability Trigger Event occurs is at the discretion of the RBNZ, the New Zealand statutory manager of BNZ or APRA (as applicable) and there are currently no precedents for this. A Non-Viability Trigger Event can occur where APRA determines NAB has become non-viable, even if the RBNZ does not have similar concerns about BNZ's viability at that time.

APRA has not provided guidance as to how it would determine non-viability. Non-viability could be expected to include serious impairment of NAB's financial position and insolvency. However, it is possible that APRA's definition of "non-viable" may not necessarily be confined to solvency or capital measures and APRA's position on these matters may change over time. Non-viability may be significantly impacted by a number of factors, including factors which affect the business, operation and financial condition of NAB. For instance, systemic and non-systemic macroeconomic, environmental and operational factors, domestically or globally, may affect the viability of NAB. See Sections 2.5.4 and 2.5.5.

NAB Shares are a different type of investment to the Notes

Unlike interest on the Notes, dividends on NAB Shares are payable only if and when NAB's directors determine to pay them. NAB's ability to pay a dividend may be restricted by Australian law and by the terms of prior ranking shares or other instruments. In a winding-up of NAB, any NAB Shares issued to you on Conversion will rank equally with existing NAB Shares on issue and behind holders of all other securities and debts of NAB. If there are insufficient assets available to pay NAB's creditors and preferred securityholders, you will lose all of your investment.

NAB Shares trade at a market price which reflects that NAB Shares are an equity security rather than a fixed income debt security. The market price of NAB Shares may be more sensitive than that of the Notes to changes in the NAB Group's performance, operational issues and other business issues.

NAB Shares are quoted on ASX in Australian dollars and if you sell any NAB Shares issued to you on Conversion, the proceeds are likely to be in Australian dollars. The exchange rate between New Zealand dollars and Australian dollars may fluctuate and these changes may be significant. You may also incur fees exchanging amounts received in Australian dollars into New Zealand dollars.

NAB Shares are not currently quoted on the NZX Debt Market or the NZX Main Board. NAB will use all reasonable endeavours to have NAB Shares issued on Conversion quoted on ASX. If you wish to sell any NAB Shares issued to you on Conversion, you will need to comply with all applicable rules and procedures of ASX. The NAB Shares issued on Conversion and NAB Shares generally may not be quoted, in which case you may not be able to sell them at an acceptable price, or at all.

If your Notes Convert, the market for NAB Shares may not be liquid or may be less liquid than that of other shares issued by other entities at or about the date of Conversion. You are obliged to accept the NAB Shares issued to you on Conversion, even if the NAB Shares are not quoted on ASX at the time of issue (or at all). See Section 5 for more information about NAB Shares.

Your Notes will be Written Off if Conversion does not occur when required

If Conversion is required following a Non-Viability Trigger Event and your Notes are not Converted into NAB Shares for any reason, those Notes will be Written Off. This means you will receive nothing

further in relation to those Notes, your rights under them (including to interest payments) will be cancelled and you will lose all of your investment in them. You will not receive any compensation, and have no right to take action against BNZ or NAB, if any of your Notes are Written Off. See Section 2.5.4.

2.6.3 Other risks associated with the Notes specifically

The Notes are subordinated and unsecured

The Notes are subordinated and unsecured. Accordingly, on a liquidation of BNZ (if your Notes have not been Converted or Written Off), there is a risk that you may lose some or all of the money you invested in the Notes. This is because if there are insufficient assets to satisfy creditors (including depositors and unsubordinated creditors) of BNZ whose claims rank ahead of the Notes, you will not be repaid any Issue Price and you will not receive any interest payments (or any other amounts) due and unpaid at that time.

If there are sufficient assets to satisfy creditors (including depositors and unsubordinated creditors) of BNZ whose claims rank ahead of the Notes, there is still a risk that you may not be repaid some or all of your Issue Price as there may be insufficient assets to satisfy BNZ's obligation to repay the Issue Price and other equal ranking obligations.

Although, as a subordinated security, the Notes may pay a higher rate of interest than comparable securities or other investments which are not subordinated, there is a greater risk that an investor in subordinated securities will lose all or some of its investment should BNZ become insolvent. See Section 2.6.6.

Interest rate will be reset after 5 years

The interest rate on the Notes will be fixed for 5 years until the Optional Redemption Date (17 December 2020) when it will be reset for another 5 years. There is a risk that the interest rate that is set on the Optional Redemption Date will be lower than the interest rate which applies for the first 5 years of the Notes. See Section 2.5.1

Notes are not deposit liabilities or protected accounts and are not guaranteed

The Notes do not constitute deposit liabilities of BNZ or NAB and are not protected accounts for the purposes of the Australian Banking Act or any other accounts. The Notes are not guaranteed or insured by NAB or by any other person.

You have no right to request early repayment

You cannot require BNZ to repay any of your Notes before their Maturity Date. However, if BNZ is in liquidation BNZ's obligations under the Notes may be accelerated if directed by an Ordinary Resolution of holders of Notes. Outside these limited circumstances, to realise your investment, you would have to sell your Notes on the NZX Debt Market at the prevailing market price, which may be less than the Issue Price. See Section 2.5.2.

BNZ may repay your Notes if certain events occur

Subject to certain conditions, BNZ has the right to pay back your Notes before the Maturity Date (17 December 2025) if a Regulatory Event or a Tax Event occurs, or on the Optional Redemption Date (17 December 2020) or on any Scheduled Interest Payment Date falling after the Optional Redemption Date. BNZ may not repay Notes early unless it obtains the prior written approval of the RBNZ and APRA and, broadly, either the Notes that are repaid are replaced with a capital instrument of the same or better quality for regulatory purposes, or the RBNZ and APRA confirm that they are satisfied that the Notes do not have to be replaced. There can be no certainty that the RBNZ and APRA would, if requested, provide their approval in respect of any early repayment. The timing or occurrence of an early repayment of the Notes may not coincide with your individual preferences.

BNZ may be more likely to elect to repay the Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, a holder of Notes generally would not be able to reinvest the repayment proceeds at an effective interest rate as high as the interest rate on the Notes being repaid and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time. See Section 2.5.2.

BNZ will not make any payment in respect of the Notes if the Solvency Condition is not satisfied

BNZ will not make any payment in respect of the Notes if BNZ does not satisfy the Solvency Condition at the time that the payment is due or if making the payment would result in BNZ not satisfying the Solvency Condition immediately after making the payment. Failure to make payment in these circumstances will not constitute an Event of Default and you will not be able to take any action against BNZ unless an Event of Default subsequently occurs. See Section 2.5.3.

BNZ may default on payment of the Issue Price, interest or other amounts due on the Notes and you have limited rights in these circumstances

Depending upon its performance and financial position, there is a risk that BNZ may default on payment of some or all of the Issue Price, interest or other amounts payable on the Notes. If BNZ does not pay some or all of the Issue Price or interest payable on the Notes, your rights are limited to certain specified remedies. For example, you do not have the right to require BNZ to redeem the Notes early. Although the Note Terms may specify certain remedies (for example, seeking an order for the liquidation of BNZ), the grant of those remedies may be in the discretion of the court, and as such, may not be granted. No default arises if BNZ fails to pay an amount on the Notes on account of not satisfying the Solvency Test. See Section 2.5.6.

BNZ may amend the terms of the Notes without your consent

The terms of the Notes contain provisions for calling meetings of holders of Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of Notes including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority.

The terms of the Notes also provide that in certain circumstances, BNZ may amend the terms of the Notes without the consent of the holders of Notes. Amendments made in accordance with the Deed Poll will be binding on you, even if you did not specifically agree to them.

Amendments which affect the regulatory capital treatment of the Notes cannot be made unless the RBNZ has been notified of the proposed amendment and has not objected and APRA has provided its approval. See Section 2.7.

BNZ may issue more securities

BNZ has the right to issue further senior debt and other obligations or securities that:

- have the same or different dividend, interest or distribution rates as the Notes;
- have the same or different maturities as the Notes;
- have the same or different terms and conditions as the Notes; and
- rank for payment of the Issue Price, interest or other amounts (including on a liquidation of BNZ) after, equally with, or ahead of the Notes and whether or not secured.

Such further issuance may affect your ability to be repaid on a liquidation of BNZ.

BNZ may substitute a NOHC for NAB as the issuer of ordinary shares on Conversion without your consent

NAB may, subject to APRA approval, substitute a “non-operating holding company” (or “NOHC”) that replaces NAB as the ultimate holding company of the NAB Group and the issuer of ordinary shares on Conversion. The implementation of a NOHC structure could be accompanied by a reorganisation of the NAB Group, with the result that BNZ would be a subsidiary of the NOHC, but not a subsidiary of NAB. Holders of Notes do not have any right to vote on the implementation of a NOHC structure. If a NOHC structure is implemented, you would no longer have any rights against NAB.

If the Notes are Converted following the implementation of a NOHC structure, you will become a holder of fully paid ordinary shares of the NOHC and will rank equally with all other NOHC ordinary shareholders in a liquidation of the NOHC. The profits and net assets of the NOHC may be different to those of NAB. See Section 2.7.

You have no rights if control of BNZ or NAB changes

You do not have any rights to vote or object or take other action if a change of control is proposed or occurs in relation to either BNZ or NAB (including where NAB ceases to control BNZ). In particular, you have no right to require early repayment or Conversion of your Notes. A change of control of BNZ or NAB may result in the businesses of BNZ or NAB being managed differently to the way they are currently managed and may also mean that NAB Shares are no longer quoted on ASX.

2.6.4 Market-related risks

The market price of the Notes may fluctuate up or down and there is no guarantee the Notes will trade at or above their Issue Price

The market price of the Notes on the NZX Debt Market may fluctuate due to various factors, including:

- changes in New Zealand and worldwide economic conditions, interest rates, credit margins, inflation rates and foreign exchange rates;
- the performance or financial position of BNZ or NAB;
- movements in the market price of equity and other debt issued by BNZ or by other issuers;
- changes in investor perceptions and sentiment in relation to BNZ or NAB, or the financial services industry; or
- other major New Zealand and international events such as hostilities and tensions, and acts of terrorism.

There is a risk that one or more of these factors may cause the Notes to trade at a market price below the Issue Price and that the market price of the Notes may be more sensitive than that of other comparable securities issued by BNZ or other issuers to changes in interest rates, credit margins and other market prices.

BNZ does not guarantee the market price of the Notes. This means that you may lose some of the money you invested if you wish to sell your Notes at a time when the market price of the Notes is lower than the Issue Price.

The liquidity of the Notes may be low

The market for the Notes may not be liquid and may be less liquid than that of other comparable securities issued by BNZ or other issuers.

If liquidity is low, there is a risk that, if you wish to sell your Notes prior to the Maturity Date, you may not be able to do so when you want to at an acceptable price, or at all.

The interest rate may become less attractive compared to returns on other investments

The interest rate on the Notes will be fixed for 5 years until the Optional Redemption Date (17 December 2020) when it will be reset for another 5 years. The interest rate may become less attractive compared to returns on other investments during these periods. See Section 2.5.1.

2.6.5 No further money payable

You do not have to pay more money in respect of the Notes than is disclosed in Sections 2.3 and 2.4 (to the extent that any charges referred to in Section 2.4 are payable by you).

2.6.6 Consequences of insolvency

The Notes are unsecured subordinated debt obligations of BNZ. If your Notes are not Converted or Written Off, in a liquidation of BNZ your right to claim payment on the Notes will rank:

- (a) ahead of claims of holders of ordinary shares of BNZ and instruments that rank below the Notes (such as the perpetual preference shares issued by BNZ to BNZ Income Management Limited in 2008);
- (b) equally with claims of other holders of Notes and holders of other securities that rank equally with the Notes with respect to priority of payment in a liquidation (such as existing subordinated loans made by NAB and NEL to BNZ); and
- (c) behind all other claims (such as those of BNZ's secured creditors, depositors and holders of BNZ Senior Bonds).

You will not be liable to pay money to any person as a result of BNZ's insolvency. However, you may have to pay sales charges if your Notes are Converted as a result of BNZ's insolvency and you are not a New Zealand or Australian resident, if you have notified BNZ that you do not wish to receive NAB Shares or if NAB does not have all information in relation to you that it requires in order to issue NAB Shares to you. In that case, the NAB Shares will be issued to a nominee instead of you and the nominee will sell those NAB Shares and pay you the proceeds less the sales charges.

See page 2 for a simplified illustration of ranking in a liquidation of BNZ and clause 11.2 of the Note Terms for more information about the ranking of the Notes in a liquidation of BNZ.

If any of your Notes are Converted or Written Off, you will have no claim in a liquidation of BNZ in respect of those Notes.

If any of your Notes are Converted, you will become a holder of NAB Shares and rank equally with other holders of NAB Shares and behind holders of all other instruments in a winding-up of NAB.

2.6.7 Acknowledgements

Under the Note Terms:

- **you acknowledge and agree that you have no right to request that your Notes be repaid before the Maturity Date (except in limited circumstances if BNZ is in liquidation) or Converted;**
- **you acknowledge that you have no rights to compensation from, or any other remedies against, BNZ or any other member of the NAB Group if your Notes are Converted or Written Off in accordance with the Note Terms; and**
- **you may not exercise any rights of set-off in relation to amounts in respect of the Notes.**

See clauses 6.13 and 8.7 of the Note Terms for more information about these and other restrictions and acknowledgements.

2.7 Can the investment be altered?

If BNZ accepts your application, the amount that you must pay for the Notes cannot be changed.

In certain circumstances, BNZ may amend the Deed Poll and the Note Terms (including the terms of Conversion) and the Coordination Agreement without the consent of holders of the Notes. Broadly, in BNZ's opinion the amendment must:

- be of a formal, minor or technical nature;
- be made to cure an ambiguity or correct a manifest error;
- be necessary or expedient for the purpose of enabling the Notes to become or remain quoted on a securities exchange or lodged in a clearing system or to be offered for sale or for subscription in any place;
- be necessary or expedient for the purposes of complying with any statute or the requirements of any statutory authority or the NZX Listing Rules;
- be necessary or appropriate to effect a NOHC Event, as described below;
- amend any date or time period stated, required or permitted in connection with any Conversion or repayment of the Notes;
- be made to amend the Note Terms to align them with any relevant class of capital instruments issued on or after the Issue Date or to reflect the issue after the Issue Date of capital instruments by any member of the NAB Group; or
- not be materially prejudicial to the interests of holders of the Notes as a whole.

BNZ may also amend the Deed Poll and the Note Terms (including the terms of Conversion) and the Coordination Agreement if the amendment is approved by a Special Resolution of holders of the Notes.

Before making an amendment to the Deed Poll or the Coordination Agreement that could impact the classification of the Notes as Tier 2 Capital for BNZ or for the NAB Level 2 Group, the RBNZ must have been given notice of the proposed amendment and not have objected and the written approval of APRA must be obtained.

BNZ will announce any changes to the terms of Conversion via NZX.

See clause 13 of the Note Terms for more information about amendments to the Deed Poll and the Coordination Agreement.

NOHC Event

A NOHC Event is an event initiated by the directors of NAB which would result in NAB having an ultimate holding company which is a "non-operating holding company" (NOHC) within the meaning of the Australian Banking Act. Where a NOHC Event occurs and, following the occurrence of that event:

- the Approved NOHC undertakes to issue fully paid ordinary shares in the Approved NOHC whenever NAB would otherwise have been required to issue NAB Shares upon the occurrence of a Non-Viability Trigger Event; and
- the Approved NOHC agrees to use all reasonable endeavours to procure quotation of all ordinary shares in the NOHC to be issued upon the occurrence of a Non-Viability Trigger Event on the securities exchange on which the ordinary shares in the NOHC are quoted at the time of Conversion,

BNZ may (without the consent of holders of Notes) amend the Deed Poll and the Coordination Agreement to enable the substitution of the Approved NOHC as the issuer of ordinary shares on Conversion. Before any such amendment can be made, the RBNZ must have been given notice of the proposed amendment and not have objected and the written approval of APRA must have been obtained.

The occurrence of a NOHC Event does not allow BNZ to elect to Convert or repay the Notes.

Holders of Notes will not have any right to vote on a NOHC Event. Where a NOHC Event is accompanied by a transfer of assets from NAB to the Approved NOHC or another subsidiary of the Approved NOHC, the profits and net assets of the NOHC may be different to those of NAB.

Following the substitution of an Approved NOHC as issuer of the ordinary shares on Conversion but prior to Conversion, holders of Notes continue to hold subordinated unsecured debt securities issued by BNZ which rank for payment of interest and in a liquidation of BNZ as described in Section 2.6.6 and which are convertible into ordinary shares in the Approved NOHC in the same circumstances in which they would otherwise have been converted into NAB Shares.

BNZ expects that the rights attaching to the Approved NOHC shares would be substantially equivalent to the rights attaching to NAB Shares, as described in Section 5.

See clauses 14 and 20.1 of the Note Terms for more information about NOHC Events and the substitution of an Approved NOHC.

NAB shareholding limits

The Financial Sector (Shareholdings) Act 1998 (Australia) restricts ownership by people (together with their associates) of an Australian bank, such as NAB, to a 15% stake. A NAB Shareholder may apply to the Australian Treasurer to extend their ownership beyond 15%, but approval will not be granted unless the Treasurer is satisfied that a holding by that person greater than 15% is in the national interest.

Mergers, acquisitions and divestments of Australian public companies listed on ASX (such as NAB) are regulated by detailed and comprehensive legislation and the rules and regulations of ASX. These provisions include restrictions on the acquisition and sale of relevant interests in certain shares in an Australian listed company under the Australian Corporations Act and a requirement that acquisitions of certain interests in Australian listed companies by foreign interests are subject to review and approval by the Treasurer. In addition, Australian law also regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in a market.

You should take care to ensure that by acquiring any Notes (taking into account any NAB Shares into which they may Convert), you do not breach any applicable restrictions on ownership.

2.8 How do I cash in my investment?

Early termination

You have no right to request that your Notes be:

- repaid early, except in limited circumstances if BNZ is in liquidation and your Notes have not been Converted or Written Off, as described in Section 2.5.6; or
- Converted.

However, in certain circumstances, your Notes may be repaid early or, if a Non-Viability Trigger Event occurs, Converted or Written Off.

See Sections 2.5.2, 2.5.3 and 2.5.4 for information about when your Notes may be repaid or Converted and what happens on repayment and Conversion.

Transfer of Notes

You may sell or transfer your Notes at any time subject to the Note Terms and applicable securities laws and regulations, including the NZX Listing Rules (if applicable).

You should not attempt to sell your Notes until you know whether, and how many, Notes have been allotted to you. Neither BNZ nor any of its directors or employees or any other person accepts any liability or responsibility should you attempt to sell or otherwise deal with any Notes before receiving a statement recording the number of Notes (if any) allotted to you.

You may only transfer your Notes in multiples of NZ\$1,000 of principal amount and after any transfer you and the transferee must each hold Notes having a principal amount of at least NZ\$5,000 (or hold no Notes).

Application has been made to NZX for permission to quote the Notes on the NZX Debt Market and all the requirements of NZX relating thereto that can be complied with on or before the date of distribution of this investment statement have been duly complied with. However, the Notes have not yet been approved for trading and NZX accepts no responsibility for any statement in this investment statement. NZX is a licensed market operator and the NZX Debt Market is a licensed market under the Financial Markets Conduct Act 2013.

To be eligible to trade the Notes on the NZX Debt Market, you must have an account with a Primary Market Participant, a Common Shareholder Number (**CSN**) and an Authorisation Code (**FIN**). If you do not have an account with a financial adviser you should be aware that opening an account can take a number of days depending on the Primary Market Participant's new client procedures. If you do not have a CSN you will be automatically assigned one. You will also be able to obtain your CSN by calling the Registrar on (09) 488 8777 from the Issue Date. You will also receive a CSN from the Registrar when you receive your holding statement (which will be sent to you within 5 business days of the Issue Date). If you do not have a FIN, it is expected that you will be sent one as a separate communication by the Registrar on the Issue Date. If you have a financial adviser and have not received a FIN by the date you want to trade your Notes, your financial adviser can arrange to obtain your FIN from the Registrar. Your financial adviser may be charged a fee for requesting your FIN from the Registrar and may pass this cost on to you.

In BNZ's opinion, a secondary market for the Notes will develop over time. However, BNZ gives no assurances as to the existence or characteristics of such secondary market.

You will likely have to pay brokerage at applicable rates on any transfer of the Notes you make through a Primary Market Participant.

BNZ and the Registrar are entitled to accept and assume the authenticity and genuineness of any instrument of transfer or other document, and will not incur any liability for registering any instrument of transfer which is subsequently discovered to be a forgery or otherwise defective, unless BNZ or the Registrar had actual notice of such forgery or defect at the time of registration of such instrument of transfer.

See clauses 2 and 7 of the Note Terms for more information about transfers of Notes.

Transfer of NAB Shares if your Notes are Converted

If any of your Notes are Converted into NAB Shares following a Non-Viability Trigger Event, you may sell or transfer those NAB Shares at any time subject to NAB's constitution and applicable securities laws and regulations, and listing rules. See Section 5 for more information on the NAB Shares.

2.9 Who do I contact with inquiries about my investment?

You can direct any inquiries in relation to the Notes to the Registrar or BNZ.

You can contact the Registrar at the address set out in the Corporate Directory or by telephone, facsimile or email:

Telephone: 0800 266 269 or (09) 488 8777

Facsimile: (09) 488 8787

Email: enquiry@computershare.co.nz

You can contact BNZ at the address set out below or by telephone:

Address: Level 3
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand

Attention: BNZ Treasurer

Telephone: (09) 976 5020

2.10 Is there anyone to whom I can complain if I have problems with the investment?

You can direct any complaints about the Notes to the Registrar or BNZ at the contact details set out in Section 2.9.

If you are not satisfied with the response you receive, you may direct your complaint to the Banking Ombudsman Scheme, which is an approved dispute resolution scheme, at the address set out below, by telephone or by email:

Level 5, Huddart Parker Building
1, Post Office Square
Wellington 6011
New Zealand

Freepost 218002
PO Box 25327
Featherston Street
Wellington 6146
New Zealand

Telephone: 0800 805 950 or (04) 915 0400

Email: help@bankomb.org.nz

2.11 What other information can I obtain about this investment?

Disclosure Statements

Additional information about BNZ is contained or referred to in its latest Disclosure Statement (which contains BNZ's most recent financial statements). BNZ's Disclosure Statements are published quarterly, with the audited full year financial statements contained in the Disclosure Statement for the year ended 30 September each year and the unaudited half year financial statements contained in the Disclosure Statement for the six months ended 31 March each year. BNZ's Disclosure Statements for the three months ended 31 December and the nine months ended 30 June each year contain more limited financial information, which is not audited. You can obtain a copy of BNZ's latest Disclosure Statements free of charge from www.bnz.co.nz/about-us/governance/financials, BNZ's registered office at the address set out in the Corporate Directory or any of BNZ's stores.

The full year Disclosure Statements (which contain BNZ's full year financial statements) and other documents relating to BNZ are filed on a public register. You may view them on www.business.govt.nz/companies by searching "Bank of New Zealand". You may also obtain copies of the publicly filed documents (on payment of a fee) by telephoning the Companies Office on 0508 266 726.

Results Announcement

BNZ's full year results announcement for the year ended 30 September 2015 is available on BNZ's website at www.bnz.co.nz/about-us/media.

Deed Poll, Coordination Agreement and NAB's constitution

Additional information about the Notes is contained in the Deed Poll and Coordination Agreement. Information about the NAB Shares is contained in Section 5 and NAB's constitution.

What is the Deed Poll?

A trustee has not been appointed for the Notes. Instead, there is a Deed Poll made by BNZ in favour of each person who is from time to time a holder of the Notes. The Deed Poll gives legal effect to BNZ's obligations in the Note Terms.

The Deed Poll also includes provisions for meetings of holders of the Notes to consider matters affecting their interests.

Holders of the Notes will be bound by the terms of the Deed Poll and this investment statement when the Notes are issued or transferred to them or when they purchase the Notes.

The Registrar holds the original executed Deed Poll on behalf of holders of the Notes. Each holder of the Notes can enforce BNZ's obligations under the Deed Poll, including the Note Terms and the provisions for meetings, independently of the Registrar and each other.

What is the Coordination Agreement?

The Coordination Agreement sets out intragroup transactions between BNZ, NAGNZ, NEL and NAB that are intended to occur on Conversion. It also contains the agreement of NAB to issue NAB Shares in accordance with, and subject to, the Deed Poll and the Coordination Agreement. BNZ holds the benefit of NAB's agreement to issue NAB Shares on trust for itself and each holder of Notes, with the intent that each holder has the benefit of, and is entitled to enforce, that agreement as if named as a party to the Coordination Agreement.

You may obtain copies of the Deed Poll, the Coordination Agreement and this investment statement free of charge, on request, during normal business hours from the Registrar at the contact details set out in Section 2.9, or from www.bnz.co.nz/about-us/BNZSubordinatedNotes

What is NAB's constitution?

NAB's constitution sets out the rights and liabilities that attach to NAB Shares. You may obtain a copy of NAB's constitution, free of charge, from www.nab.com.au/about-us/corporate-governance or from www.bnz.co.nz/about-us/BNZSubordinatedNotes

Other information

You (whether you subscribe for the Notes from BNZ or purchase them from someone else) will receive a holding statement from the Registrar setting out various information in relation to your holding of the Notes within 5 business days of the allotment or registration of the transfer (as the case may be).

The Registrar will provide you with a resident withholding tax (**RWT**) certificate (subject to minimum interest thresholds being met) on each Interest Payment Date that states the amount of interest that has been paid to you and, if applicable, the RWT deducted from interest paid or credited to you in respect of your Notes.

In addition, important information relating to the Notes and the NAB Shares (including their price), and BNZ and NAB will be disclosed in accordance with the continuous disclosure provisions of the NZX Listing Rules and the ASX Listing Rules (as applicable) and is available on www.nzx.com and www.asx.com.au (as applicable). The Notes are not equity securities of NAB and will not be quoted on ASX.

Information about NAB

NAB is a disclosing entity for the purposes of the Australian Corporations Act and is subject to regular reporting and disclosure obligations. Under its obligations under the Australian Corporations Act and the ASX Listing Rules, NAB prepares yearly and half yearly financial statements, reports on its operations during the relevant accounting period and receives an audit report from its auditor. Copies of these and other documents lodged with ASIC can be obtained from, or inspected at, an ASIC office.

Under the ASX Listing Rules, subject to certain exceptions, NAB must notify ASX immediately of any information concerning it of which it becomes aware, which a reasonable person would expect to have a material effect on the price or value of its quoted securities.

Subject to certain exceptions, NAB must ensure that ASX is continuously notified of information about specific events and matters as they arise so that ASX can make the information available to the Australian securities market.

Under APRA's Prudential Standards, NAB must disclose on its website certain information as to its capital adequacy position and risk management practices on a quarterly basis. The disclosure is called a "Pillar 3 Report" and you may obtain a copy free of charge from www.nab.com.au/about-us/shareholder-centre/regulatory-disclosures

Upon request from the Opening Date until the Closing Date, NAB will provide, free of charge, a copy of the latest NAB Group annual financial report released to ASX on 17 November 2014, a copy of

the latest NAB Group full year results announcement dated 28 October 2015 and any continuous disclosure notices given by NAB to ASX since 17 November 2014 and before the date of this investment statement. The NAB Group annual financial report for the year ended 30 September 2015 is expected to be released to ASX on 16 November 2015. Requests for copies of these documents should be addressed to NAB at the address set out in the Corporate Directory, or these documents can be obtained from www.asx.com.au



Section 3 ***About BNZ.***



3.1 Background.

BNZ is the issuer of the Notes. BNZ's ultimate parent company, NAB, is the issuer of the NAB Shares that your Notes may Convert into if a Non-Viability Trigger Event occurs. There are two holding companies, NEL and NAGNZ, between NAB and BNZ.

The diagram below shows you the ownership structure of the NAB Group and BNZ (as relevant to the Offer):



3.2 Principal activities of the BNZ Group.

BNZ was incorporated on 29 July 1861 and has been a member of the NAB Group since 1992. BNZ is a registered bank under the RBNZ Act and is one of New Zealand's largest financial services organisations and provides a range of banking and financial products and services to retail, business, agribusiness, corporate and institutional clients. The businesses and affairs of BNZ are managed by, or under the direction or supervision of the BNZ directors and BNZ's Chief Executive Officer in compliance with the requirements and regulations of BNZ's primary regulator, the RBNZ.

BNZ maintains its overall mission to be the "Bank for New Zealand" while also delivering sustainable, satisfactory returns to its shareholder (NAB). BNZ continues to improve the way it does business through its core strategic priorities and builds on its ongoing commitment to deliver a differentiated customer experience and innovative products.

BNZ's business is organised into the following operating and reportable segments: Retail and Marketing, and BNZ Partners. These segments are supported by the specialist units of Products and Technology, Customer Fulfilment Services, Strategy and Business Performance, Finance, Risk, and People & Communications.

Retail and Marketing

Retail and Marketing provides transactional banking, savings and investment products, home loans, credit cards, personal loans and insurance to individual and small business customers.

BNZ Partners

BNZ Partners provides financial services and products to medium sized business, agribusiness, private banking, institutional and corporate customers.

BNZ's major customer-led transformation programme has delivered initiatives that further improve customer experiences and lift business sustainability. This has included the deployment of an enterprise customer relationship management system across the Retail and Marketing, and BNZ Partners segments, and ongoing digital enhancements to both mobile and internet platforms.

3.3 BNZ's directors and management.

BNZ's directors are listed in Section 2.2 "Who is involved in providing it for me?". BNZ's directors, Chief Executive Officer and any executive who reports to, or is accountable directly to BNZ's Chief Executive Officer can only be appointed if the RBNZ has been provided with a copy of the curriculum vitae of the proposed appointee, and the RBNZ has advised that it has no objection to that appointment.

3.4 Capital adequacy.

This Section 3.4 summarises the regulatory capital requirements with which BNZ is required to comply and that should be understood when deciding whether to invest in the Notes.

3.4.1 Capital instruments

Common Equity Tier 1 Capital comprises paid-up ordinary share capital, retained earnings plus certain other items recognised as capital. The ratio of such capital to risk-weighted assets is called the Common Equity Tier 1 Capital Ratio. Additional Tier 1 Capital comprises certain securities with required loss absorbing characteristics. Together, these components of capital make up Tier 1 Capital and the ratio of such capital to risk-weighted assets is called the Tier 1 Capital Ratio.

Tier 2 Capital mainly comprises subordinated instruments (such as the Notes). From a regulatory perspective, Tier 2 Capital is of a lesser quality than Tier 1 Capital but is still eligible to contribute to the overall capital framework.

Common Equity Tier 1 Capital contains the highest quality and most loss absorbent components of capital, followed by Additional Tier 1 Capital and then followed by Tier 2 Capital.

The sum of Tier 1 Capital and Tier 2 Capital is called Total Capital. The ratio of Total Capital to risk-weighted assets is called the Total Capital Ratio.

The Notes will qualify as Tier 2 Capital, which contributes to regulatory capital, for BNZ and for the NAB Level 2 Group.

To qualify as Tier 2 Capital, the Notes are required to absorb losses if BNZ or NAB become non-viable. The Notes meet this requirement. Upon the occurrence of a Non-Viability Trigger Event, some or all of the Notes will be required to be Converted into a number of NAB Shares (or if they are not Converted at that time, they will be Written Off).

The purpose of the requirement for Tier 2 Capital to absorb losses if BNZ or NAB become non-viable is for the loss to be borne by shareholders or the holders of capital instruments (including the Tier 2 Capital instruments), rather than anybody else (such as taxpayers). In the case of the Notes, the intended method of loss absorption is Conversion into NAB Shares, but if the Notes are not Converted into NAB Shares when required following a Non-Viability Trigger Event, those Notes will be Written Off. In either case, the loss would be absorbed by the holder of the Notes.

3.4.2 Prudential supervision by the RBNZ

The prudential supervisor of banks in New Zealand is the RBNZ. Under the RBNZ's banking standards, banks are required to maintain an adequate level of capital to provide a buffer to absorb unexpected losses from activities. The RBNZ's approach to assessing capital adequacy focuses on credit risk associated with a bank's exposures, market and operational risks and the quality and quantity of a bank's capital.

The minimum Common Equity Tier 1 Ratio, Tier 1 Capital Ratio and Total Capital Ratio under the RBNZ's Basel III Prudential Standards are 4.50%, 6.00% and 8.00% respectively.

The RBNZ also requires most New Zealand incorporated banks, including BNZ, to maintain a capital conservation buffer of 2.50% above the minimum ratios.

The RBNZ has the discretion to apply an additional countercyclical buffer with an indicative range of between 0 and 2.50% of risk-weighted assets, although the RBNZ to date has not applied a formal upper limit. This buffer is required to be satisfied with Common Equity Tier 1 Capital and is to be implemented as an extension of the capital conservation buffer.

The RBNZ's website at www.rbnz.govt.nz/regulation_and_supervision/banks/prudential_requirements/2265555.html includes further details of its functions and Prudential Standards.

3.4.3 Capital buffer range

If BNZ's capital ratios fall within the RBNZ's capital buffer range (described in Section 3.4.2):

- BNZ is required to immediately notify NZX;
- distributions to BNZ's ordinary and preference shareholders may be restricted; and
- BNZ is required to submit a capital plan to restore the buffer ratio to the RBNZ for approval.

3.4.4 BNZ Group capital adequacy ratios

The table below shows the capital adequacy ratios for the BNZ Group:

Basel III regulatory capital ratios	BNZ Group			
	RBNZ Regulatory Minimums	Basel III Unaudited 30/9/15	Basel III Unaudited 30/9/14	Basel III Unaudited 30/9/13
Common Equity Tier 1 Capital Ratio	4.50%	10.70%	9.36%	8.87%
Tier 1 Capital Ratio	6.00%	11.69%	10.64%	10.68%
Total Capital Ratio	8.00%	12.67%	12.04%	12.61%
Buffer ratio for Common Equity Tier 1 Capital	2.50%	4.67%	4.04%	4.37%

The capital ratios have been determined in accordance with the RBNZ's Basel III capital adequacy framework effective from 1 January 2013. A prescribed minimum regulatory Common Equity Tier 1 buffer ratio of 2.50% became effective from 1 January 2014.

This information has been sourced from BNZ's full year results announcement for the year ended 30 September 2015 in respect of the 2015 ratios and Disclosure Statement for the year ended 30 September 2014 in respect of the 2014 and 2013 ratios.

BNZ does not give any assurance as to what its capital adequacy ratios may be at any future time.

3.4.5 Capital Management Strategy

BNZ's capital management strategy is focussed on adequacy, efficiency and flexibility in order to satisfy regulatory requirements relating to capital adequacy and to adhere to regulatory standards and guidelines. The capital adequacy objective focuses on holding capital in excess of the internal risk-based assessment of required capital, meeting regulatory requirements, and ensuring the expectations of rating agencies and investors are met.

Capital ratios are monitored against internal operating capital targets that are set over and above minimum capital requirements set by BNZ's directors to ensure BNZ continues to meet RBNZ's minimum capital requirements. BNZ will continue to regularly review capital levels.

Further information on BNZ's capital management policies is contained in BNZ's Disclosure Statement for the six months ended 31 March 2015 under the "Capital Adequacy" Note. The Disclosure Statement is available on BNZ's website at www.bnz.co.nz/about-us/governance/financials

3.4.6 Funding

BNZ maintains a strong balance sheet that is well funded through diversified stable funding sources. BNZ continues to focus on growing customer deposits and maintaining a stable wholesale funding mix. BNZ is active in a wide range of markets to lengthen and further diversify its funding profile. Maturing term wholesale funding (in the form of bonds and notes) is generally replaced by the issuance of new bonds and notes rather than short term debt securities. This approach has resulted in a stable funding mix that supports balance sheet strength. BNZ's Core Funding Ratio (commonly referred to as CFR) comfortably exceeded the RBNZ minimum requirement of 75% as at 30 September 2015.

3.4.7 Liquidity

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

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

3.4.8 Impact of the Offer on BNZ

The Offer will not have a material impact on BNZ's financial position. Assuming the net proceeds raised by the issue of the Notes are NZ\$300 million and using the method of calculation required by the RBNZ's banking standards, this would increase BNZ's 30 September 2015 Total Capital Ratio by approximately 0.54%.

3.5 Financial information.

3.5.1 Summary financial information for BNZ

The financial information presented in this section has been extracted from BNZ's unaudited full year results announcement for the year ended 30 September 2015 and audited Disclosure Statements for the years ended 30 September 2014 and 30 September 2013.

BNZ's consolidated unaudited abbreviated income statement²	Year to 30 Sep 2015³ NZ\$m
Net interest income	1,735
Gains less losses on financial instruments	322
Other operating income	375
Total operating income	2,432
Operating expenses	865
Total operating profit before impairment losses on credit exposures and income tax expense	1,567
Impairment losses on credit exposures	128
Total operating profit before income tax expense	1,439
Income tax expense on operating profit	401
Net profit attributable to shareholders of BNZ	1,038

2. The unaudited abbreviated income statement and balance sheet presented for the year ended 30 September 2015 have been prepared in compliance with Generally Accepted Accounting Practice, although have not been prepared in accordance with FRS-43 Summary Financial Statements.

3. September 2015 results reflect the adoption of NZ IFRS 9. Prior periods have not been restated. Further information can be found in "Note 1 Principal Accounting Policies" of BNZ's Disclosure Statement for the six months ended 31 March 2015.

BNZ's consolidated unaudited abbreviated balance sheet ²	As at	
	30 Sep 2015 ³ NZ\$m	
Assets		
Cash and liquid assets		1,634
Due from central banks and other institutions		2,009
Trading securities		4,918
Derivative financial instruments		7,895
Loans and advances to customers		68,216
Other assets		2,115
Total assets		86,787
Liabilities		
Due to central banks and other institutions		1,439
Short term debt securities		5,027
Derivative financial instruments		8,310
Deposits from customers		46,729
Bonds and notes		16,156
Other liabilities		2,084
Total liabilities		79,745
Total shareholders' equity		7,042

BNZ's consolidated audited income statement	Year to	
	30 Sep 2014 NZ\$m	30 Sep 2013 NZ\$m
Interest income	3,926	3,716
Interest expense	2,302	2,151
Net interest income	1,624	1,565
Gains less losses on financial instruments	69	(94)
Other operating income	443	434
Total operating income	2,136	1,905
Operating expenses	901	843
Total operating profit before impairment losses on credit exposures and income tax expense	1,235	1,062
Impairment losses on credit exposures	74	113
Total operating profit before income tax expense	1,161	949
Income tax expense on operating profit	311	254
Net profit attributable to shareholders of BNZ	850	695

2. The unaudited abbreviated income statement and balance sheet presented for the year ended 30 September 2015 have been prepared in compliance with Generally Accepted Accounting Practice, although have not been prepared in accordance with FRS-43 Summary Financial Statements.

3. September 2015 results reflect the adoption of NZ IFRS 9. Prior periods have not been restated. Further information can be found in "Note 1 Principal Accounting Policies" of BNZ's Disclosure Statement for the six months ended 31 March 2015.

BNZ's consolidated audited balance sheet	As at	
	30 Sep 2014 NZ\$m	30 Sep 2013 NZ\$m
Assets		
Cash and liquid assets	1,779	1,725
Due from central banks and other institutions	2,822	1,516
Trading securities	4,396	4,291
Available for sale investments	-	67
Derivative financial instruments	4,644	4,237
Loans and advances to customers	64,437	62,167
Current tax assets	-	77
Amounts due from related entities	743	391
Other assets	374	316
Deferred tax	138	128
Property, plant and equipment	189	212
Goodwill and other intangible assets	163	183
Total assets	79,685	75,310
Liabilities		
Due to central banks and other institutions	2,147	1,304
Short term debt securities	4,963	5,550
Trading liabilities	235	71
Derivative financial instruments	4,438	4,907
Deposits from customers	45,379	41,823
Bonds and notes	14,651	14,210
Current tax liabilities	4	-
Amounts due to related entities	550	245
Other liabilities	862	608
Subordinated debt	715	905
Total liabilities	73,944	69,623
Net assets	5,741	5,687
Shareholders' equity		
Contributed equity - ordinary shareholder	1,851	1,851
Reserves	(17)	56
Retained Profits	3,257	2,870
Ordinary shareholder's equity	5,091	4,777
Contributed equity perpetual preference shareholders	650	910
Total shareholders' equity	5,741	5,687

3.5.2 More information

Full copies of the financial statements for BNZ for the years ended 30 September 2014 and 30 September 2013 and BNZ's full year results announcement for the year ended 30 September 2015 can be obtained in the ways described in Section 2.11 under the headings "Disclosure Statements" and "Results Announcement".



Section 4 ***About NAB.***



4.1 Principal activities of the NAB Group.

4.1.1 The NAB Group

The NAB Group is a financial services organisation that provides a comprehensive and integrated range of financial products and services, with over 12 million customers and approximately 42,000 employees, operating more than 1,500 branches and banking centres⁴ globally. NAB is the holding company and main operating company of the NAB Group. NAB is a public limited company incorporated on 23 June 1893 in Australia, which is NAB's main domicile.

NAB is not a registered bank in New Zealand.

The major financial services franchises of the NAB Group are based in Australia, complemented by businesses in New Zealand, Asia, United States and the United Kingdom.

The NAB Group has refreshed its strategy in light of the changing business environment in which it operates. The strategy seeks to position the NAB Group to be Australia's and New Zealand's most respected bank. The NAB Group's objective is to deliver superior returns to its shareholders.

To meet this objective, the NAB Group will focus on delivering initiatives aligned to the strategic themes outlined below:

- focussing on priority customer segments;
- delivering a great customer experience;
- executing flawlessly and relentlessly; and
- great people living NAB's values.

The strategy is supported by the NAB Group's foundations of maintaining a strong balance sheet, managing risk and investing in technology.

The NAB Group operates the following divisions:

Australian Banking: offers a range of banking products and services to personal and business customers, ranging from small and medium enterprises through to Australia's largest institutions. Australian Banking comprises the Personal and Business Banking franchises, Fixed Income, Currencies and Commodities (FICC), Capital Financing, Asset Servicing and Treasury.

NZ Banking: provides a range of banking and financial products and services to the retail, business, agribusiness, corporate and institutional clients in New Zealand, operating under the "Bank of New Zealand" and "BNZ" brands. It excludes BNZ's market operations, which form part of Australian Banking.

NAB Wealth: provides superannuation, investment and insurance solutions to retail, corporate and institutional clients. NAB Wealth operates one of the largest networks of financial advisers in Australia.

UK Banking: operates under the Clydesdale Bank and Yorkshire Bank brands, offering a range of banking services for both personal and business customers. These services are delivered through a network of retail branches, business and private banking centres, direct banking and broker-based channels.

4.1.2 Recent developments

Divestment of NAB Group's holding in GWB

During the financial year to 30 September 2015, the NAB Group divested its holding in Great Western Bancorp, Inc. (GWB), a US based subsidiary of the NAB Group. The overall divestment of GWB was achieved in stages commencing with an initial and secondary public offering on 15 October 2014 and 6 May 2015 respectively. On 3 August 2015, shortly after the NAB Group finalised the divestment of its remaining 28.5% interest, the NAB Group lost control over and de-consolidated GWB (including the subsidiary entities of GWB).

Proposed demerger and IPO of the NAB Group's UK Banking business

In line with the NAB Group's strategy to focus on the Australian and New Zealand franchise, the NAB Group has announced its intention to divest CYBG PLC (CYBG), the newly created holding company for Clydesdale Bank PLC, through a demerger and Initial Public Offering (IPO) in early February 2016. Significant progress has been made on the proposed transaction, including advanced engagement with key regulators and listing authorities in both jurisdictions.

⁴Includes retail agencies, retail kiosks, agribusiness branches, and private banking suites.

The NAB Group's intention is to pursue a demerger of approximately 75% of CYBG to NAB shareholders and a sale of the balance by way of IPO (up to approximately 25%) to institutional investors. It is proposed that CYBG will have a primary listing on the London Stock Exchange and a CHES Depository Interest listing on the ASX.

The proposed demerger and IPO remains subject to a range of matters, including various court and regulatory approvals and NAB shareholder approval. Shareholder approval will be sought at a meeting expected to be in late January 2016.

As announced on 10 August 2015, additional conduct provisions were expected to be required at the full year results announcement 2015 in relation to both payment protection insurance (PPI) and interest rate hedging product (IRHP) costs. These additional provisions have now been determined and comprise the following:

- ▶ Provisions of £390 million (£323 million or A\$704 million after tax) in relation to PPI reflecting the impact of the past business review and the consequent need to undertake further proactive customer contact, as well as costs to run the remediation program.
- ▶ Provisions of £75 million (£63 million or A\$135 million after tax) in relation to interest rate hedging products and fixed rate tailored business loans based on additional expected claims.

As announced on 7 May 2015, in order to achieve the proposed CYBG demerger and IPO the UK Prudential Regulation Authority (PRA) requires capital support for CYBG of £1.7 billion in relation to potential future legacy conduct costs. The provisions of £465 million recognised in the September 2015 half year will form part of the £1.7 billion support package and, combined with £120 million for CYBG's share of future conduct liabilities, will result in a capped indemnity from NAB of £1.115 billion upon separation (unless other provisions are taken, and funded by NAB, prior to the demerger). Assuming no further pre-demerger provisions are raised, future legacy conduct costs will be shared 90.3%/9.7% between NAB and CYBG respectively.

On completion of the demerger, the capped indemnity amount of £1.115 billion is expected to result in a deduction from NAB's Common Equity Tier 1 Capital. To the extent that claims against NAB under the capped indemnity are ultimately less than £1.115 billion, this is expected to result in a commensurate Common Equity Tier 1 Capital benefit for NAB.

Sale of 80% of NAB Wealth's life insurance business

On 28 October 2015 NAB announced it has entered into an agreement to sell 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company for \$2.4 billion, while NAB will retain the remaining 20%. The purchase price is an estimate and may be adjusted for certain capital inflows and outflows between signing and completion, including dividends paid by the life insurance business. As part of the agreement, NAB will enter a 20 year distribution agreement to provide life insurance products through its owned and aligned distribution networks. NAB will retain ownership of its investments business which includes superannuation, platforms, advice and asset management. The transaction will occur through the sale of 80% of MLC Limited after the extraction of NAB's superannuation and investments business and certain other restructuring steps. NAB will retain the MLC brand, although it will be licensed for use by the life insurance business for 10 years.

The transaction is expected to be completed in late 2016 subject to certain conditions including regulatory approvals, establishment of the life insurance business as a standalone entity, extraction of the superannuation business from MLC Limited and the finalisation of certain agreements. NAB will retain responsibility for managing the life insurance business until completion, subject to certain restrictions on carrying out material transactions and transactions outside the ordinary course of business.

An indicative loss on sale of \$1.1 billion is anticipated as a result of the transaction. The final loss on sale will vary depending on the level of earnings between signing and completion, the final allocation of goodwill at the time of deconsolidation, final transaction costs and a number of other items.

4.1.3 NOHC structure

NAB has examined the possibility of adopting a non-operating holding company structure to support its operations in the longer term. The process is complex, with many regulatory, tax, legal, accounting and other issues to address. At this time, NAB has made no decision to implement a non-operating holding company structure.

4.2 NAB's directors and management.

NAB's directors are listed in Section 2.2 "Who is involved in providing it for me?". Further information on the directors and management of NAB can be found at www.nab.com.au/about-us/our-business-at-a-glance

4.3 Capital adequacy.

An overview of capital instruments and the loss absorption requirements of Tier 2 capital instruments is contained in Section 3.4.

This Section 4.3 summarises the regulatory capital requirements that the NAB Group is required to comply with and that you should understand when deciding to invest in the Notes.

4.3.1 Prudential supervision by APRA

APRA is the prudential regulator of the Australian financial services industry. It oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies, and most of the superannuation industry. NAB is an authorised deposit-taking institution (ADI) regulated by APRA and is required to hold regulatory capital against risk-weighted assets in accordance with APRA's current Prudential Standards.

The Prudential Standards aim to ensure that ADIs maintain adequate capital levels commensurate with the risks associated with their activities, with appropriate buffers to absorb unexpected losses. APRA advises the NAB Group of its prudential capital requirements which represent the minimum ratios of regulatory capital to total risk-weighted assets.

On 1 January 2013, parts of APRA's Basel III Prudential Standards came into effect. These Prudential Standards give effect to the capital reform package released by the Basel Committee on Banking Supervision aimed at raising the quality and quantity of capital in the global banking system.

The minimum Common Equity Tier 1 Ratio, Tier 1 Capital Ratio and Total Capital Ratio under APRA's Basel III Prudential Standards are 4.5%, 6.0% and 8.0% (respectively).

From 1 January 2016:

- ▶ a new capital conservation buffer of 2.5% of risk-weighted assets will apply, required to be made up of Common Equity Tier 1 Capital that places restrictions on capital distributions if an ADI's Common Equity Tier 1 Capital ratio falls within the buffer range; and
- ▶ APRA may determine that a countercyclical capital buffer of between zero and 2.5% of risk-weighted assets is to be applied as an extension of the capital conservation buffer where excessive credit growth and other factors indicate system-wide build-up of risk.

In December 2013, APRA released its framework in relation to domestic systemically important banks (D-SIBs) in Australia. NAB has been identified as a D-SIB and as a result is subject to a 1% higher loss absorbency requirement, which must be met by Common Equity Tier 1 Capital and will be implemented through an extension of the capital conservation buffer, effective 1 January 2016. The total capital conservation buffer will therefore be 3.5% of Common Equity Tier 1 Capital and the total Common Equity Tier 1 Capital requirement will be 8%.

APRA has provided confirmation that the Notes, once issued, will qualify as Tier 2 Capital on a Level 2 basis for the purposes of NAB's regulatory capital requirements.

APRA's website at www.apra.gov.au includes further details of its functions and Prudential Standards.

4.3.2 Capital buffer range

From 1 January 2016, if the NAB Group's Common Equity Tier 1 Capital Ratio at Level 2 falls within APRA's capital buffer range (described in Section 4.3.1):

- ▶ dividends and share buybacks on NAB's ordinary shares, discretionary payments on other Additional Tier 1 Capital securities and discretionary bonus payments to staff may be restricted; and
- ▶ NAB must advise APRA and inform APRA of any remedial actions taken or planned.

4.3.3 The NAB Level 2 Group's capital adequacy ratios

The NAB Level 2 Group's capital adequacy ratios are set out below:

Basel III regulatory capital ratios ⁵	NAB Level 2 Group		
	Basel III Unaudited 30/9/15	Basel III Unaudited 30/9/14	Basel III Unaudited 30/9/13
Common Equity Tier 1 Capital Ratio	10.24%	8.63%	8.43%
Tier 1 Capital Ratio	12.44%	10.81%	10.35%
Total Capital Ratio	14.15%	12.16%	11.80%
Risk-weighted assets (A\$bn) ⁶	399.8	367.7	362.1

This information has been sourced from the NAB Group's full year results announcement 2015 and annual financial report for the year ended 30 September 2014.

Neither BNZ nor NAB gives any assurance as to what their capital adequacy ratios may be at any future time.

4.3.4 Capital Management Strategy

The NAB Group's capital management strategy is focused on adequacy, efficiency and flexibility. The capital adequacy objective focuses on holding capital in excess of the internal risk-based assessment of required capital, meeting regulatory requirements, maintaining capital consistent with the NAB Group's balance sheet risk appetite, and ensuring investors' expectations are met. This approach is consistent across the NAB Group's subsidiaries.

The NAB Group's Common Equity Tier 1 operating target is set between 8.75% and 9.25%, based on current regulatory requirements. The NAB Group will continue to regularly review its operating target capital levels.

4.3.5 Funding

The NAB Group maintains a strong capital, funding and liquidity position in line with its ongoing commitment to balance sheet strength.

The NAB Group employs a range of internal Board approved metrics to set its risk appetite and measure balance sheet strength. The NAB Group continues to grow deposits, whilst also taking into account current market conditions and funding requirements. In addition, the NAB Group has accessed a diverse range of wholesale funding across senior, subordinated and secured debt markets as well as the domestic retail hybrid market. The NAB Group continues to explore opportunities to enhance and diversify its funding sources.

4.3.6 Liquidity

The NAB Group maintains well diversified and high quality liquid asset portfolios to support regulatory and internal requirements in the various countries in which it operates.

APRA finalised its liquidity standard with regard to the Liquidity Coverage Ratio (LCR) during 2014 with 100% compliance required by 1 January 2015. The availability of the Reserve Bank of Australia's Committed Liquidity Facility remains central to APRA's liquidity standard. Revisions to this standard for Net Stable Funding Ratio (NSFR) requirements are expected to be released by APRA in draft in the last quarter of the 2015 calendar year.

5. The APRA Basel III capital standards were effective from 1 January 2013.

6. Spot balance as at reporting date.

4.3.7 Impact of the Offer on NAB

The Offer will not have a material impact on the NAB Group's financial position. If a Non-Viability Trigger Event occurs and NAB issues NAB Shares, the impact of Conversion on NAB would be to increase NAB's shareholders' equity. The number of NAB Shares issued on Conversion is limited to the Maximum Conversion Number. Based on an illustrative issue amount of NZ\$300 million, NAB's closing share price of A\$28.65 on 6 November 2015 and an A\$/NZ\$ exchange rate of 1.08, the Maximum Conversion Number would represent less than 2% of NAB's current issued shares.

4.4 Financial Information.

4.4.1 Summary financial statements for the NAB Group

The summary financial information presented in this section has been extracted from the NAB Group's full year results announcement 2015 and the NAB Group's annual financial report 2014. It includes unaudited income statements for the years ended 30 September 2015 and 2014 (restated from 2014 for 'discontinued operations'⁷), an unaudited balance sheet as at 30 September 2015 and an audited balance sheet as at 30 September 2014. The audited result of the income statement for the year ended 30 September 2014 is in line with the restated result of the total of continuing operations and discontinued operations of the income statement for the same period.

The financial information presented in this section has been presented in accordance with the measurement and recognition requirements of Australian Accounting Standards. It is presented in abbreviated form and does not contain all of the disclosures usually provided in an annual financial report prepared in accordance with the Australian Corporations Act.

The following table sets out the NAB Group's unaudited income statements for the years ended 30 September 2015 and 30 September 2014:

7. Included within discontinued operations are the post-tax profit / loss of discontinued operations of Great Western Bancorp, Inc. (GWB) and the post-tax gain / loss recognised on the disposal of the assets relating to the discontinued operations. Discontinued operations are a component of the NAB Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, which is part of a single co-ordinated plan for disposal. For further details refer to Note 14 'Discontinued operations' on page 95 of the full year results announcement 2015.

The NAB Group's income statements ⁸	Year to	
	30 Sep 2015 A\$m	30 Sep 2014 A\$m
Interest income	30,419	30,419
Interest expense	(16,437)	(17,004)
Net interest income	13,982	13,415
Premium and related revenue	1,725	1,632
Investment revenue	5,280	7,387
Fee income	600	576
Claims expense	(843)	(961)
Change in policy liabilities	(4,501)	(5,918)
Policy acquisition and maintenance expense	(972)	(945)
Investment management expense	(6)	(13)
Movement in external unitholders' liability	(715)	(1,216)
Net life insurance income	568	542
Gains less losses on financial instruments at fair value	1,578	999
Other operating income	4,048	3,900
Total other income	5,626	4,899
Personnel expenses	(4,635)	(4,429)
Occupancy-related expenses	(633)	(628)
General expenses	(4,984)	(5,170)
Total operating expenses	(10,252)	(10,227)
Charge to provide for doubtful debts	(844)	(847)
Profit before income tax expense	9,080	7,782
Income tax expense	(2,717)	(2,598)
Net profit for the period from continuing operations	6,363	5,184
Profit or loss after tax for the year from discontinued operations ⁷	29	114
Net profit for the Period	6,392	5,298
Attributable to owners of NAB	6,338	5,295
Attributable to non-controlling interests in controlled entities	54	3
Basic earnings per share (cents)	252.7	219.0
Diluted earnings per share (cents)	245.4	215.4
Basic earnings per share from continuing operations (cents)	253.5	214.1
Diluted earnings per share from continuing operations (cents)	246.1	210.7

7. Included within discontinued operations are the post-tax profit / loss of discontinued operations of Great Western Bancorp, Inc. (GWB) and the post-tax gain / loss recognised on the disposal of the assets relating to the discontinued operations. Discontinued operations are a component of the NAB Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, which is part of a single co-ordinated plan for disposal. For further details refer to Note 14 'Discontinued operations' on page 95 of the full year results announcement 2015.

8. Information is presented on a continuing operations basis including prior period restatements. Continuing operations are the components of the NAB Group excluding the discontinued operations of GWB.

Full year to 30 September 2015 Results

The following table sets out the NAB Group's unaudited balance sheet as at 30 September 2015 and the NAB Group's audited balance sheet as at 30 September 2014.

The NAB Group's balance sheets	Year to	
	30 Sep 2015 ⁹ A\$m	30 Sep 2014 A\$m
Assets		
Cash and liquid assets	30,934	41,034
Due from other banks	50,595	39,088
Trading derivatives	78,384	57,389
Trading securities	42,937	44,212
Debt instruments at fair value through other comprehensive income ⁹	45,189	-
Investments - available for sale ⁹	-	43,386
Investments - held to maturity ⁹	-	2,919
Investments relating to life insurance business	89,350	85,032
Other financial assets at fair value	29,696	84,488
Hedging derivatives	11,599	5,488
Loans and advances	532,784	434,725
Due from customers on acceptances	19,437	23,437
Property, plant and equipment	1,741	1,952
Goodwill and other intangible assets	7,347	7,720
Deferred tax assets	2,141	1,617
Other assets	12,918	10,814
Total assets	955,052	883,301
Liabilities		
Due to other banks	54,405	45,204
Trading derivatives	74,442	55,858
Other financial liabilities at fair value	30,046	28,973
Hedging derivatives	4,539	3,445
Deposits and other borrowings	489,010	476,208
Life policy liabilities	76,311	71,701
Current tax liabilities	1,114	729
Provisions	3,575	2,914
Bonds, notes and subordinated debt	130,518	118,165
Other debt issues	6,292	4,686
External unitholders' liability	14,520	14,123
Other liabilities	14,767	13,387
Total liabilities	899,539	835,393

9. September 2015 results have been prepared in accordance with AASB 9; September 2014 results have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78 of the NAB Group's half year results announcement 2015.

The NAB Group's balance sheets	Year to	
	30 Sep 2015 ⁹ A\$m	30 Sep 2014 A\$m
Net assets	55,513	47,908
Equity		
Contributed equity	34,651	28,380
Reserves	(362)	(866)
Retained profits	21,205	20,377
Total equity (parent entity interest)	55,494	47,891
Non-controlling interest in controlled entities	19	17
Total equity	55,513	47,908

The NAB Group's total assets at the Trigger Event Conversion Date are likely to be different to the NAB Group's total assets disclosed in this investment statement.

4.4.2 More information

Full copies of the NAB Group's full year results announcement 2015, the NAB Group's half year results announcement 2015 and the NAB Group's annual financial report 2014 can be obtained in the ways described in Section 2.11 under the heading "Information about NAB".

9. September 2015 results have been prepared in accordance with AASB 9; September 2014 results have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78 of the NAB Group's half year results announcement 2015.



Section 5
Information about
NAB Shares.

5.1 Rights attaching to the NAB Shares.

NAB Shares are quoted on ASX and NAB intends that they will continue to be quoted on ASX (including any NAB Shares issued on Conversion).

The rights and liabilities attaching to NAB Shares are set out in NAB's constitution and are also regulated by the Australian Corporations Act, ASX Listing Rules and other applicable laws and regulations. See Section 2.11 for information on how you can obtain a copy of NAB's constitution.

NAB Shares issued on Conversion of the Notes will be fully paid. This Section summarises the key rights attaching to NAB Shares. It is not an exhaustive summary of the rights of NAB Shareholders. The key rights are as follows:

- the right to one vote per NAB Share at general meetings of NAB;
- the right to transfer NAB Shares, in accordance with NAB's constitution;
- subject to the rights of holders carrying preferred rights, the right to receive dividends in respect of each NAB Share, if and when NAB's directors determine to pay them;
- the right to receive information required to be distributed under the Australian Corporations Act and ASX Listing Rules; and
- subject to the rights of holders carrying preferred rights, the right to participate in a surplus of assets on a winding-up of NAB.

5.2 Applications and payment.

Conversion of the Notes involves the transfer of your Notes to NAGNZ and the issue of NAB Shares to you. The transfer of Notes to NAGNZ on Conversion occurs automatically. No act or consent is required from you for Conversion to occur. You will not pay any money to NAB in respect of the issue of NAB Shares to you on Conversion.

5.3 Australian tax.

The following information does not constitute tax advice to you or any other holder of Notes. The information set out below is of a general nature. BNZ understands it to be correct as at the date of this investment statement. Taxation laws are subject to change and such changes may materially affect your tax position with respect to an investment in the Notes. You should seek qualified, independent financial and taxation advice in relation to your circumstances before deciding to invest.

Under Australian tax law, dividends paid on NAB Shares by NAB should not be subject to Australian non-resident withholding tax to the extent the dividends are franked with Australian franking credits. To the extent an unfranked dividend is paid to an Australian non-resident, withholding tax will generally be payable. For New Zealand resident holders, the rate of withholding tax is generally 15% (pursuant to the double tax agreement between Australia and New Zealand).

However, NAB may source the unfranked portion of a dividend from its "conduit foreign income" (CFI). An unfranked dividend paid by NAB out of its CFI to Australian non-residents should be exempt from Australian dividend withholding tax.

New Zealand resident holders that hold their NAB Shares on capital account for Australian tax purposes should generally not be subject to Australian tax on any gain realised on disposal of their NAB Shares (as NAB Shares should generally not be "taxable Australian property" for Australian "capital gains tax" purposes).

5.4 Access to information and statements.

Each NAB Shareholder is entitled to receive notices, financial statements and other documents required to be sent to NAB Shareholders under NAB's constitution, the Australian Corporations Act and the ASX Listing Rules but, in the case of financial statements and annual reports, only where the NAB Shareholder has requested one to be sent to them in accordance with the Australian Corporations Act.

A long-exposure photograph of a waterfall in a lush, moss-covered forest. The water flows over large, mossy rocks, creating a soft, blurred effect. The surrounding vegetation is dense and vibrant green, with many ferns and mosses visible. The overall scene is serene and natural.

***Section 6
Note Terms.***

1 Form and Issue Price

1.1 Form

BNZ Subordinated Notes are fully paid subordinated debt securities (**BNZ Notes or Notes**) in the form of unsecured notes issued by BNZ. BNZ Notes are issued in registered form by entry in the Register. They are issued, and may be Redeemed, Converted or Written Off, according to these Terms.

1.2 Issue Price

The **Issue Price** of each Note is NZ\$1.

1.3 Settlement System

The Notes will be quoted on the NZX Debt Market. While the Notes remain quoted on the NZX Debt Market:

- the rights and obligations of a person holding Notes; and
- all dealings, including transfers (but not including a transfer made in accordance with *clause 6.1(a)(i)*), transmissions and payments, in relation to the Notes,

will be subject to and governed by the Settlement System operated by NZX, except to the extent that this would affect the eligibility of the Notes as Tier 2 Capital.

No certificates will be issued to Holders unless BNZ determines that certificates should be available or if certificates are required by any applicable law or directive.

1.4 Quotation

BNZ agrees to use all reasonable endeavours to procure that the Notes are quoted on the NZX Debt Market until all Notes have been Converted, Redeemed or Written Off.

1.5 Independent obligations

Each entry in the Register constitutes a separate and individual acknowledgement to the relevant Holder of the obligations of BNZ to the relevant Holder under these Terms. Without prejudice to any provision requiring a Special Resolution or Ordinary Resolution, the Holder to whom those obligations are owed is entitled to enforce them without having to join any other Holder or any predecessor in title of a Holder.

2 Status

2.1 Status and ranking

The Notes constitute direct and unsecured obligations of BNZ, which are subordinated in right of repayment to all depositors and unsubordinated creditors of BNZ, and rank:

- equally among themselves;
- equally with all Equal Ranking Instruments;
- behind all claims of Unsubordinated Creditors; and
- ahead of all Junior Ranking Instruments.

The Notes do not limit the amount of senior debt, deposits or any other obligations ranking in priority to, equally with or junior to the Notes that may be incurred or assumed by BNZ at any time.

2.2 Solvency condition to payment

At any time before the liquidation of BNZ:

- payment by BNZ of interest, principal or any other amount owing to a Holder in connection with a Note is conditional upon BNZ being Solvent at the time the payment is due; and
- BNZ must not pay an amount owing to a Holder in connection with a Note except to the extent that BNZ may pay that amount and still be Solvent immediately after paying that amount.

2.3 Certificate as to Solvency

A certificate as to whether BNZ is Solvent signed by:

- two directors of BNZ;
- the auditors of BNZ; or
- in the liquidation of BNZ, BNZ's liquidator,

is, in the absence of manifest error, conclusive evidence of the matters certified. In the absence of such certificate, a Holder is entitled to assume (unless the contrary is proved) that BNZ is and will, immediately after any payment, be Solvent.

2.4 Amounts unpaid remain debts

Any amount not paid due to *clause 2.2* or *clause 10.2* accumulates and remains a debt owing to the Holder by BNZ until it is paid and will be payable on the first date on which that clause is satisfied (whether or not such date is otherwise a payment date).

2.5 Selling restrictions

- The Investment Statement only constitutes an offer of Notes in New Zealand. BNZ has not and will not take any action which would permit a public offering of the Notes, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand).
- By its purchase of a Note, each Holder is taken to have agreed that:
 - Notes may only be offered for sale or sold in conformity with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered; and

- any information memorandum, prospectus, circular, advertisement or other offering material in respect of the Notes may only be published, delivered or distributed in or from any country or jurisdiction under circumstances which will result in compliance with all applicable laws, regulations and listing rules of any applicable stock exchange.

- By its purchase of Notes, each Holder agrees to indemnify BNZ, NAB, the Registrar and each Manager in respect of any loss, cost, liability or expense sustained or incurred by BNZ, NAB, the Registrar or the Manager as a result of the breach by that Holder of the restrictions contained in this *clause 2.5*.

2.6 Nature of obligations

The Notes:

- are not guaranteed or insured by any government, Government Agency or compensation scheme in Australia, New Zealand or any other jurisdiction, and are not guaranteed by NAB or any member of the NAB Group, or by any other person;
- do not constitute deposit liabilities of BNZ, NAB, or any other member of the NAB Group; and
- are not protected accounts for the purposes of the Banking Act.

3 Interest

3.1 The Notes bear interest

- Subject to *clause 3.1(b)*, each Note bears interest on its Issue Price from (and including) the Issue Date to (but excluding) the Maturity Date or any earlier Redemption Date (as applicable).
- No interest accrues on the Notes required to be Converted in the period from (and including) the Interest Payment Date that immediately precedes the Trigger Event Conversion Date to the Trigger Event Conversion Date.

3.2 Interest Payment Dates

Subject to these Terms, interest on each Note accrues daily at the Interest Rate and, subject to *clause 2.2*, is payable in arrear on the following dates (each an **Interest Payment Date**):

- each of 17 March, 17 June, 17 September and 17 December, commencing on 17 March 2016 until (but not including) the date on which the Note is Redeemed, Converted or Written Off (each a **Scheduled Interest Payment Date**); and
- the date on which the Note is Redeemed.

3.3 Interest Rate

The '**Interest Rate**' (expressed as a percentage per annum) in respect of a Note for an Interest Period is the sum of the Margin and the 5 Year Swap Rate for the Interest Period, where:

Margin (expressed as a percentage per annum) means the rate determined under the Bookbuild and announced to NZX on or before the Opening Date.

5 Year Swap Rate (expressed as a percentage per annum) means:

- for each Interest Period that ends before or on (but excluding) the Optional Redemption Date, the average of the bid and offered swap yields as displayed at or about 11:00am on the Bookbuild Date on Reuters Monitor Screen page 'ICAPKIWISWAP1' (or its successor page) for an interest rate swap with a term equal to five years, or if the rate is unable to be determined in that manner, the average of the bid and offered swap rates quoted to BNZ by three registered banks (or such one or more of them as are quoting) at or about 11:00am on the Bookbuild Date for an interest rate swap with a term equal to five years (with the rate in each case adjusted for quarterly payments); and
- for each Interest Period that commences on or after the Optional Redemption Date, the average of the bid and offered swap yields as displayed at or about 11:00am on the Optional Redemption Date on Reuters Monitor Screen page 'ICAPKIWISWAP1' (or its successor page) for an interest rate swap with a term equal to five years, or if the rate is unable to be determined in that manner, the average of the bid and offered swap rates quoted to BNZ by three registered banks (or such one or more of them as are quoting) at or about 11:00am on the Optional Redemption Date for an interest rate swap with a term equal to five years (with the rate in each case adjusted for quarterly payments).

3.4 Calculation of Interest on the Notes

The amount of interest payable in respect of each Note for an Interest Period is calculated in accordance with the following formulae:

- For each Interest Period that is not a Broken Interest Period:

$$\text{Amount of Interest} = \frac{\text{Interest Rate} \times \text{Issue Price}}{4}$$

- For each Interest Period that is a Broken Interest Period:

$$\text{Amount of Interest} = \frac{\text{Interest Rate} \times \text{Issue Price} \times N}{365}$$

where '**N**' is the number of days in the Interest Period.

3.5 **BNZ to determine and notify Interest Rate and amount of interest**

In respect of each Interest Period, BNZ must:

- (a) determine the Interest Rate and the amount of interest for the Interest Period in respect of each Note; and
- (b) notify the Registrar and NZX as soon as practicable after its determination but, in any event, no later than the second Business Day after the first day of the Interest Period.

3.6 **Interest continues to accrue**

Notwithstanding *clause 3.1*:

- (a) if payment of the Issue Price of a Note is improperly withheld or refused when due and payable, interest will continue to accrue (after as well as before any demand or judgment) on the Issue Price of that Note at the Interest Rate in the manner provided in this *clause 3* to the date on which payment in full of the amount improperly withheld or refused is made; and
- (b) if any interest is not required to be paid because of the solvency condition to payment in *clause 2.2* or is not paid when due for any reason, then such unpaid interest will earn interest at the Interest Rate, which accrues daily until paid. Such accrued interest is payable on the date on which the relevant unpaid interest amount is paid.

4 **Redemption**

4.1 **Redemption on Maturity Date**

Subject to *clause 2.2*, BNZ agrees to redeem each Note on the Maturity Date by payment of its Issue Price (together with any accrued but unpaid interest), unless the Note has previously been Redeemed, Converted or Written Off.

4.2 **Early redemption at the option of BNZ**

Subject to *clauses 2.2* and *4.8*, BNZ may redeem all or some of the Notes before their Maturity Date by payment of their Issue Price (together with any accrued but unpaid interest) on the Optional Redemption Date (or, if the date is not a Business Day, the next Business Day) or on any Scheduled Interest Payment Date (as described in *clause 3.2(a)*) falling after that date.

However, BNZ may only do so if BNZ has given at least 30 days' (and no more than 60 days') notice to the relevant Holders, the Registrar and NZX.

4.3 **Early redemption following a Tax Event**

Subject to *clauses 2.2* and *4.8*, BNZ may redeem all (but not some) of the Notes on any date before their Maturity Date following the occurrence of a Tax Event by payment of their Issue Price (together with any accrued but unpaid interest).

However, BNZ may only do so if BNZ has given at least 30 days' (and no more than 60 days') notice to the relevant Holders, the Registrar and NZX.

4.4 **Early redemption following a Regulatory Event**

Subject to *clauses 2.2* and *4.8*, BNZ may redeem all (but not some) of the Notes on any date before their Maturity Date following the occurrence of a Regulatory Event by payment of their Issue Price (together with any accrued but unpaid interest).

However, BNZ may only do so if BNZ has given at least 30 days' (and no more than 60 days') notice to the relevant Holders, the Registrar and NZX.

4.5 **No early redemption at the option of Holders**

A Holder cannot require BNZ to redeem all or some of the Notes held by that Holder before their Maturity Date.

4.6 **Effect of notice of redemption**

Subject to the occurrence of a Non-Viability Trigger Event, any notice of redemption given under this *clause 4* is irrevocable.

4.7 **Partial redemptions**

If only some of the Notes are to be redeemed under this *clause 4*, the Notes to be redeemed will be specified in the notice and selected:

- (a) in a fair and reasonable manner; and
- (b) in compliance with any applicable law, directive or requirement of NZX.

4.8 **Consent of RBNZ and APRA**

BNZ may only elect to Redeem Notes under *clauses 4.2, 4.3* or *4.4* if:

- (a) before or concurrently with the Redemption BNZ replaces the Notes with a capital instrument which is of the same or better quality (for the purposes of the RBNZ's prudential standards as they are applied to the BNZ Group at the relevant time) and the replacement is done under conditions that are sustainable for the income capacity of the BNZ Group, unless BNZ obtains confirmation from the RBNZ that the RBNZ is satisfied, having regard to the capital position of the BNZ Group, that BNZ does not have to replace the Notes; and
- (b) APRA is satisfied that:
 - (i) the Notes the subject of the Redemption are replaced by a member of the NAB Group (which could be (without

limitation) BNZ as contemplated by (a) above) with a capital instrument of the same or better quality and the replacement of the instrument is done under conditions that are sustainable for the income capacity of the NAB Group; or

- (ii) the NAB Group's capital position will remain adequate after BNZ elects to Redeem the Notes; and

- (c) the RBNZ and APRA have given prior written approval for the Redemption. Approval is at the discretion of RBNZ and APRA and may or may not be given.

4.9 **Effect of Redemption on Holders**

On the Redemption Date the only right Holders will have in respect of Notes will be to obtain the Issue Price and accrued but unpaid interest payable in accordance with these Terms and upon payment of the Issue Price and accrued but unpaid interest, all other rights conferred, or restrictions imposed, by Notes will no longer have effect.

5 **Mandatory Conversion on Non-Viability Trigger Event**

5.1 **Non-Viability Trigger Event**

(a) A **Non-Viability Trigger Event** means:

- (i) a direction is given, by notice in writing, to BNZ by the RBNZ under section 113 of the RBNZ Act, on the basis that the financial position of BNZ is such that it meets any of the grounds in subsections 113(1)(a)-(e) of the RBNZ Act, requiring BNZ to exercise its right of conversion or write off of a class of capital instruments that includes the Notes; or
 - (ii) BNZ is made subject to statutory management by an Order in Council issued pursuant to section 117 of the RBNZ Act and the statutory manager announces his or her decision (by publishing a notice on BNZ's website or in another suitable public forum) to convert or write off a class of capital instruments that includes the Notes; or
 - (iii) the provision of a written determination by APRA to NAB that:
 - (A) conversion or write off of a class of capital instruments of the NAB Group that includes the Notes in accordance with their terms or by operation of law is necessary because, without it, APRA considers that NAB would become non-viable; or
 - (B) without a public sector injection of capital into, or equivalent capital support with respect to NAB, APRA considers that NAB would become non-viable.
- (b) If a Non-Viability Trigger Event occurs, subject only to *clause 5.3*, BNZ shall immediately Convert on the Trigger Event Conversion Date:
- (i) in the case of a Non-Viability Trigger Event in respect of BNZ:
 - (A) all of the Notes; or
 - (B) where the RBNZ or the statutory manager of BNZ does not require all of the relevant class of capital instruments to be converted or written off, so many of the Notes as is sufficient (as determined by BNZ in accordance with *clause 5.2(b)*) to satisfy the RBNZ or the statutory manager of BNZ that BNZ is viable without further conversion or write off; and
 - (ii) in the case of a Non-Viability Trigger Event in respect of NAB:
 - (A) all of the Notes; or
 - (B) where the Non-Viability Trigger Event occurs under *clause 5.1(a)(iii)(A)* and APRA is satisfied that Conversion or Write Off of a proportion of the relevant class of capital instruments will be sufficient to ensure that NAB will not become non-viable, that proportion of the relevant class of capital instruments.

5.2 **Trigger Event Conversion Date**

(a) The **Trigger Event Conversion Date** means:

- (i) the date on which:
 - (A) BNZ receives the direction issued by the RBNZ as contemplated in *clause 5.1(a)(i)*; or
 - (B) the statutory manager of BNZ announces his decision (by publishing a notice on BNZ's website or in another suitable public forum) as contemplated in *clause 5.1(a)(ii)*,to convert or write off a class of capital instruments that includes the Notes following the occurrence of a Non-Viability Trigger Event; or
 - (ii) the date on which APRA notifies NAB of such Non-Viability Trigger Event as contemplated in *clause 5.1(a)(iii)*.
- (b) Where *clause 5.1(b)(i)(B)* or *5.1(b)(ii)(B)* apply, in determining the number of Notes which must be Converted on the Trigger Event Conversion Date, BNZ will:
- (i) first, convert or write off, or procure the conversion or write off of, Relevant Tier 1 Capital Instruments whose terms require or permit them to be converted or written off before Conversion of Notes;

- (ii) secondly, convert or write off, or procure the conversion or write off of, any Relevant Tier 2 Capital Instruments whose terms require or permit them to be converted or written off before Conversion of the Notes; and
- (iii) thirdly, if conversion or write off of those capital instruments is not sufficient, Convert Notes and convert or write off, or procure the conversion or write off of, other Relevant Tier 2 Capital Instruments:
 - (A) on an approximately pro-rata basis; or
 - (B) in a manner that is otherwise, in the opinion of BNZ, fair and reasonable,
 (subject to such adjustment as BNZ may determine (or as jointly determined by BNZ and NAB where the conversion or write off involves ordinary shares in NAB or another member of the NAB Level 2 Group or Relevant Tier 2 Capital Instruments issued by NAB or another member of the NAB Level 2 Group) to take into account the effect on marketable parcels and the need to round to whole numbers the number of those ordinary shares and any Notes or other Relevant Tier 2 Capital Instruments remaining on issue), and for the purposes of the foregoing, where the specified currency of the principal amount of Relevant Tier 2 Capital Instruments is not the same for all Relevant Tier 2 Capital Instruments, BNZ (jointly with NAB in the circumstances described above) may treat them as if converted into a single currency of BNZ's choice at such rate of exchange as BNZ in good faith considers reasonable,

provided that such determination does not impede the immediate Conversion of the relevant number of Notes.

- (c) On the Trigger Event Conversion Date BNZ must determine the Holders whose Notes will be Converted at the time on that date that the Conversion is to take effect and in making that determination may make any decisions with respect to the identity of the Holders at that time as may be necessary or desirable to ensure Conversion occurs immediately in an orderly manner, including disregarding any transfers of Notes that have not been settled or registered at that time and provided that such determination does not impede the immediate Conversion of the relevant number of Notes.
- (d) None of the following events shall prevent, impede or delay the Conversion of Notes as required by *clause 5.1(b)*:
 - (i) any failure or delay in the conversion into ordinary shares or write off of any other capital instruments;
 - (ii) any failure or delay in giving a Trigger Event Notice;
 - (iii) any failure or delay in quotation of the Ordinary Shares to be issued on Conversion;
 - (iv) any failure or delay in completion of any of the transactions between members of the NAB Group set out in the Coordination Agreement; or
 - (v) any failure or delay by BNZ or by BNZ and NAB jointly in making the determinations required under *clause 5.2(b)(iii)*.

5.3 Write Off following failure to Convert

- (a) If a Note is required to be Converted in accordance with *clause 5.2* but Conversion of the Note has not been effected within 5 Business Days after the Trigger Event Conversion Date for any reason (including an Inability Event or a Transfer Failure Event), then to the extent Conversion has not occurred, the Note will be Written Off.
- (b) In this *clause 5.3*, **Written Off** means that, in respect of a Note and a Trigger Event Conversion Date:
 - (i) if, for any reason, (including an Inability Event), Ordinary Shares have not been issued to the relevant Holder or the Nominee (as applicable) in accordance with these Terms within 5 Business Days after the Trigger Event Conversion Date:
 - (A) Ordinary Shares will not be issued to the relevant Holder on that date and will not be issued to the relevant Holder on any subsequent date; and
 - (B) the relevant Holder's rights to be issued Ordinary Shares in accordance with these Terms and the Coordination Agreement are automatically and irrevocably terminated and written off and such termination and write off will be taken to have occurred immediately upon the Trigger Event Conversion Date,
 and the relevant Holder shall cease to have any rights in relation to the Note, either:
 - (C) if the Note is transferred to NAGNZ in accordance with *clause 6.1(a)(i)*, immediately following that transfer; or
 - (D) if the Note is not transferred to NAGNZ in accordance with *clause 6.1(a)(i)*, by operation of *clause 5.3(b)(ii)*; and
 - (ii) if, for any reason (including a Transfer Failure Event) (and whether or not *clause 5.3(b)(i)* applies), the Note has not been transferred to NAGNZ in accordance with *clause 6.1(a)(i)* within 5 Business Days after the Trigger Event Conversion Date:

- (A) the Note will not be transferred on that date and will not be transferred or Redeemed under these Terms on any subsequent date; and
 - (B) the relevant Holder's rights (including to payment of interest and principal) in relation to the Note are automatically and irrevocably terminated and written off and such termination and write off will be taken to have occurred immediately upon the Trigger Event Conversion Date,
- but such termination and write off shall not affect the issue of Ordinary Shares to the relevant Holder or Nominee (as applicable) in accordance with these Terms and the Coordination Agreement or affect the operation of *clause 5.3(b)(i)*.

- (c) If a Note is required to be Converted in accordance with these Terms then, with effect from the time of the occurrence of the Non-Viability Trigger Event, all rights of the relevant Holder in relation to the Note are suspended and, subject to *clause 5.3(b)(i)*, the Holder of any Note that is to be Converted, or the Nominee (as applicable), shall be treated as the holder of the relevant number of Ordinary Shares.

5.4 Rights of BNZ

If BNZ is made subject to statutory management by an Order in Council issued pursuant to section 117 of the RBNZ Act, BNZ shall have the right to require the Conversion of Notes in accordance with these Terms.

5.5 Trigger Event Notice

As soon as practicable following the occurrence of a Non-Viability Trigger Event, BNZ must give notice of the Non-Viability Trigger Event (a **Trigger Event Notice**) to the Registrar, NZX and the Holders which states the Trigger Event Conversion Date, the number of Notes Converted or Written Off and the relevant number of other capital instruments converted into Ordinary Shares or written off.

5.6 Priority of Conversion obligations

Conversion or Write-Off required on account of a Non-Viability Trigger Event takes place on the date, and in the manner, required by *clause 5.2* or *clause 5.3* (if applicable), notwithstanding any other provision for Conversion or Redemption in these Terms.

6 Conversion mechanics

6.1 Conversion

If BNZ must Convert Notes in accordance with these Terms, then, subject to this *clause 6*, the following provisions shall apply:

- (a) with effect from the Trigger Event Conversion Date, each Note that is to be Converted shall be:
 - (i) immediately and irrevocably transferred to NAGNZ free of any Encumbrance, such transfer to occur automatically without any act or consent of the relevant Holder or any other person being required; and
 - (ii) following that transfer, redeemed or written off in accordance with the Coordination Agreement,
 but such transfer shall not affect the relevant Holder's entitlement under *clause 6.1(b)* to be issued Ordinary Shares;
- (b) BNZ shall procure that NAB will allot and issue on the Trigger Event Conversion Date in accordance with the Coordination Agreement a number of Ordinary Shares for each Note that is being Converted on the Trigger Event Conversion Date equal to the Conversion Number, where:

Conversion Number is the lesser of the Base Conversion Number and the Maximum Conversion Number

Base Conversion Number means the number calculated according to the following formula:

$$\text{Base Conversion Number} = \frac{\text{Issue Price}}{(99\% \times \text{NZD-VWAP})}$$

Maximum Conversion Number means a number calculated according to the following formula:

$$\text{Maximum Conversion Number} = \frac{\text{Issue Price}}{(\text{NZD-Issue Date VWAP} \times 0.2)}$$

- (c) if the total number of Ordinary Shares to be allotted to a Holder in respect of the Holder's aggregate holding of Notes upon Conversion includes a fraction of an Ordinary Share, that fraction of an Ordinary Share will be disregarded; and
- (d) the rights attaching to Ordinary Shares issued as a result of Conversion take effect at the time on the Trigger Event Conversion Date when the Conversion occurs.

6.2 Adjustments to VWAP

For the purposes of calculating the VWAP in these Terms:

- (a) where, on some or all of the Business Days in the relevant VWAP Period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and Notes

will Convert into Ordinary Shares after the date those Ordinary Shares no longer carry that dividend or any other distribution or entitlement, then the VWAP on the Business Days on which those Ordinary Shares have been quoted cum dividend or cum any other distribution or entitlement shall be reduced by an amount (the **Cum Value**) equal to:

- (i) (in case of a dividend or other distribution), the amount of that dividend or other distribution including, if the dividend or other distribution is franked, the amount that would be included in the assessable income of a recipient of the dividend or other distribution who is both a resident of Australia and a natural person under the Australian Tax Act;
 - (ii) (in the case of any other entitlement that is not a dividend or other distribution under *clause 6.2(a)(i)* which is traded on ASX on any of those Business Days), the volume weighted average sale price of all such entitlements sold on ASX during the VWAP Period on the Business Days on which those entitlements were traded; or
 - (iii) (in the case of any other entitlement which is not traded on ASX during the VWAP Period), the value of the entitlement as reasonably determined by the Directors of NAB; and
- (b) where, on some or all of the Business Days in the VWAP Period, Ordinary Shares have been quoted on ASX as ex dividend or ex any other distribution or entitlement, and Notes will Convert into Ordinary Shares in respect of which the relevant dividend or other distribution or entitlement would be payable, the VWAP on the Business Days on which those Ordinary Shares have been quoted ex dividend or ex any other distribution or entitlement shall be increased by the Cum Value.

6.3 Adjustments to VWAP for divisions and similar transactions

- (a) Where during the relevant VWAP Period there is a change in the number of Ordinary Shares on issue as a result of a Reorganisation, in calculating the VWAP for that VWAP Period the VWAP on each Business Day in the relevant VWAP Period which falls before the date on which trading in Ordinary Shares is conducted on a post Reorganisation basis shall be adjusted by the following formula:

$$\frac{A}{B}$$

where:

A means the aggregate number of Ordinary Shares immediately before the Reorganisation; and

B means the aggregate number of Ordinary Shares immediately after the Reorganisation.

- (b) Any adjustment made by BNZ in accordance with *clause 6.3(a)* will be effective and binding on Holders under these Terms and these Terms will be construed accordingly. Any such adjustment must be promptly notified to the Holders.

6.4 Adjustments to Issue Date VWAP

For the purposes of determining the Issue Date VWAP, adjustments to VWAP will be made in accordance with *clauses 6.2 and 6.3* during the VWAP Period for the Issue Date VWAP. On and from the Issue Date, adjustments to the Issue Date VWAP:

- (a) may be made in accordance with *clauses 6.5 to 6.7* (inclusive);
- (b) if so made, will correspondingly cause an adjustment to the Maximum Conversion Number; and
- (c) if so made, will be effective and binding on Holders under these Terms and these Terms will be construed accordingly.

6.5 Adjustments to Issue Date VWAP for bonus issues

- (a) Subject to *clause 6.5(b)*, if NAB makes a pro rata bonus issue of Ordinary Shares to holders of Ordinary Shares generally, the Issue Date VWAP will be adjusted in accordance with the following formula:

$$V = V_o \times \frac{RD}{RD + RN}$$

where:

V means the Issue Date VWAP applying immediately after the application of this formula;

V_o means the Issue Date VWAP applying immediately prior to the application of this formula;

RD means the number of Ordinary Shares on issue immediately prior to the allotment of new Ordinary Shares pursuant to the bonus issue; and

RN means the number of Ordinary Shares issued pursuant to the bonus issue.

- (b) *Clause 6.5(a)* does not apply to Ordinary Shares issued as part of a bonus share plan, employee or executive share plan, executive option plan, share top up plan, share purchase plan or a dividend reinvestment plan.
- (c) For the purpose of *clause 6.5(a)*, an issue will be regarded as a pro rata issue notwithstanding that NAB does not make offers to some or all holders of Ordinary Shares with registered addresses outside Australia, provided that in so doing NAB is not in contravention of the ASX Listing Rules.

- (d) No adjustments to the Issue Date VWAP will be made under this *clause 6.5* for any offer of Ordinary Shares not covered by *clause 6.5(a)*, including a rights issue or other essentially pro rata issue.
- (e) The fact that no adjustment is made for an issue of Ordinary Shares except as covered by *clause 6.5(a)* shall not in any way restrict NAB from issuing Ordinary Shares at any time on such terms as it sees fit nor be taken to constitute a modification or variation of rights or privileges of Holders or otherwise requiring any consent or concurrence.

6.6 Adjustment to Issue Date VWAP for divisions and similar transactions

- (a) If at any time after the Issue Date there is a change in the number of Ordinary Shares on issue as a result of a Reorganisation, BNZ shall adjust the Issue Date VWAP by multiplying the Issue Date VWAP applicable on the Business Day immediately before the date of any such Reorganisation by the following formula:

$$\frac{A}{B}$$

where:

A means the aggregate number of Ordinary Shares immediately before the Reorganisation; and

B means the aggregate number of Ordinary Shares immediately after the Reorganisation.

- (b) Any adjustment made by BNZ in accordance with *clause 6.6(a)* will be effective and binding on Holders under these Terms and these Terms will be construed accordingly.
- (c) Each Holder acknowledges that NAB may consolidate, divide or reclassify securities so that there is a lesser or greater number of Ordinary Shares at any time in its absolute discretion without any such action constituting a modification or variation of rights or privileges of Holders or otherwise requiring any consent or concurrence.

6.7 No adjustment to Issue Date VWAP in certain circumstances

Despite the provisions of *clauses 6.5 and 6.6*, no adjustment shall be made to the Issue Date VWAP where such adjustment (rounded if applicable) would be less than one per cent. of the Issue Date VWAP then in effect.

6.8 Announcement of adjustments

BNZ will notify the Registrar, NZX and the Holders (an **Adjustment Notice**) of any adjustment to the Issue Date VWAP and, as a consequence, the NZD-Issue Date VWAP under this *clause 6* within 10 Business Days of BNZ determining the adjustment.

6.9 Ordinary Shares

Each Ordinary Share issued upon Conversion ranks equally with all other fully paid Ordinary Shares.

6.10 Issue of Ordinary Shares to nominee where Notes held by Foreign Holders

Where Notes held by a Foreign Holder are to be Converted, unless BNZ and NAB are satisfied that the laws of the Foreign Holder's country of residence permit the issue of Ordinary Shares to the Foreign Holder (but as to which neither BNZ nor NAB is bound to enquire), either unconditionally or after compliance with conditions which BNZ and NAB in their absolute discretion regard as acceptable and not unduly onerous, the Ordinary Shares which the Foreign Holder is obliged to accept will be issued to a nominee (which must not be NAB or any Related Entity of NAB) for no additional consideration and on terms that, at the first reasonable opportunity to sell the Ordinary Shares, the nominee will arrange for their sale and pay the relevant Foreign Holder on a date determined by the nominee a cash amount equal to the Attributable Proceeds of the relevant Foreign Holder.

6.11 Quotation of Ordinary Shares issued on Conversion

BNZ shall procure NAB to use all reasonable endeavours to have the Ordinary Shares issued upon Conversion of Notes quoted on ASX.

6.12 Issue of Ordinary Shares to nominee in other circumstances

If Notes of a Holder are required to be Converted and:

- (a) the Holder has notified BNZ that it does not wish to receive Ordinary Shares as a result of Conversion, which notice may be given by the Holder at any time on or after the Issue Date and no less than 15 Business Days prior to the Trigger Event Conversion Date; or
- (b) NAB does not have all information in relation to the Holder that it requires in order to issue the Ordinary Shares to the Holder, then, on the Trigger Event Conversion Date, the Ordinary Shares which the Holder is obliged to accept will be issued to a nominee (which must not be NAB or any Related Entity of NAB) for no additional consideration and on terms that, at the first reasonable opportunity to sell the Ordinary Shares, the nominee will arrange for their sale and pay the relevant Holder on a date determined by the nominee a cash amount equal to the Attributable Proceeds of the relevant Holder.

6.13 Holder acknowledgements relating to Conversion

Each Holder irrevocably:

- (a) upon Conversion of Notes in accordance with these Terms, consents to becoming a member of NAB and agrees to be bound by the Constitution, in each case in respect of the Ordinary Shares issued on Conversion;
- (b) acknowledges and agrees that it is obliged to accept Ordinary Shares upon a Conversion notwithstanding anything that might otherwise affect a Conversion of Notes including:
 - (i) any change in the financial position of NAB or BNZ since the Issue Date;
 - (ii) any disruption to the market or potential market for the Ordinary Shares or to capital markets generally; or
 - (iii) any breach by NAB of any obligation in connection with the Conversion Obligations or breach by BNZ of any obligations in connection with the Notes;
- (c) acknowledges and agrees that:
 - (i) where *clause 5.1* applies:
 - (A) there are no conditions to a Conversion occurring as and when provided in *clause 5.2*;
 - (B) Conversion must occur immediately on the Non-Viability Trigger Event and that may result in disruption or failures in trading or dealings in the Notes;
 - (C) it will not have any rights to vote in respect of a Trigger Event Conversion; and
 - (D) the Ordinary Shares issued on Conversion may not be quoted at the time of issue, or at all;
 - (ii) *clause 5.3* is a fundamental term of the Notes and where this applies, no other conditions or events will affect its operation and the Holder will not have any rights to determine whether any Write Off occurs under that clause;
 - (iii) the Holder should not expect that the RBNZ's or APRA's approval will be given for any Redemption of Notes under the Terms; and
 - (iv) a Holder has no right to request a Redemption before the Maturity Date (except as expressly permitted by *clause 10.2(b)*) or a Conversion of any Notes or to determine whether Notes are Redeemed or Converted;
- (d) agrees to provide to BNZ any information necessary to give effect to a Conversion and, if applicable, to surrender any certificate relating to Notes on the occurrence of the Conversion;
- (e) acknowledges it has no remedies against BNZ or any other member of the NAB Group on account of a failure by BNZ to procure NAB or a failure by NAB, to issue Ordinary Shares in accordance with *clause 6.1(b)* other than (and subject always to *clause 5.3*) to seek specific performance of the obligation of BNZ in these Terms to procure NAB, and the obligation of NAB in the Coordination Agreement, to issue the Ordinary Shares;
- (f) acknowledges that it has no rights to compensation from, or any other remedies against, BNZ or any other member of the NAB Group if the Notes are Converted or Written Off in accordance with these Terms;
- (g) acknowledges that, upon:
 - (i) the Conversion of Notes held by it; or
 - (ii) the Write Off of Notes held by it in accordance with *clause 5.3(b)*; or
 - (iii) the transfer of Notes to NAGNZ in accordance with *clause 6.1*, it shall cease to have any rights whatsoever under or in relation to those Notes, including (without limitation) on the grounds that there was some irregularity or invalidity in any part of the Conversion or Write Off (as applicable) or that (in the case of a Conversion) an Inability Event or Transfer Failure Event may have subsisted, but without affecting, in the case of (iii) above, the relevant Holder's entitlement to be issued Ordinary Shares under *clause 6.1(b)*; and
- (h) acknowledges that if it creates or permits to subsist any Encumbrance over any Notes, that Encumbrance takes effect subject to the Deed Poll and the Coordination Agreement and the secured party will be taken to have authorised the dealing constituted by Conversion of those Notes for the purposes of section 45(1) of the Personal Property Securities Act 1999.

7 Title and transfer

7.1 Title

Subject to *clause 6.1(a)(i)*, title to a Note passes when details of the transfer are entered in the Register.

7.2 Register conclusive as to ownership

Subject to *clause 6.1(a)(i)*, entries in the Register in relation to a Note constitute conclusive evidence that the person so entered is the absolute owner of the Note subject to correction for fraud or error.

7.3 Effect of entries in the Register

Subject to *clause 6.1(a)(i)*, each entry in the Register in respect of a Note constitutes:

- (a) an irrevocable undertaking by BNZ to the Holder to:

- (i) pay the Issue Price, any interest and any other amount in accordance with these Terms; and
 - (ii) comply with the other Terms of the Note; and
- (b) an entitlement to the other benefits given to the Holder in respect of the Note under these Terms.

7.4 Non-recognition of interests

Except as required by law or directive, subject to *clause 6.1(a)(i)* and as provided in these Terms, BNZ and the Registrar must treat the person whose name is entered in the Register as the holder of a Note as the absolute owner of that Note.

No notice of any trust, Encumbrance or other interest in, or claim to, any Note will be entered in the Register. Neither BNZ nor the Registrar need take notice of any trust, Encumbrance or other interest in, or claim to, any Note, except as ordered by a court of competent jurisdiction or required by law, and no trust, Encumbrance or other interest in, or claim to, any Note will in any way affect any provision of these Terms (including without limitation any transfer of the Note contemplated by this *clause 7*).

This *clause 7.4* applies whether or not a payment has been made when scheduled on a Note and despite any notice of ownership, trust or interest in the Note.

7.5 Joint holders

Where two or more persons are entered in the Register as the joint Holders of a Note, they are taken to hold the Note as joint tenants with rights of survivorship, but the Registrar is not bound to register more than three persons as joint Holders of a Note.

7.6 Transfer

- (a) Without prejudice to *clause 7.6(c)*, a Holder may transfer a Note:
 - (i) while the Note is quoted on the NZX Debt Market, in accordance with the Settlement System operated by NZX; or
 - (ii) by any proper or sufficient instrument of transfer of marketable securities under applicable law.

No transfer of any part of a Holder's holding may, subject to *clauses 5.2* and *5.3*, be effected if such transfer would result in the transferor or the transferee holding or continuing to hold a Non-marketable Parcel of Notes.
- (b) The Registrar must register a transfer of a Note to or by a person who is entitled to make or receive the transfer as a consequence of:
 - (i) death, bankruptcy, liquidation or winding-up of a Holder; or
 - (ii) a vesting order by a court or other body with power to make the order on receiving the evidence that the Registrar or BNZ requires.
- (c) A Note that is Converted automatically is transferred in accordance with *clause 6.1(a)(i)* without any act or consent of the relevant Holder being required.

7.7 Dealings in whole

At all times, the Notes may be held or transferred only in whole Notes.

8 Payments

8.1 Payments to Holders

Each payment in respect of a Note will be made to the person that is recorded in the Register as the Holder of that Note as at the close of business on the Record Date for that payment.

8.2 Payments to accounts

Payments will be made by crediting on the relevant payment date the amount due to a NZ dollar bank account maintained in New Zealand with a financial institution, specified by the Holder to the Registrar by close of business on the Record Date for that payment.

8.3 Uncompleted payments

If:

- (a) a Holder has not notified the Registrar by close of business on the Record Date of a NZ dollar bank account maintained in New Zealand with a financial institution to which payments in respect of the Note may be credited; or
 - (b) the transfer of any amount for payment to the credit of the nominated account does not complete for any reason,
- BNZ will send a notice to the address most recently notified by the Holder advising of the uncompleted payment. In that case, the amount of the uncompleted payment will be held as a deposit in a non-interest bearing, special purpose account maintained by BNZ or the Registrar until the first to occur of the following:
- (i) the Holder nominates a suitable NZ dollar account maintained in New Zealand with a financial institution to which the payment may be credited;
 - (ii) claims may no longer be made in respect of that amount, in which case the monies shall be paid to and be the property of BNZ; or
 - (iii) BNZ becomes entitled or obliged to deal with the amount in accordance with the law relating to unclaimed monies.

No additional interest is payable in respect of any delay in payment.

8.4 Time limit on claims

A claim against BNZ for a payment under a Note is void unless made within 5 years from the date on which payment first became due.

8.5 Rounding

For the purposes of any calculations required under these Terms:

- (a) all percentages resulting from the calculations must be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.);
- (b) all figures must be rounded to four decimal places (with halves being rounded up); and
- (c) all amounts that are due and payable in respect of a Holder's aggregate holding of Notes must be rounded to the nearest cent (with halves being rounded up).

8.6 Joint Holders

A payment to any one joint Holder of a Note will discharge BNZ's liability in respect of the payment.

8.7 No set-off

A Holder does not have any right to set-off any amounts owing to it by BNZ in connection with the Notes against any amount owing by it to BNZ in connection with the Notes or otherwise.

BNZ does not have any right to set-off any amounts owing to it by a Holder against any amount owing by it to the Holder in connection with the Notes.

8.8 Payments subject to law

All payments are subject to applicable law, but without prejudice to the provisions of clause 9.

8.9 Payments on Business Days

If a payment:

- (a) is due on a Note on a day which is not a Business Day, then the due date for payment will be postponed to the next day that is a Business Day; or
- (b) is to be made to an account on a Business Day on which banks are not open for general banking business in the place in which the account is located, then the due date for payment will be the next day on which banks are open for general banking business in that place,

and in either case, the Holder is not entitled to any additional payment in respect of that delay.

9 Taxation

9.1 Withholdings and deductions

All payments in respect of Notes must be made without any withholding or deduction in respect of Taxes, unless the withholding or deduction is required by law or permitted by this clause 9.

9.2 Deductions

- (a) BNZ may deduct from any payment of interest or any other amount payable in accordance with these Terms the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such amount. Deductions of any such Tax will be made at the maximum rates from time to time applicable unless a Holder provides evidence satisfactory to the Registrar that a lesser rate is applicable.
- (b) If any such deduction has been made and the amount of the deduction accounted for by BNZ to the relevant revenue authority and the balance of the interest payable has been paid to the relevant Holder, the full amount payable to such Holder shall be deemed to have been duly paid and satisfied by BNZ.
- (c) If New Zealand non-resident withholding tax ("NRWT") is required to be deducted from payments of interest (or payments deemed by law to be interest):
 - (i) if BNZ is satisfied that the application of the approved issuer levy as defined in section 86F of the Stamp and Cheque Duties Act 1971 (New Zealand) ("AIL") in relation to payments of interest (or payments deemed by law to be interest) to a Holder would result in NRWT applying at the rate of zero per cent., BNZ will not deduct NRWT but will instead apply the AIL regime unless the Holder requests in writing that NRWT be deducted from such interest (or deemed interest) instead of applying the AIL regime. If BNZ applies the AIL regime BNZ will: (A) apply the zero rate under the AIL regime to the extent BNZ is able to do so; and (B) to the extent BNZ is not able to do so, pay AIL. BNZ will pay any such AIL to the appropriate authority and will deduct the amount paid from any payments of interest (or payments deemed by law to be interest) payable to that Holder in lieu of deducting NRWT at the rate otherwise applicable from that payment;
 - (ii) if BNZ does not apply the AIL regime, or if the application of the AIL regime does not result in NRWT applying at the rate of zero per cent, BNZ will deduct NRWT at the rate applicable to that payment.

- (d) New Zealand resident withholding tax ("RWT") will be deducted from payments of interest (or payments deemed to be interest) in respect of which RWT is required by law to be deducted. If RWT would be required to be deducted unless the Holder holds an appropriate exemption certificate, RWT will be deducted unless the appropriate exemption certificate is produced to the Registrar no later than five Business Days before the relevant payment date. In the case of a New Zealand resident deriving the interest jointly with a non-resident, NRWT will be deducted at the RWT rate.
- (e) BNZ shall pay the full amount required to be deducted to the relevant revenue authority within the time allowed for such payment without incurring any penalty under the applicable law and shall, if required by any Holder, deliver to that Holder a copy of any relevant receipt issued by the revenue authority (to the extent issued) without delay after it is received by BNZ.
- (f) A Holder must notify the Registrar of: (i) its country of residence for tax purposes; (ii) if the Holder is not a New Zealand tax resident, whether the Holder is engaged in business in New Zealand through a fixed establishment (as that term is defined in the Tax Act) in New Zealand; and (iii) any other information requested by the Registrar in order to determine the payment or withholding obligations of BNZ. A Holder must also notify the Registrar prior to any Interest Payment Date of any change in circumstances from those previously notified that could affect the payment or withholding obligations of BNZ.
- (g) By accepting payment of any interest or any other amount payable in accordance with these Terms, the Holder indemnifies BNZ for all purposes in respect of any liability BNZ may incur for not deducting any amount from such payment on account of NRWT or RWT.

If, in relation to any Note, BNZ becomes liable to make any payment of or on account of tax payable by the Holder, BNZ is indemnified by the Holder in relation to such liability. Any moneys paid by BNZ in relation to any such liability may be recovered from the Holder as a debt due to BNZ and may be withheld from further payments to that Holder. Nothing in this clause prejudices or affects any other right or remedy of BNZ.

9.3 FATCA

BNZ, in its absolute discretion, may withhold or deduct payments or NAB, in its absolute discretion, may withhold or make deductions from the issue of Ordinary Shares to a Holder where it is required to do so under or in connection with FATCA, or where it has reasonable grounds to suspect that the Holder or a beneficial owner of Notes may be subject to FATCA, and may deal with such payment, any Ordinary Shares withheld or deducted and the Holder's Notes in accordance with FATCA.

BNZ, in its absolute discretion, may require a Holder to provide it and/or NAB with information to determine the applicability of any withholding under or in connection with FATCA. BNZ and/or NAB (as applicable) may provide any such information to the IRS or any other relevant authority.

If any withholding or deduction arises under or in connection with FATCA, BNZ will not be required to pay any further amounts and NAB will not be required to issue any further Ordinary Shares on account of such withholding or deduction or otherwise reimburse or compensate, or make any payment to, a Holder or a beneficial owner of Notes for or in respect of any such withholding or deduction.

10 Events of Default

10.1 Events of Default

An **Event of Default** occurs:

- (a) if either:
 - (i) BNZ does not pay any Issue Price due in respect of the Notes within 7 days of its due date;
 - (ii) BNZ does not pay any interest due in respect of the Notes within 30 days of its due date, (a **Payment Default**); or
- (b) on Commencement of Liquidation.

10.2 Consequences of an Event of Default

If an Event of Default occurs and is continuing:

- (a) in the case of a Payment Default, a Holder may bring proceedings:
 - (i) to recover any amount then due and payable but unpaid on its Notes (subject to BNZ being able to make the payment and remain Solvent);
 - (ii) to obtain an order for specific performance of any other obligation in respect of its Notes; or
 - (iii) for the liquidation of BNZ.

To the extent that a payment is not required to be made because of the solvency condition to payment in clause 2.2, the amount is not due and payable and a Payment Default cannot occur; or

- (b) in the case of a Commencement of Liquidation, in addition to taking any of the actions specified in clause 10.2(a) above, the Holders may resolve by Ordinary Resolution to declare by notice to BNZ (with a copy to the Registrar) that the Issue Price of each Note (together with all interest accrued to the date of payment determined as if the date of payment were an Interest Payment

Date) is payable on a date specified in the notice and, subject to *clause 11*, may prove in the liquidation of BNZ for that amount.

The Holders may not exercise any other remedies (including any right to sue for damages which has the same economic effect as acceleration) as a consequence of an Event of Default or other default other than as specified in this *clause 10.2* or *clause 6.13(e)*.

10.3 Notification

If an Event of Default occurs, BNZ must promptly after becoming aware of it notify the Registrar, the Holders and NZX of the occurrence of the Event of Default (specifying details of it).

11 Subordination

11.1 Acknowledgment

Each Holder, by its subscription for or purchase of a Note, is taken to acknowledge that BNZ's obligations in respect of the Note are subordinated to the payment of the Unsubordinated Debt to Unsubordinated Creditors, in the manner provided in *clause 11.2*.

11.2 Subordination

- (a) In a liquidation of BNZ, a Holder's claim for an amount owing by BNZ in connection with a Note is subordinated to the claims of Unsubordinated Creditors of BNZ, in that:
 - (i) all claims of Unsubordinated Creditors must be paid in full before the Holder's claim is paid; and
 - (ii) until the Unsubordinated Creditors have been paid in full, the Holder must not claim in the liquidation in competition with the Unsubordinated Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Unsubordinated Creditors would have been entitled to receive.
- (b) Each Holder irrevocably acknowledges and agrees that:
 - (i) in accordance with section 313(3) of the Companies Act, it is accepting a lower priority in relation to the debt represented by each Note than that which it would otherwise have under section 313 of the Companies Act; and
 - (ii) nothing in sections 310 or 313 of the Companies Act will prevent these Terms from having effect in accordance with their terms.
- (c) Each Holder must not exercise its voting rights as an unsecured creditor in the liquidation or voluntary administration of BNZ to defeat the subordination in this *clause 11.2*.
- (d) Each Holder irrevocably acknowledges and agrees that the subordination effected by this *clause 11.2* is not affected by any act or omission of BNZ or an Unsubordinated Creditor which might otherwise affect it at law or in equity.
- (e) Each Holder irrevocably acknowledges and agrees that it must pay or deliver to the liquidator any amount or asset received on account of its claim in the liquidation of BNZ in connection with a Note in excess of its entitlement under *clause 11.2(a)* above.
- (f) Nothing in this *clause 11.2* shall be taken to require the consent of any Unsubordinated Creditor to any amendment of this *clause 11.2*.

11.3 Unsecured

The Notes are unsecured.

12 Meetings of Holders

12.1 Meetings

Meetings of Holders may be held in accordance with the Meeting Provisions. A meeting may consider any matter affecting the interests of Holders, including any amendment to the Deed Poll proposed by BNZ in accordance with *clause 13*.

12.2 No voting rights

A Note does not entitle its Holder to vote at a general meeting of BNZ or NAB.

13 Amendment of these Terms and the Coordination Agreement

13.1 Amendments without consent

- (a) Subject to complying with all applicable laws, to *clause 13.1(b)* and to obtaining notice of non-objection from the RBNZ and the prior written approval of APRA where required in accordance with *clause 13.4*, BNZ may without the authority, assent or approval of the Holders, amend the Deed Poll and the Coordination Agreement if BNZ is of the opinion that the amendment:
 - (i) is of a formal, minor or technical nature;
 - (ii) is made to cure any ambiguity or correct any manifest error;
 - (iii) is necessary or expedient for the purpose of enabling the Notes to be listed or to remain listed on a stock exchange or lodged in a clearing system or to remain lodged in a clearing system or to be offered for sale or for subscription under the laws for the time being in force in any place;

- (iv) is necessary or expedient for the purpose of complying with the provisions of any statute, the requirements of any statutory authority, NZX Listing Rules or the listing or quotation requirements of any securities exchange on which BNZ may propose to seek a listing or quotation of the Notes;
- (v) is necessary and appropriate to effect the substitution under *clause 14*;
- (vi) is made to amend any date or time period stated, required or permitted in connection with any Conversion or Redemption (including, without limitation, when the proceeds of Redemption are to be reinvested in a new security to be issued by BNZ or a member of the NAB Group);
- (vii) is made to:
 - (A) amend the terms of the Notes to align them with any relevant class of capital instruments issued on or after the Issue Date; or
 - (B) amend the definition of Relevant Tier 2 Capital Instruments on account of the issue after the Issue Date of capital instruments by any member of the NAB Group; or
- (viii) is not materially prejudicial to the interests of Holders as a whole.

For the purposes of determining whether the amendment is not materially prejudicial to the interests of Holders as a whole, the taxation and regulatory capital consequences to Holders (or any class of Holders) and other special consequences which are personal to a Holder (or any class of Holders) do not need to be taken into account.

- (b) If BNZ reasonably considers that the amendment will be materially prejudicial to the interests of Holders as a whole, the amendment may only be made if it has been approved by a Special Resolution and subject to obtaining notice of non-objection from the RBNZ and the prior written approval of APRA where required in accordance with *clause 13.4*. In considering the rights of Holders as a whole BNZ need not take into account the taxation and regulatory capital consequences to Holders (or any class of Holders) or other special consequences which are personal to a Holder (or any class of Holders).

13.2 Amendment with consent

Without limiting *clause 13.1*, BNZ may amend or add to the Deed Poll and the Coordination Agreement if the amendment or addition has been approved by a Special Resolution and subject to obtaining notice of non-objection from the RBNZ and the prior written approval of APRA where required in accordance with *clause 13.4*.

13.3 Notification of amendment to the RBNZ and APRA

BNZ will promptly notify the RBNZ and APRA of any amendments made in accordance with this *clause 13*.

13.4 Requirement for RBNZ notice of non-objection and APRA approval

No amendment to the Deed Poll or the Coordination Agreement is permitted if such amendment may affect the eligibility of the Notes as Tier 2 Capital for BNZ or for the NAB Group on a Level 2 or (if applicable) Level 3 basis unless, prior to the amendment being made, the RBNZ has not objected to the amendment and the written approval of APRA has been obtained.

13.5 Meaning of amend and amendment

In this *clause 13*, **amend** includes modify, cancel, alter or add to and **amendment** has a corresponding meaning.

14 Substitution

14.1 Substitution of Approved NOHC as issuer of Ordinary Shares

Where:

- (a) BNZ proposes to substitute an Approved NOHC as issuer of the Ordinary Shares on Conversion; and
- (b) the Approved NOHC agrees for the benefit of Holders:
 - (i) to deliver fully paid ordinary shares in its capital under all circumstances when NAB would otherwise have been required to deliver Ordinary Shares on a Conversion, subject to the same terms and conditions as set out in these Terms and the Coordination Agreement (with all necessary modifications); and
 - (ii) to use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure quotation of all ordinary shares in the capital of the Approved NOHC issued under these Terms and the Coordination Agreement (with all necessary modifications) on the securities exchange on which the other ordinary shares in the capital of the NOHC are quoted at the time of a Conversion; and
- (c) the Approved NOHC agrees to subscribe immediately for Ordinary Shares in such amount as may be necessary, or to take other steps acceptable to APRA to ensure the capital position of the NAB Level 2 Group will not be adversely affected,

BNZ may give a notice (an **Approved NOHC Substitution Notice**) to the Holders (which, if given, must be given as soon as practicable before the NOHC Event and in any event no later than 10 Business Days before the NOHC Event occurs) specifying the amendments to these Terms and the Coordination Agreement which will be made in accordance with *clause 14.2* to effect the substitution of an Approved NOHC as the issuer of ordinary shares on Conversion (the **Approved NOHC Substitution Terms**). An Approved NOHC Substitution Notice, once given, is irrevocable. If BNZ gives an Approved NOHC Substitution Notice to Holders in accordance with *clause 14.4*, the Approved NOHC Substitution Terms will have effect on and from the date specified in the Approved NOHC Substitution Notice.

14.2 Amendment without consent for substitution of an Approved NOHC

Subject to complying with all applicable laws and obtaining a notice of non-objection from the RBNZ and the prior written approval of APRA, if the circumstances described in *clauses 14.1(a)*, *14.1(b)* and *14.1(c)* apply, without the authority, assent or approval of Holders, BNZ may give an Approved NOHC Substitution Notice which:

- (a) amends the definition of 'Conversion' such that, unless the RBNZ otherwise allows or APRA otherwise agrees, on the date Notes are to be Converted, each Holder will be issued a number of ordinary shares in the capital of the Approved NOHC equal to the Conversion Number instead of Ordinary Shares; and
- (b) makes such other amendments as in BNZ's reasonable opinion are necessary and appropriate to effect the substitution of an Approved NOHC as the provider of the ordinary shares on Conversion in the manner contemplated by these Terms, including without limitation:
 - (i) amendments and additions to the definition of 'Conversion Obligations', 'NAB Group', 'Non-Viability Trigger Event', 'Ordinary Shares', 'Regulatory Event' and 'Tax Event';
 - (ii) amendments to the mechanics for adjusting the Conversion Number;
 - (iii) any term defining the rights of Holders if the Conversion is not effected which is appropriate for the Notes to remain as Tier 2 Capital of BNZ and the NAB Level 2 Group; and
 - (iv) if BNZ ceases to be a direct or indirect subsidiary of NAB or ceases to be a member of the NAB Level 2 Group in connection with or following a NOHC Event, such amendments to reflect that change, including, without limitation, to *clause 5*; and
- (c) makes such amendments to the Coordination Agreement as in BNZ's reasonable opinion are necessary and appropriate:
 - (i) to effect the substitution of an Approved NOHC as the provider of the ordinary shares on Conversion in the manner contemplated by these Terms; and
 - (ii) if the Approved NOHC is not part of the NAB Level 2 Group, to ensure that upon Conversion there is an increase in the Common Equity Tier 1 Capital of the NAB Level 2 Group equal to the aggregate Issue Price of the Notes Converted.

14.3 Further substitutions

After a substitution under *clause 14.1*, the Approved NOHC may, without the consent of the Holders, effect a further substitution in accordance with *clause 14.1* (with necessary changes).

14.4 Notice to Holders

BNZ or the Approved NOHC must notify the Registrar, NZX and the Holders of the particulars of any substitution according to *clause 14.1* or *clause 14.3* in writing as soon as practicable after the substitution.

14.5 Acknowledgement of Holders

Each Holder irrevocably acknowledges and agrees that an Approved NOHC may in accordance with these Terms be substituted for NAB as issuer of the Ordinary Shares on Conversion and that if such a substitution is effected, the Holder is obliged to accept ordinary shares in that Approved NOHC on a Conversion, and will not receive Ordinary Shares in NAB.

15 Further issues and no other rights

15.1 Further issues

Without limiting any other provision of these Terms, each of the following is expressly permitted and authorised by these Terms and does not affect, or constitute a modification or variation of, the rights or privileges attaching to the Notes then on issue:

- (a) the issue of securities of any kind, or the conversion of existing securities into securities of any kind ranking equally with or in priority to, or having different rights from, the Notes;
- (b) a redemption, buy-back or return or distribution of capital in respect of any share capital of BNZ; and
- (c) the Conversion or Write Off of Notes.

15.2 No other rights

A Holder of the Notes has:

- (a) no right to participate in the issue of any other securities of BNZ; and
- (b) no right to vote at any meeting of members of BNZ or NAB.

16 Notices

16.1 Notices to Holders

All notices, certificates, consents, approvals, waivers and other communications in connection with a Note to the Holders must be in writing and may be:

- (a) so long as the Notes are quoted on the NZX Debt Market, by publication of an announcement on NZX;
- (b) given by an advertisement published in the Dominion Post or the New Zealand Herald, or any other newspaper nationally circulated within New Zealand; or
- (c) sent by prepaid post (airmail if appropriate) or left at the address of the relevant Holder (as shown in the Register at the close of business on the day which is 3 Business Days before the date of the relevant notice or communication).

16.2 Notices to BNZ and the Registrar

All notices, and other communications to BNZ and the Registrar must be in writing and may be sent by prepaid post or left at the address of the registered office of BNZ or the Registrar or such other address as is notified to Holders from time to time.

16.3 When effective

Communications take effect from the time they are received or taken to be received (whichever happens first) unless a later time is specified in them.

16.4 Receipt - publication on NZX

If published by an announcement on NZX, communications are taken to be received when the announcement is made on NZX.

16.5 Receipt - publication in newspaper

If published in a newspaper, communications are taken to be received on the first date that publication has been made in all the required newspapers.

16.6 Receipt - postal

Unless a later time is specified in it, a notice, if sent by post, is taken to be received on the next succeeding Business Day in the place of the addressee.

16.7 Non-receipt of notice

If there are two or more Holders, the non-receipt of any notice by, or the accidental omission to give any notice to, a Holder does not invalidate the giving of that notice.

16.8 Notification of a Non-Viability Trigger Event

Nothing in this *clause 16* applies to the notification of a Non-Viability Trigger Event by the RBNZ or the statutory manager of BNZ.

17 Governing law and jurisdiction

17.1 Governing law

The Notes are governed by and shall be construed in accordance with the laws of New Zealand other than *clauses 5*, *6* and *14*, which shall be governed by and shall be construed in accordance with the laws of Victoria, Australia.

17.2 Jurisdiction

- (a) BNZ has irrevocably agreed, and each Holder is taken to have irrevocably agreed, that the courts of New Zealand are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and accordingly BNZ has submitted, and each Holder is taken to have submitted, to the non-exclusive jurisdiction of the courts of New Zealand and BNZ waives, and each Holder is taken to have waived, any objection to the courts of New Zealand on the grounds that they are an inconvenient or inappropriate forum.
- (b) In addition, BNZ has irrevocably agreed, and each Holder is taken to have irrevocably agreed, that the courts of the State of Victoria, Australia are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with *clauses 5*, *6* and *14* and accordingly BNZ has submitted, and each Holder is taken to have submitted, to the non-exclusive jurisdiction of the courts of the State of Victoria, Australia in respect of any such disputes and BNZ waives, and each Holder is taken to have waived, any objection to the courts of the State of Victoria, Australia on the grounds that they are an inconvenient forum.

17.3 Service of process

- (a) BNZ agrees that process in respect of legal action or proceeding arising out of or in connection with the Notes in New Zealand may be served at the principal office of BNZ, which, as at the Issue Date is located at Level 4, 80 Queen Street, Auckland 1010, New Zealand.
- (b) BNZ agrees that process in respect of any legal action or proceeding arising out of or in connection with the Notes in the

State of Victoria, Australia may be served at the principal office of NAB, which, as at the Issue Date is located at Level 1, 800 Bourke Street, Docklands, Victoria 3008, Australia.

- (c) Nothing in these Terms affects the right to serve process in any other manner permitted by law.

18 Contracts (Privity) Act and Exemption Notice

18.1 Contracts (Privity) Act

- (a) *Clauses 13.1 and 13.2* are intended to confer a benefit on, and may be enforced by, NAB under the Contracts (Privity) Act 1982 (New Zealand).
- (b) BNZ declares that it holds the benefit of *clauses 6.1(a)(i) and 6.13* on trust for itself, NAB and NAGNZ, with the intent that each of NAB and NAGNZ has the benefit of, and be entitled to enforce, these provisions as if named as a party to the Deed Poll.
- (c) *Clause 2.5* is intended to confer a benefit on, and may be enforced by, each Manager and the Registrar under the Contracts (Privity) Act 1982 (New Zealand).

18.2 Exemption Notice

BNZ will, both before and after the Exemption Notice is revoked:

- (a) comply with the condition in *clause 6(1)(e)* of the Exemption Notice;
- (b) use reasonable endeavours to ensure NAB or, if an Approved NOHC Substitution Notice is given in accordance with *clause 14.1*, the Approved NOHC, complies with the condition in *clause 6(1)(f)* of the Exemption Notice;
- (c) comply with the conditions in *clause 6(1)(g)-(i)* of the Exemption Notice to the extent the conditions relate to matters within the control of BNZ; and
- (d) use reasonable endeavours to ensure NAB, or, if an Approved NOHC Substitution Notice is given in accordance with *clause 14.1*, the Approved NOHC, complies with the conditions in *clause 6(1)(g)-(i)* of the Exemption Notice to the extent that the conditions relate to matters within the control of NAB or the Approved NOHC (as applicable).

19 Power of attorney

- (a) Each Holder appoints each of BNZ, its Authorised Officers and any External Administrator of BNZ (each an **Attorney**) severally to be the attorney of the Holder with power in the name and on behalf of the Holder to sign all documents and transfers and do any other thing as may in the Attorney's opinion be necessary or desirable to be done in order for the Holder to observe or perform the Holder's obligations under these Terms including, but not limited to, effecting any transfers of Notes, making any entry in the Register or the register of any Ordinary Shares or exercising any voting power in relation to any consent or approval required for Conversion or Redemption.
- (b) The power of attorney given in this *clause 19* is given for valuable consideration and to secure the performance by the Holder of the Holder's obligations under these Terms and is irrevocable.

20 Interpretation and definitions

20.1 Definitions

5 Year Swap Rate has the meaning given in *clause 3.3*.

Adjustment Notice has the meaning given in *clause 6.8*.

AIL has the meaning given in *clause 9.2(c)(i)*.

Approved NOHC means a NOHC of the NAB Group arising from a NOHC Event.

Approved NOHC Substitution Notice has the meaning given in *clause 14.1*.

Approved NOHC Substitution Terms has the meaning given in *clause 14.1*.

APRA means the Australian Prudential Regulation Authority or any authority succeeding to its powers and responsibilities.

ASX means ASX Limited (ABN 98 008 624 691) or the securities market operated by it, as the context requires, or any successor.

ASX Listing Rules means the listing rules of ASX as amended, varied or waived (whether in respect of NAB or generally) from time to time.

ASX Operating Rules means the market operating rules of ASX as amended, varied or waived (whether in respect of NAB or generally) from time to time.

Attorney has the meaning given in *clause 19(a)*.

Attributable Proceeds means, in respect of a Holder to whom *clause 6.10* or *6.12* applies, an amount equal to the Net Proceeds per Ordinary Share multiplied by the number of Ordinary Shares sold in accordance with *clause 6.10* or *6.12* (as applicable) in respect of that Holder.

Authorised Officers means each director and officer of BNZ and any person delegated on the authority of the board of directors of BNZ to exercise the power of attorney conferred by *clause 19*.

Banking Act means the Banking Act 1959 (Commonwealth of Australia).

Base Conversion Number has the meaning given in *clause 6.1(b)*.

BNZ means Bank of New Zealand.

BNZ Group means BNZ (as reporting entity) and all other entities included in the group (as defined in section 5(1) of the Financial Reporting Act 2013 (New Zealand)).

BNZ Notes has the meaning given in *clause 1.1*.

Bookbuild means the process conducted by BNZ or its agents before the opening of the Offer whereby certain institutional investors and brokers lodge bids for Notes and, on the basis of those bids, BNZ determines the Margin and announces its determination on NZX before the opening of the Offer.

Bookbuild Date means 20 November 2015, being the date on which the Bookbuild occurs.

Broken Interest Period means an Interest Period that either ends on (and excludes) or commences on (and includes) a date described in *clause 3.2(b)*.

Business Day means:

- (a) for the purposes of giving notices and *clause 5.3*, a day which is a business day within the meaning of the NZX Listing Rules; or
- (b) for the purposes of determining a Redemption Date or a Record Date and the calculation or payment of an Interest Payment, a day on which banks are open for general business in Wellington and Auckland, New Zealand; or
- (c) for the purposes of the definitions of 'Issue Date VWAP' and 'VWAP Period' and *clauses 6.2* and *6.6*, a day which is a business day within the meaning of the ASX Listing Rules.

Commencement of Liquidation means the commencement of liquidation of BNZ under:

- (a) section 241(5) or section 317 of the Companies Act; or
- (b) under any other legislation under which BNZ will irrevocably cease to be duly incorporated or to validly exist in New Zealand.

Common Equity Tier 1 Capital has:

- (a) in respect of the BNZ Group, the meaning given by the RBNZ from time to time; and
- (b) in respect of the NAB Level 2 Group, the meaning given by APRA from time to time.

Common Equity Tier 1 Ratio means:

- (a) in respect of the BNZ Group, the ratio of Common Equity Tier 1 Capital to risk weighted assets of BNZ as calculated by the methodology prescribed by the RBNZ from time to time; and
- (b) in respect of the NAB Level 2 Group, the ratio of Common Equity Tier 1 Capital of the NAB Level 2 Group to risk weighted assets of the NAB Level 2 Group as calculated by the methodology prescribed by APRA from time to time.

Companies Act means the Companies Act 1993 (New Zealand).

Constitution means the constitution of NAB as amended from time to time.

Control has the meaning given in the Corporations Act.

Controlled Entity means, in respect of NAB (or any NOHC that is the holding company of NAB), an entity that NAB (or such NOHC) Controls.

Conversion means, in relation to a Note:

- (a) the transfer of the Note to NAGNZ in accordance with *clause 6.1(a)*; and
- (b) the issue and allotment of Ordinary Shares to the relevant Holder in accordance with the Coordination Agreement,

and **Convert**, **Converting** and **Converted** have corresponding meanings.

Conversion Number has the meaning given in *clause 6.1(b)*.

Conversion Obligations means the obligation to deliver Ordinary Shares to a Holder upon Conversion of a Note in accordance with these Terms and the Coordination Agreement.

Coordination Agreement means the agreement dated 11 November 2015 between BNZ, NAB, NAGNZ and NEL.

Corporations Act means the Corporations Act 2001 of Australia.

Cum Value has the meaning given in *clause 6.2*.

Deed Poll means the deed poll relating to the Notes made by BNZ on 11 November 2015 including these Terms as schedule 1 thereto.

Directors means the directors of BNZ or, as the case may be, NAB acting as a board or an authorised committee of the board.

Encumbrance means any mortgage, pledge, charge, lien, assignment by way of security, hypothecation, security interest, title retention, preferential right or trust arrangement, any other security agreement or security arrangement (including any security interest under the Personal Property Securities Act 1999 (New Zealand)) and any other arrangement of any kind having the same effect as any of the foregoing.

Equal Ranking Instruments means all securities which qualify as Tier 2 Capital or which rank or are expressed to rank equally with such securities in a liquidation of BNZ, present and future.

Exchange Rate means, for the purposes of calculating:

- (a) NZD-VWAP on the Trigger Event Conversion Date, the spot A dollar/NZ dollar exchange rate (rounded to 4 decimal places) determined by BNZ in good faith, having regard to the latest available market data, as soon as practicable after it becomes aware of the Non-Viability Trigger Event; and

- (b) NZD-Issue Date VWAP, a simple average (rounded to 4 decimal places) of the spot A dollar/NZ dollar exchange rate quoted by 2 or more independent market makers in that exchange rate selected by BNZ at approximately 10am (New Zealand time) on the Issue Date.

Event of Default has the meaning given in *clause 10.1*.

Exemption Notice means the Securities Act (Banks' Regulatory Capital) Exemption Notice 2014.

External Administrator means, in respect of a person:

- (a) a liquidator, a provisional liquidator, an administrator or a statutory manager of that person; or
- (b) a receiver, or a receiver and manager, in respect of all or substantially all of the assets and undertakings of that person, or in either case any similar official.

FATCA means Sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended ('the Code') (or any consolidation, amendment, re-enactment or replacement of those sections and including any current or future regulations or official interpretations issued, agreements entered into pursuant to Section 1471(b) of the Code or non-US laws enacted or regulations or practices adopted pursuant to any intergovernmental agreement in connection with the implementation of those sections).

Foreign Holder means a Holder whose address in the Register is a place outside Australia or New Zealand or who NAB otherwise believes may not be a resident of Australia or New Zealand.

Government Agency means any governmental, semi-governmental, administrative, fiscal, judicial or quasi-judicial body, department, commission, authority, tribunal, agency or entity.

Holder means a person for the time being Registered as the holder of a Note.

Inability Event means NAB is prevented by applicable law or order of any court or action of any Government Agency (including regarding the insolvency, winding up or other external administration of NAB) or any other reason from issuing Ordinary Shares to the relevant Holder or the Nominee (as applicable) in accordance with these Terms.

Interest Payment Date has the meaning given in *clause 3.2*.

Interest Period means each period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date. However, in respect of each Note:

- (a) the first Interest Period commences on (and includes) the Issue Date; and
- (b) the final Interest Period ends on (but excludes) the first to occur of the Maturity Date and the Redemption Date.

Interest Rate has the meaning given in *clause 3.3*.

Investment Statement means the investment statement for the Offer including these Terms.

IRS means the United States Inland Revenue Service or any authority succeeding to its powers and responsibilities.

Issue Date means the date on which the Notes are issued.

Issue Date VWAP means the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the first date on which any Notes were issued, as adjusted in accordance with *clauses 6.4* to *6.7* (inclusive).

Issue Price has the meaning given in *clause 1.2*.

Junior Ranking Instruments means:

- (a) all securities which qualify as Tier 1 Capital or which rank or are expressed to rank equally with such securities in a liquidation of BNZ, present or future; and
- (b) all shares of BNZ (including ordinary and preference shares), present and future, other than shares issued as Tier 2 Capital.

Level 1, Level 2 and Level 3 mean those terms as defined by APRA from time to time.

Manager means each person named as arranger, joint lead manager or co-manager in the Investment Statement.

Margin has the meaning given in *clause 3.3*.

Maturity Date means 17 December 2025.

Maximum Conversion Number has the meaning given in *clause 6.1(b)*.

Meeting Provisions means the provisions for the convening of meetings of, and passing of resolutions by, Holders set out in schedule 2 of the Deed Poll.

NAB means National Australia Bank Limited (ABN 12 004 044 937).

NAB Group means NAB (or any NOHC that is the holding company of NAB) and its Controlled Entities.

NAB Level 1 Group means NAB and those of its controlled entities included by APRA from time to time in the calculation of NAB's Prudential Capital Requirement and Tier 1 Capital Ratio on a Level 1 basis.

NAB Level 2 Group means NAB and together with each other Related Entity included by APRA from time to time in the calculation of NAB's Prudential Capital Requirement and Tier 1 Capital Ratio on a Level 2 basis.

NAGNZ means National Australia Group (NZ) Limited.

NEL means National Equities Limited (ABN 77 004 956 549).

Net Proceeds per Ordinary Share means, in respect of Ordinary Shares issued and sold in accordance with *clause 6.10* or *6.12* (as applicable), an amount equal to the proceeds of sale of such Ordinary Shares actually received by the Nominee after deduction of any applicable brokerage, stamp duty and other taxes, charges and expenses (including the Nominee's reasonable out of pocket costs, expenses and charges properly incurred by it or on its behalf in connection with such sale from the sale price of the Ordinary Shares), divided by the number of such Ordinary Shares issued and sold.

NOHC means a 'non-operating holding company' within the meaning of the Banking Act.

NOHC Event means an event which is initiated by the Directors of NAB and the result of which is that the ultimate holding company of NAB would be a NOHC.

Nominee means a nominee to whom Ordinary Shares are issued in accordance with *clause 6.10* or *clause 6.12*.

Non-Viability Trigger Event has the meaning given in *clause 5.1(a)*.

Non-marketable Parcel of Notes means a parcel of Notes registered in the same name or same joint names which has an aggregate Issue Price of less than NZ\$5,000 or not in multiples having an aggregate Issue Price of NZ\$1,000.

NRWT has the meaning given in *clause 9.2(c)*.

NZD Equivalent means, in relation to an amount denominated in A dollars, the NZ dollar equivalent of the amount determined in accordance with the following formula:

NZ dollar equivalent = A dollar amount x Exchange Rate.

NZD-Issue Date VWAP (expressed in NZ dollars and NZ cents) means the NZD Equivalent of Issue Date VWAP.

NZD-VWAP (expressed in NZ dollars and NZ cents) means the NZD Equivalent of VWAP.

NZX means NZX Limited, and includes any person or authority which may in the future assume and perform the functions of NZX Limited.

NZX Debt Market means the debt market operated from time to time by NZX.

NZX Listing Rules means the listing rules of NZX, as amended, varied or waived (whether in respect of BNZ or generally) from time to time.

Offer means the invitation made under the Investment Statement by BNZ for persons to subscribe for Notes and NAB to issue Ordinary Shares upon Conversion.

Opening Date means 23 November 2015.

Optional Redemption Date means 17 December 2020.

Ordinary Resolution means a resolution passed at a meeting of Holders by a majority of at least 50% of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution.

Ordinary Share means a fully paid ordinary share in the capital of NAB.

Payment Default has the meaning given in *clause 10.1(a)(ii)*.

Prudential Capital Requirements means at any time the requirements of APRA with respect to the ratio of Common Equity Tier 1 Capital, Tier 1 Capital or Total Capital to total risk weighted assets as applicable to NAB or the NAB Group at that time.

RBNZ means the Reserve Bank of New Zealand or any successor body responsible for prudential regulation of BNZ in New Zealand.

RBNZ Act means the Reserve Bank of New Zealand Act 1989 (New Zealand).

Record Date means, in the case of:

- (a) payments of interest, the date which is 10 calendar days before the Interest Payment Date (or as otherwise prescribed by the NZX Listing Rules or if not prescribed by the NZX Listing Rules, a date determined by BNZ and notified to NZX); and
- (b) payments of any other amount, a date determined by BNZ and notified to NZX (or such other date as may be prescribed by NZX).

For the purposes of determining the Record Date for an Interest Payment Date the Business Day convention in *clause 3.2* shall be disregarded.

Redemption means, in relation to a Note, subject to amendment in accordance with *clause 13.1(a)(vi)*, the redemption of the Note in accordance with these Terms and **Redeem**, **Redeemable** and **Redeemed** have corresponding meanings.

Redemption Date means the date on which Notes are to be redeemed or, if Notes are not redeemed on that day, the date on which the Notes are Redeemed.

Register means a register of Holders of Notes established and maintained by the Registrar. The term Register includes:

- (a) any sub-register maintained by, or on behalf of BNZ under the NZX Listing Rules; and
- (b) any branch register, provided that, in the event of any inconsistency, the principal register will prevail over any sub-register or branch register.

Registered means recorded in the Register.

Registrar means Computershare Investor Services Limited or any other person who from time to time maintains the Register on behalf of BNZ.

Regulatory Change means any amendment to, clarification of

or change (including any announcement of a change that will be introduced) in or to:

- (a) any law or regulation in Australia or New Zealand;
- (b) any official administrative pronouncement or action or judicial decision interpreting or applying any law or regulation in Australia or New Zealand; or
- (c) any order, direction, standard, requirement, guideline or statement of APRA or the RBNZ (whether or not having the force of law),

in each case which event is not minor and is announced on or after the Issue Date and which BNZ did not expect at the Issue Date.

Regulatory Event means:

- (a) the receipt by the Directors of BNZ of an opinion from a reputable legal counsel that, as a result of a Regulatory Change, additional requirements would be imposed on BNZ in relation to or in connection with Notes which the Directors determine, in their absolute discretion, to be unacceptable;
- (b) the determination by the Directors of BNZ that, as a result of a Regulatory Change, BNZ is not or will not be entitled to treat some or all Notes as Tier 2 Capital;
- (c) the receipt by the Directors of BNZ of an opinion from a reputable legal counsel that, as a result of a Regulatory Change, additional requirements would be imposed on NAB in relation to or in connection with the Notes or the Conversion of the Notes which the Directors determine, in their absolute discretion, to be unacceptable; or
- (d) the determination by the Directors of BNZ after having consulted with NAB that, as a result of a Regulatory Change, NAB is not or will not be entitled to treat some or all Notes as Tier 2 Capital for the NAB Level 2 Group.

Related Entity has the meaning given to it by APRA from time to time.

Relevant Tier 1 Capital Instruments means:

- (a) in relation to BNZ, a Tier 1 Capital instrument of BNZ; and
- (b) in relation to NAB, an instrument constituting Tier 1 Capital of the NAB Level 2 Group (whether issued by NAB or any other member of the NAB Level 2 Group),

in each case that, in accordance with its terms or by operation of law, is capable of being converted into ordinary shares of BNZ or NAB (as applicable) or written off if a Non-Viability Trigger Event occurs.

Relevant Tier 2 Capital Instruments means:

- (a) in relation to BNZ, a Tier 2 Capital instrument of BNZ; and
- (b) in relation to NAB, an instrument constituting Tier 2 Capital of the NAB Level 2 Group (whether issued by NAB or any other member of the NAB Level 2 Group),

in each case that, in accordance with its terms or by operation of law, is capable of being converted into ordinary shares of BNZ or NAB (as applicable) or written off if a Non-Viability Trigger Event occurs.

Reorganisation means, in relation to NAB, a division, consolidation or reclassification of NAB's share capital not involving any cash payment or other compensation to or by the holders of Ordinary Shares.

RWT has the meaning given in *clause 9.2(d)*.

Scheduled Interest Payment Date has the meaning given in *clause 3.2*.

Solvent means satisfying the solvency test contained in section 4 of the Companies Act.

Special Resolution means a resolution passed at a meeting of Holders by a majority of at least 75% of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution.

Tax Act means the Income Tax Act 2007 (New Zealand).

Taxes means taxes, levies, imposts, deductions, charges or withholdings and duties (including stamp and transaction duties) imposed by any authority together with any related interest, penalties and expenses in connection with them.

Tax Event means a determination by BNZ (after having consulted with NAB in the case of a change that has affected or will affect NAB) that:

- (a) there has been, or there will be, a change in New Zealand or Australian law, regulation, ruling or directive (including by way of the imposition of, or any change to, any New Zealand or Australian law, ruling or directive) that applies, or is to apply, after the Issue Date;
- (b) there has been, or there will be, a change in the application, interpretation or administration of any New Zealand or Australian law, regulation, ruling or directive by any authority (including the New Zealand Inland Revenue or the Australian Taxation Office) that applies, or is to apply, after the Issue Date; or
- (c) any member of the NAB Group is or will be required to comply with any change in New Zealand or Australian law, regulation, ruling or directive or changed application, interpretation or administration that applies, or is to apply, after the Issue Date,

which directly or indirectly affects the taxation treatment in relation to the Notes, provided such event is not minor and which BNZ did not expect when the Notes were issued.

Terms means these terms of issue of Notes.

Tier 1 Capital means either:

- (a) the tier 1 capital of BNZ as defined by the RBNZ from time to time; or
- (b) the tier 1 capital of the NAB Level 2 Group (or, if applicable, the NAB Group on a Level 3 basis) as defined by APRA from time to time.

Tier 1 Capital Ratio means at any time the ratio as defined by either the RBNZ or, as applicable, APRA.

Tier 2 Capital means:

- (a) the tier 2 capital of BNZ as defined by the RBNZ from time to time; or
- (b) the tier 2 capital of the NAB Level 2 Group (or, if applicable, the NAB Group on a Level 3 basis) as defined by APRA from time to time.

Total Capital means:

- (a) the total capital of BNZ as defined by the RBNZ from time to time; or
- (b) the total capital of the NAB Level 2 Group (or, if applicable, the NAB Group on a Level 3 basis) as defined by APRA from time to time.

Transfer Failure Event means, in relation to a Note, as a consequence of applicable law or order of any court or action of any government authority (including regarding the insolvency, liquidation, bankruptcy or other external administration of the relevant Holder or NAGNZ) or any other reason, the transfer of the Note to NAGNZ in accordance with *clause 6.1(a)(i)* does not occur.

Trigger Event Conversion Date has the meaning given in *clause 5.2(a)*.

Trigger Event Notice has the meaning given in *clause 5.5*.

Unsubordinated Creditor means a creditor (including a depositor) of BNZ to whom BNZ is indebted in respect of Unsubordinated Debt.

Unsubordinated Debt means all present and future claims against BNZ (including but not limited to claims of all depositors of BNZ) which:

- (a) would be entitled to be admitted in the liquidation of BNZ; and
- (b) do not rank and are not by their terms expressed to rank equally with, or behind, the claims of the Holders.

VWAP means, subject to any adjustments under *clause 6*, the average of the daily volume weighted average sale prices (such average being rounded to the nearest full cent) of Ordinary Shares sold on ASX:

- (a) for the purposes of applying the Conversion Number formula in *clause 6.1(b)*, during the applicable VWAP Period; or
- (b) for any other purpose, during the relevant period or on the relevant days as specified in these Terms,

but does not include any 'Crossing' transacted outside the 'Open Session State' or any 'Special Crossing' transacted at any time, each as defined in the ASX Operating Rules, or any overseas trades or trades pursuant to the exercise of options over Ordinary Shares.

VWAP Period means:

- (a) in the case of a Conversion, the period of 5 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Trigger Event Conversion Date; or
- (b) otherwise, the period for which VWAP is to be calculated in accordance with these Terms.

Written Off has the meaning given in *clause 5.3* and **Write Off** has a corresponding meaning.

20.2 Interpretation

- (a) Unless otherwise specified, a reference to a clause or paragraph is a reference to a clause or paragraph of these Terms.
- (b) Headings and boldings are for convenience only and do not affect the interpretation of these Terms.
- (c) The singular includes the plural and vice versa.
- (d) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (e) Unless otherwise specified in these Terms and, without limitation, other than in relation to a Non-Viability Trigger Event and a Conversion on a Non-Viability Trigger Event Date, if an event under these Terms must occur on a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day or, if that day would fall in the next calendar month, the preceding Business Day.
- (f) A reference to NZ dollars, NZ\$ or NZ cents is a reference to the lawful currency of New Zealand; and a reference to A dollars, AUD, A\$ or A cents is a reference to the lawful currency of Australia.
- (g) Calculations, elections and determinations made by or on behalf of BNZ under these Terms are binding on Holders in the absence of manifest error.
- (h) Any provisions which refer to the requirements of the RBNZ or any other prudential regulatory requirements will apply to BNZ only if BNZ is an entity, or the holding company of an entity, subject to regulation and supervision by the RBNZ at the relevant time.

- (i) Any provisions which refer to the requirements of APRA or any other prudential regulatory requirements will apply only if NAB is an entity, or the holding company of an entity, or is a direct or indirect subsidiary of an entity (including a NOHC), subject to regulation and supervision by APRA at the relevant time.
- (j) Any provisions which require the RBNZ's or APRA's consent, approval or non-objection will apply only if the RBNZ or APRA requires that such consent, approval or non-objection be given at the relevant time.
- (k) Any provisions in these Terms requiring the prior consent, approval or non-objection of the RBNZ or APRA for a particular course of action to be taken do not imply that the RBNZ or APRA has given its consent, approval or non-objection to the particular action as of the Issue Date. Where under these Terms, RBNZ or APRA approval is required, for any act to be done or not done, that term does not imply that RBNZ or APRA consent, approval or non-objection has been given as at the Issue Date.
- (l) The terms 'holding company' and 'subsidiary', when used in these Terms have the meaning given in the Companies Act.
- (m) A reference to a party to an agreement or deed includes a reference to a replacement or substitute of the party according to that agreement or deed.
- (n) A reference to an agreement or deed includes a reference to that agreement or deed as amended, added to or restated from time to time.
- (o) The words 'includes' or 'including', 'for example' or 'such as' do not exclude a reference to other items, whether of the same class or genus or not.
- (p) Words importing any gender include all other genders.
- (q) A reference to any term defined by the RBNZ (including, without limitation, 'Tier 2 Capital' and 'Tier 2 Capital Ratio') shall, if that term is replaced or superseded in any of the RBNZ's applicable prudential regulatory requirements or standards, be taken to be a reference to the replacement or equivalent term.
- (r) A reference to any term defined by APRA (including, without limitation, 'Level 1', 'Level 2', 'Prudential Capital Requirements', 'Tier 2 Capital' and 'Total Capital') shall, if that term is replaced or superseded in any of APRA's applicable prudential regulatory requirements or standards, be taken to be a reference to the replacement or equivalent term.
- (s) A reference to a term defined by the NZX Listing Rules, the ASX Listing Rules or the ASX Operating Rules shall, if that term is replaced in those rules, be taken to be a reference to the replacement term.
- (t) If the principal securities exchange on which Ordinary Shares are listed becomes other than ASX, unless the context otherwise requires a reference to ASX shall be read as a reference to that principal securities exchange and a reference to the ASX Listing Rules, ASX Operating Rules or any term defined in any such rules, shall be read as a reference to the corresponding rules of that exchange or corresponding defined terms in such rules (as the case may be).
- (u) Where BNZ is required to give or serve a notice by a certain date under these Terms, BNZ is required to despatch the notice by that date (including at BNZ's discretion, by posting or lodging notices with a mail house) and delivery or receipt (or deemed delivery) is permitted to occur after that date.
- (v) Where a Holder is required to give or deliver a notice to BNZ by a certain date under these Terms, the notice must be received by BNZ by that date.
- (w) A reference to time is to New Zealand standard time.
- (x) If BNZ is declared to be subject to statutory management, a reference in these Terms to BNZ includes, where the context requires, the statutory manager exercising BNZ's rights under these Terms.
- (y) For the purposes of *clause 6.1(b)*, 'procure' means:
 - (i) BNZ entering into the Coordination Agreement with NAB, NAGNZ and NEL; and
 - (ii) BNZ taking such steps that it considers reasonable and appropriate in the circumstances to enforce the applicable terms of the Coordination Agreement.

20.3 Inconsistency with NZX Listing Rules or ASX Listing Rules

- (a) So long as Notes are quoted on the NZX Debt Market, these Terms as they relate to those Notes are to be interpreted in a manner consistent with applicable NZX Listing Rules, except to the extent that an interpretation consistent with the NZX Listing Rules would affect the eligibility of Notes as Tier 2 Capital.
- (b) So long as Ordinary Shares are quoted on ASX, these Terms as they relate to those Ordinary Shares are to be interpreted in a manner consistent with applicable ASX Listing Rules, except to the extent that an interpretation consistent with the ASX Listing Rules would affect the eligibility of Notes as Tier 2 Capital.

Section 7 – Glossary.

In this investment statement:

- A reference to time is to New Zealand time unless otherwise stated.
- A reference to \$, NZ\$, NZ dollars and NZ cents is to New Zealand currency and a reference to A dollars, A\$ or A cents is a reference to Australian currency unless otherwise stated.
- All figures have been rounded to two decimal places unless otherwise stated.

5 Year Swap Rate The rate per annum (expressed as a percentage per annum) which is determined by BNZ by reference to the mid market swap rate for a 5 year term, being the average of the bid and offered swap yields as displayed at 11am on Reuters page ICAPKIWISWAP1 or its successor page on the Rate Set Date or the Optional Redemption Date (as applicable), adjusted as necessary to a quarterly rate

Additional Tier 1 Capital Instruments recognised by the RBNZ or APRA as additional tier 1 capital. See also Section 3.4.1

Approved NOHC A NOHC of the NAB Group arising from a NOHC Event

APRA Australian Prudential Regulation Authority or any authority succeeding to its powers and responsibilities

Arranger Bank of New Zealand

ASIC Australian Securities and Investments Commission

ASX ASX Limited (ABN 98 008 624 691) or the securities market operated by it, as the context requires, or any successor

ASX Listing Rules The listing rules of ASX as amended, varied or waived (whether in respect of NAB or generally) from time to time

Australian Banking Act Banking Act 1959 (Commonwealth of Australia)

Australian Corporations Act Corporations Act 2001 (Commonwealth of Australia)

Base Conversion Number The number of NAB Shares that will be issued to you for each Note you hold that is Converted on the Trigger Event Conversion Date, unless the Maximum Conversion Number applies. The Base Conversion Number is calculated according to the formula set out in clause 6.1(b) of the Note Terms and summarised in Section 2.5.5

BNZ Bank of New Zealand

BNZ Group BNZ (as reporting entity) and all other entities included in the group as defined in section 5(1) of the Financial Reporting Act 2013 (New Zealand)

BNZ Senior Bonds Unsecured unsubordinated bonds issued by BNZ from time to time

Bookbuild The process conducted prior to the opening of the Offer whereby certain investors lodge bids for Notes and, on the basis of those bids, BNZ and the Arranger determine the Margin

Closing Date The closing date of the Offer, which is expected to be 14 December 2015

Common Equity Tier 1 Capital Ordinary shares, certain reserves and retained earnings recognised as capital by the RBNZ or APRA less certain deductions. See also Section 3.4.1

Common Equity Tier 1 Capital Ratio The ratio of Common Equity Tier 1 Capital to risk-weighted assets

Companies Act Companies Act 1993 (New Zealand)

Conversion Has the meaning given to it in clause 20.1 of the Note Terms

The effect of Conversion is that you will no longer hold your Notes and instead you will hold NAB Shares. This is because, on the Trigger Event Conversion Date:

- NAB will issue a number of NAB Shares to you; and
- your Notes will be automatically transferred to NAGNZ free of any encumbrance (or, if this does not occur for some reason, then all of your rights in those Notes will be terminated and written off)

Convert and **Converted** have corresponding meanings. See also Section 2.5.4

Coordination Agreement The coordination agreement dated 11 November 2015 between BNZ, NAGNZ, NEL and NAB, which sets out intragroup transactions between them that are intended to occur on Conversion

Deed Poll The deed poll dated 11 November 2015 made by BNZ, under which the Notes are issued

Early Bird Interest Has the meaning given in Section 2.5

Event of Default Has the meaning given in clause 10.1 of the Note Terms. See also Section 2.5.6

FATCA The Foreign Account Tax Compliance Act provisions, sections 1471 through 1474 of the United States Internal Revenue Code (including any regulations or official interpretations issued, agreements entered into or non-US laws enacted with respect to those provisions)

Fitch Fitch Australia Pty Limited

FMA Financial Markets Authority (New Zealand)

Interest Payment Date Each Scheduled Interest Payment Date and if a Note is repaid, the date on which the repayment occurs. If an Interest Payment Date is a day which is not a business day, then the Interest Payment Date will be the next day which is a business day

Interest Period The period from (and including) an Interest Payment Date (or the Issue Date in the case of the first Interest Period) to (but excluding) the next Interest Payment Date

Issue Date The date on which Notes are issued, which is expected to be 17 December 2015

Issue Price NZ\$1.00 per Note

Margin The rate (expressed as a percentage per annum) as determined under the Bookbuild and announced via NZX on or before the Opening Date

Maximum Conversion Number The maximum number of NAB Shares to be issued per Note on Conversion, as calculated according to the formula set out in clause 6.1(b) of the Note Terms and summarised in Section 2.5.5

Moody's Moody's Investor Services Pty Limited

NAB National Australia Bank Limited (ABN 12 004 044 937)

NAB Group NAB and the entities NAB or any NOHC that is the holding company of NAB "controls" (as defined in the Australian Corporations Act)

NAB Level 2 Group NAB together with each related entity included by APRA from time to time in the calculation of NAB's capital ratios on a Level 2 basis

NAB Share A fully paid ordinary share in the capital of NAB

NAB Shareholder A person whose name is registered as the holder of a NAB Share

NAGNZ National Australia Group (NZ) Limited

NEL National Equities Limited (ABN 77 004 956 549)

NOHC A "non-operating holding company" within the meaning of the Australian Banking Act

NOHC Event An event that is initiated by the directors of NAB and the result of which is that the ultimate holding company of NAB would be a NOHC

Non-Viability Trigger Event Has the meaning given to it in clause 5.1(a) of the Note Terms

Broadly, a Non-Viability Trigger Event will occur if:

- the RBNZ gives BNZ a direction under the RBNZ Act requiring BNZ to exercise its right of conversion or write off of its Tier 2 Capital instruments;
- BNZ is made subject to statutory management under the RBNZ Act and the New Zealand statutory manager announces his or her decision to convert or write off BNZ's Tier 2 Capital instruments;
- APRA has provided a written determination to NAB that without:
 - the conversion or write off of a class of capital instruments of the NAB Group which includes the Notes; or
 - a public sector injection of capital into, or equivalent capital support with respect to, NAB, APRA considers that NAB would become non-viable

Notes BNZ Subordinated Notes issued by BNZ under the Deed Poll

Note Terms The terms of the Notes, which form schedule 1 of the Deed Poll

NZD-Issue Date VWAP Has the meaning given to it in clause 20.1 of the Note Terms and is summarised in Section 2.5.5. Broadly, NZD-Issue Date VWAP means the NZD-VWAP during the 20 business days before the Issue Date

NZD-VWAP Has the meaning given to it in clause 20.1 of the Note Terms and is summarised in Section 2.5.5. Broadly, NZD-VWAP means the NZ dollar equivalent of the average of the daily volume weighted average sale prices of NAB Shares sold on ASX in the VWAP Period

NZX NZX Limited, and includes any person or authority which may in the future assume and perform the functions of NZX Limited

NZX Listing Rules The listing rules of NZX, as amended, varied or waived (whether in respect of BNZ or generally) from time to time

Offer The offer made through this investment statement by BNZ of the Notes to raise up to NZ\$300 million with the ability to accept unlimited oversubscriptions

Opening Date The opening date of the Offer, which is 23 November 2015

Optional Redemption Date 17 December 2020

Ordinary Resolution Has the meaning given to it in clause 20.1 of the Note Terms

Rate Set Date The date on which the 5 Year Swap Rate will first be determined by BNZ and the Margin will be set, which is 20 November 2015

RBNZ Reserve Bank of New Zealand or any successor body responsible for prudential regulation of BNZ in New Zealand

RBNZ Act Reserve Bank of New Zealand Act 1989 (New Zealand)

Record Date Has the meaning given to it in clause 20.1 of the Note Terms. Broadly, Record Date means the date which is 10 calendar days before the relevant payment date

Register The register of holders of Notes established and maintained by or on behalf of BNZ

Registrar Initially, Computershare Investor Services Limited and thereafter such other person or persons resident in New Zealand as BNZ may from time to time appoint to maintain the Register

Regulatory Event Has the meaning given to it in clause 20.1 of the Note Terms and is summarised in Section 2.5.2

Scheduled Interest Payment Date In relation to each Note, each 17 March, 17 June, 17 September and 17 December, commencing on 17 March 2016 until (but not including) the date on which the Note is Redeemed, Converted or Written Off

Solvency Condition Broadly, Solvency Condition means the condition that BNZ must satisfy before it makes a payment on the Notes. See Section 2.5.3

Solvent Means satisfying the solvency test in section 4 of the Companies Act. See Section 2.5.3

Special Resolution Has the meaning given to it in clause 20.1 of the Note Terms

Standard & Poor's Standard & Poor's (Australia) Pty Limited

Tax Act Income Tax Act 2007 (New Zealand)

Tax Event Has the meaning given to it in clause 20.1 of the Note Terms and is summarised in Section 2.5.2

Tier 1 Capital Common Equity Tier 1 Capital plus Additional Tier 1 Capital. See also Section 3.4.1

Tier 1 Capital Ratio The ratio of Tier 1 Capital to risk-weighted assets

Tier 2 Capital Subordinated instruments recognised by the RBNZ or APRA as tier 2 capital. See also Section 3.4.1

Total Capital Tier 1 Capital plus Tier 2 Capital. See also Section 3.4.1

Total Capital Ratio The ratio of Total Capital to risk-weighted assets

Trigger Event Conversion Date The date on which your Notes must be Converted in accordance with the Note Terms on account of a Non-Viability Trigger Event

VWAP Period

- In the case of a Conversion, the period of 5 business days on which trading in NAB Shares took place immediately preceding (but not including) the Trigger Event Conversion Date; or
- otherwise, the period for which VWAP is to be calculated in accordance with the Note Terms

Written Off Has the meaning given in clause 5.3 of the Note Terms

Broadly, Written Off means, in respect of a Note that is to be Converted and a Trigger Event Conversion Date, if within 5 business days after the Trigger Event Conversion Date:

- NAB Shares have not been issued to you, no NAB Shares will be issued to you and your rights under that Note (including rights to receive NAB Shares) are automatically and irrevocably terminated and written off with effect from the date of the Non-Viability Trigger Event; or
- that Note has not been transferred to NAGNZ free of any encumbrance, your rights (including to payment of interest and principal) in relation to the Note are automatically and irrevocably terminated and written off with effect from the date of the Non-Viability Trigger Event.

Write Off has a corresponding meaning

Application Instructions

BNZ Subordinated Notes



These application instructions relate to an application for Subordinated Notes (“Notes”), offered by Bank of New Zealand (“BNZ”) pursuant to the investment statement dated 11 November 2015 (“Investment Statement”). Unless the context otherwise requires, capitalised terms used in these application instructions have the meanings given to them in the Investment Statement.

An application to subscribe for Notes must be made on the application form following these application instructions. An application will constitute an unconditional and irrevocable offer by the applicant to subscribe for the aggregate dollar amount of Notes specified on the application form (or such lesser number which BNZ may determine) on the terms and conditions set out in the Investment Statement, the Deed Poll and the application form.

The Application Form

Please complete all relevant sections of the application form using BLOCK CAPITAL LETTERS. BNZ may accept any application form not correctly completed as being valid, and may correct errors and omissions, in its sole discretion.

A. Full name details: Enter your FULL NAME. Up to three applicants may apply jointly.

Note that ONLY LEGAL ENTITIES are allowed to hold Notes. Applications must be in the name(s) of natural persons, companies or other legal entities acceptable to BNZ. At least one full given name and surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples below.

Type of investor

Individual - Use given name in full, not initials.

Company - Use the full company name, not abbreviations.

Trusts - Do not use the name of the trust, use the trustee(s) personal names. All trustees must apply as joint applicants.

Deceased estates - Do not use the names of deceased, use the executor(s) personal names.

Clubs / Unincorporated bodies - Do not use names of clubs etc, use the office bearer(s) personal names.

Superannuation Funds - Do not use name of fund, use the name of trustee.

Applications using the wrong form of name may be rejected.

Contact details: Enter your POSTAL ADDRESS for all correspondence. All communications to you from BNZ or Computershare Investor Services Limited as Registrar (“Registrar”) regarding your Notes will be mailed to the person(s) at the address as shown. For joint applicants, only one address is to be entered.

Enter your EMAIL ADDRESS if you would like to receive by email those communications that BNZ considers appropriate to be sent by electronic means. If you do not provide your email address you will receive the communications by mail.

Please enter your TELEPHONE NUMBER(S) and contact name in case we need to contact you in relation to your application.

B. Common shareholder number: If you currently have a Common Shareholder Number (“CSN”), please enter it in the box provided.

C. Dollar amount of Notes applied for: Please enter the TOTAL dollar amount of Notes that you wish to apply for. Each Note has an Issue Price of \$1.00. Applications must be for a minimum aggregate dollar amount of \$5,000 and thereafter in multiples of \$1,000.

D. Interest and principal payments: The below instructions apply if the Notes are not lodged for the purposes of NZClear.

If you currently receive interest or dividend payments from the Registrar by direct credit, and wish payments in respect of the Notes to be direct credited to the same account, then do not complete section D of the application form.

If you wish to be paid by direct credit and the Registrar does not already hold your bank account details or you wish to have your payments credited to another bank account, please tick the appropriate box and enter the details of the account.

If payment to your cash management account is selected, tick the appropriate box, insert the name of the broker where your cash management account is held and provide your cash management client account number.

E. IRD number: Please enter your IRD NUMBER and elect the rate at which you wish resident withholding tax to be deducted by ticking the relevant box.

If you hold a RWT exemption certificate, a copy of the certificate must be attached to the application form. BNZ will be obliged to deduct withholding tax at the applicable resident withholding tax rate on interest payments if you are New Zealand resident (or if you carry on business in New Zealand through a fixed establishment in New Zealand) and you have not provided a RWT exemption certificate, or if you are applying jointly with a non-resident that does not carry on business in New Zealand through a fixed establishment in New Zealand. In the latter case, non-resident withholding tax will be deducted at the resident withholding tax rate.

F. Declaration and signature: Read the declaration and the terms and conditions on the application form carefully and SIGN and DATE the application form. The application form must be signed by the applicant(s) personally. Companies or other bodies corporate must sign in the same way as they would sign a formal deed or other formal legal document.

Applications may be signed by an attorney or an authorised agent. If the application form is signed by an attorney, the power of attorney document is not required to be lodged, but the attorney must complete the certificate of non-revocation of power of attorney on the application form. If the application form is signed by an agent, the agent must complete the certificate of non-revocation of agent on the application form.

Joint applicants must each sign the application form.

Payment

Applicants who are members of NZClear, or who are able to have payments made on their behalf through NZClear, may settle their applications for the Notes before 12.00pm on the Issue Date through the NZClear System.

All other applicants must pay for Notes applied for by cheque or by direct debit.

Cheques should be in New Zealand dollars drawn on a New Zealand branch of a registered bank and must be received by the Registrar on or before 5.00pm on the Closing Date. Cheques should be made payable to “BNZ Subordinated Notes Offer” and crossed “Not Transferable” and must not be post-dated. Where an application for \$500,000 or more of Notes is paid by cheque, payment must be made by bank cheque. If an applicant’s payment is dishonoured, BNZ may cancel any Notes issued to the applicant and pursue any remedies available to it.

Applicants paying by direct debit must ensure that the subscription money is in their account and available the day the Registrar activates the direct debit. Applicants should check that their account is able to be direct debited and that they are authorised on that account as a signatory for a direct debit transaction.

Delivery

You should contact your financial adviser for details of how to submit your application. All Notes, including oversubscriptions, will be reserved for subscription by clients of the Joint Lead Managers, the Co-Manager, Primary Market Participants and other persons invited to participate in the Bookbuild. This means that there is no public pool for the Notes and your completed application form, together with means of payment, must be provided to a Joint Lead Manager, the Co-Manager, a Primary Market Participant or any other person invited to participate in the Bookbuild in time for your application to be forwarded to the Registrar by 5.00pm on the Closing Date.

BNZ is not obliged to accept applications which are received by the Registrar after 5.00pm on the Closing Date. BNZ may accept or reject any application (in whole or in part) without giving any reason.

Application Form

BNZ Subordinated Notes

Broker
stamp



Please complete this form using **BLOCK CAPITAL LETTERS**. This application form relates to an application for subordinated notes (**Notes**), offered by Bank of New Zealand (**BNZ**) pursuant to the investment statement dated 11 November 2015 (**Investment Statement**). Unless the context otherwise requires, capitalised terms used in this application form have the meanings given to them in the Investment Statement.

This investment is riskier than a bank deposit. The Notes are not call deposits or term deposits with BNZ and may not be suitable for many investors.

A. Full name and contact details

Applicant #1

Mr Mrs Ms Miss Other

Full legal name

First
Last

Joint Applicant #2

Mr Mrs Ms Miss Other

Full legal name

First
Last

Joint Applicant #3

Mr Mrs Ms Miss Other

Full legal name

First
Last

Corporate Name

Contact Name

First
Last

Address

Street address
Suburb
Town/City Postcode
Email

Telephone

Home 0
Business 0
Mobile 02
Fax 0

Tick this box and ensure your email address is entered above if you would like to receive communications from BNZ or the Registrar (at their election) in future by electronic means (rather than by mail). By providing your email address you consent to BNZ or the Registrar contacting you by email from time to time, without an unsubscribe facility.

B. Common Shareholder Number (CSN)

If you currently have a Common Shareholder Number, please insert it here

C. Dollar amount of Notes applied for

Total dollar amount (\$) of Notes applied for \$
(Minimum of \$5,000, and thereafter in multiples of \$1,000)

Choose ONE of the payment options below by ticking the box next to your selected option.

Option 1: One-time direct debit from the following bank account:

Name of bank

Account Holder Name

Account

Bank Branch Account Number Suffix

By ticking Option 1 and signing this application form, you agree that the Registrar is authorised to withdraw from this account the full dollar amount of Notes applied for (or any lesser amount determined by BNZ).

The direct debit will be processed on the first business day after your application is received by the Registrar or, if received on the day the Offer closes, the same business day. Please confirm with your bank that payments can be withdrawn from this account and ensure that sufficient funds in the bank account for direct debit are available on the day the Registry activates the direct debit. **Should your direct debit fail, your application will be rejected.**

Option 2: Attached cheque for the full dollar amount of Notes applied for, made payable to "BNZ Subordinated Notes Offer". If the application is for Notes of an aggregate amount of NZ\$500,000 or more, this must be a bank cheque.

Your cheque will be banked on the business day it is received. If your cheque is post-dated or dishonoured, your application may be rejected.

Option 3: Settle through the NZClear System.

Account: NZClear Mnemonic:

Trade with CISL90

Only institutional investors may settle through the NZClear System and must be agreed with the Registrar in advance.

D. Interest and principal payments

(Please complete only one option by ticking the appropriate box to select the method of payment for all interest and principal when they become payable).

If you currently receive interest or dividend payments from the Registrar by direct credit, the Registrar will pay interest on the Notes to the same account unless you indicate otherwise.

Option 1: Payment to another nominated New Zealand bank account
Pay by direct credit to the following account

Bank

Address

Account

Bank Branch Account Number Suffix

Option 2: Payment to my cash management account with my broker
Pay by direct credit to my cash management account

Broker

Cash Management

E. IRD number

--	--	--	--	--	--	--	--	--	--

Only one IRD number is required in respect of joint applicants. If you are applying on behalf of a minor (under the age of 18) or a dependant, use their IRD number. If the applicant is a trust, company, partnership or other entity, use that entity's IRD number.

- Exempt** - please tick this box if you hold a resident withholding tax (RWT) exemption certificate and attach a copy of your RWT exemption certificate.
- Please tick this box if you are, or are applying jointly with, a **non-resident** that does not carry on business in New Zealand through a fixed establishment in New Zealand for the purposes of the Income Tax Act 2007. (If you are applying jointly with such a non-resident, you must also specify your resident withholding tax rate.)

RWT rate

If you are New Zealand resident (or if you carry on business in New Zealand through a fixed establishment in New Zealand) and you have not provided a RWT exemption certificate, or if you are applying jointly with a non-resident that does not carry on business in New Zealand through a fixed establishment in New Zealand, please elect your resident withholding tax rate (tick one):

- 10.5% 17.5% 28% (companies only) 30% 33%

F. Declaration and signature

I/We hereby unconditionally and irrevocably apply for Notes as set out above. I/We agree to accept the Notes as applied for or any lesser amount that may be issued to me/us. I/We agree to be bound by the terms and conditions of the Notes and by the provisions of this application form (including the terms and conditions on the following page), the Investment Statement and the Deed Poll.

I/We certify that, where information is provided by me/us in this form about another person, I am/we are authorised by such person to disclose the information to you and to give authorisation.

Please read the whole of this application form before signing (including the terms and conditions on the following page).

Signature(s) of applicant(s)

Applicant (person 1)

Signature

D	D	M	M	Y	Y
---	---	---	---	---	---

Joint applicant (person 2)

Signature

D	D	M	M	Y	Y
---	---	---	---	---	---

Joint applicant (person 3)

Signature

D	D	M	M	Y	Y
---	---	---	---	---	---

Certificate of non-revocation of power of attorney

(Only complete this section if you are acting as attorney of the applicant.)

I, ,

of

hereby certify that

1. By a deed dated

of

appointed me his/her/its attorney.

2. I have executed this application form as attorney under that power of attorney and pursuant to the powers thereby conferred upon me.

3. That I have not received notice of any event revoking the power of attorney.

Signed at this day of

Signature of Attorney

Signature

Certificate of non-revocation of agent

(only complete this section if you are acting as agent of the applicant)

I, ,

of

hereby certify that

of

appointed me his/her/its agent for the purpose of signing this application form.

1. I have executed this application form as agent under that authority and pursuant to the powers thereby conferred upon me; and

2. I have not received notice of any event revoking that authority.

Signed at this day of

Signature of Agent

Signature

Terms and Conditions of Application

INFORMATION: The information in this application form is provided to enable BNZ, its related bodies corporate and the Registrar to process your application, and to administer your investment. By signing this application form each applicant authorises BNZ to disclose information to its related bodies corporate, and for BNZ, its related bodies corporate and the Registrar to use or disclose information in situations where BNZ, any of its related bodies corporate or the Registrar are required or permitted to do so by any applicable law or by a governmental, judicial or regulatory entity or authority in any jurisdiction, or in connection with the promotion of any other investment opportunities by BNZ or any of its related bodies corporate. If an applicant is an individual, under the Privacy Act 1993, he or she has the right to access and correct any of his or her personal information.

INDEMNITY: The Investment Statement only constitutes an offer of Notes in New Zealand. BNZ has not taken and will not take any action which would permit a public offering of the Notes, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). The Notes may only be offered for sale or sold in conformity with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered. Any information memorandum, prospectus, circular, advertisement or other offering material in respect of the Notes may only be published, delivered or distributed in or from any country or jurisdiction under circumstances which will result in compliance with all applicable laws, regulations and listing rules of any applicable securities exchange. By applying for Notes, each applicant indemnifies BNZ, NAB, the Registrar and each of the Arranger, the Joint Lead Managers and the Co-Manager in respect of any loss incurred as a result of that applicant breaching the selling restrictions described above.

INVESTMENT STATEMENT: Each applicant represents and warrants to BNZ that the applicant has received, read and understood the Investment Statement.

CUSTOMER DUE DILIGENCE: Each applicant:

- (A) agrees to provide their financial adviser, BNZ and their agents with all requested due diligence information that is required to satisfy applicable laws, such as the customer due diligence obligations under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009; and
- (B) agrees that their financial adviser may provide BNZ and its agents with all due diligence information that is held by, or later provided to, their financial adviser in relation to it that is required by BNZ to satisfy applicable laws, including the customer due diligence obligations under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009.

Corporate Directory

BNZ

Bank of New Zealand

Level 4
80 Queen Street
Auckland 1010
New Zealand

NAB

National Australia Bank Limited

Level 1
800 Bourke Street
Docklands
Victoria 3008
Australia

Registry

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622
Private Bag 92119
Auckland 1142
New Zealand

Phone: 09 488 8777

Arranger

Bank of New Zealand

Level 4
80 Queen Street
Auckland 1010
New Zealand

Joint Lead Managers

Bank of New Zealand

Level 4
80 Queen Street
Auckland 1010
New Zealand

Deutsche Craigs Limited

Level 36, Vero Centre
48 Shortland Street
Auckland 1010
New Zealand

First NZ Capital Securities Limited

Level 14
171 Featherston Street
Wellington 6011
New Zealand

Forsyth Barr Limited

Level 9, Forsyth Barr House
The Octagon
Dunedin 9054
New Zealand

Macquarie Capital (New Zealand) Limited

Level 17, Lumley Centre
88 Shortland Street
Auckland 1010
New Zealand

Co-Manager

JBWere (NZ) Pty Limited

Level 38, Vero Centre
48 Shortland Street
Auckland 1010
New Zealand

New Zealand Legal Adviser

Russell McVeagh

Level 24
157 Lambton Quay
PO Box 10-214
Wellington 6143
New Zealand

Australian Legal Adviser

King & Wood Mallesons

Level 50, Bourke Place
600 Bourke Street
Melbourne VIC 3000
Australia

