



# Media Release

5 May, 2011

## BNZ reports a solid result in a subdued economy

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Bank of New Zealand (BNZ) has today reported cash earnings for its New Zealand banking operations\* for the six months to 31 March 2011 of \$283 million. This is an increase of \$28 million or 11% compared to the half year to March 2010.

BNZ CEO Andrew Thorburn said, “This is an extremely sound result for the bank in a challenging economic environment. Overall this solid half year performance has been built on good revenue and deposit growth, prudent cost management and our ability to bring innovative new products and services to the local market.”

BNZ’s focus on deposits has seen a continued increase in its retail deposits in a highly competitive market. When compared to March 2010, BNZ has grown retail deposits from \$27.7 billion to \$30.4 billion, an increase of 9.7%. Market share has grown from 17.5% to 18.1%.

Andrew Thorburn says, “Growing our share of customer deposits in a landscape of fierce competition is an excellent result. In conjunction with diversifying and lengthening our wholesale term funding profile with our pioneering issuance of Covered Bonds we’re extremely pleased to have further strengthened the fundamentals of the bank in such a subdued economy.”

BNZ is well ahead of the Reserve Bank of New Zealand’s core funding ratio requirements and will continue to exceed the step up in the regulatory minimum on an ongoing basis. The ongoing rebalance towards customer deposits will also support the continuance of BNZ’s AA credit rating.

Lending growth for the bank remained modest due to the subdued housing market and many businesses remained focused on de-leveraging rather than expansion. “We are however optimistic about the longer term economic outlook with favourable stimulus provided by the Rugby World Cup, the Christchurch rebuild and favourable commodity prices”, says Thorburn.

BNZ’s revenue for the half year, at \$865 million has improved compared to \$814 million for the March 2010 half year. Revenue performance is characterised by some strengthening of the net interest margin over the prior March half, however over the past 6 months the net interest margin has remained flat, as has fee income.

\*BNZ’s New Zealand banking operations include Retail, Business, Agribusiness, Corporate and Insurance businesses. It excludes BNZ’s Wholesale banking operations.



Prudent cost management has continued to be a feature of the bank's success over the period, whilst BNZ has invested significantly in its store and Partners network. BNZ is part way through a substantial investment in the transformation of its Retail stores and Partners network with 41 new retail stores and 16 out of a planned 31 Partners centres, being completed.

The half year expenses include a \$1 million donation for the Christchurch earthquake in February, as well as special assistance payments made to affected staff in the region. BNZ has significant investment in Christchurch and has retained all banking services in the region.

Andrew Thorburn says, "We've retained all our 420 staff in the region, we know that the ongoing prosperity of Christchurch will depend on supporting a highly skilled workforce and ensuring continuity of specialist knowledge across a full range of banking capabilities. The situation on the ground is complex and dynamic but having strong fundamentals in the bank will give us the ability to provide some stability for Canterbury."

The bad and doubtful debts charge has increased by \$7 million or 8.0% compared to the same period last year, primarily due to business exposures and the disruptions caused by the Christchurch earthquake. Total provisions include a \$60 million overlay for potential credit losses arising from the recent Christchurch earthquakes taken over the past two halves.

BNZ's continued drive to enhance its customers' experience has led to a number of innovative developments. Firstly a market leading innovation by BNZ is FX Online, a fast, secure online transactional service for customers making international payments, and then a new online Invoice Finance solution that unlocks the value of invoices and provides instant cash flow 24/7 to medium and large sized businesses.

The bank has also completed a rebuild of the [www.bnz.co.nz](http://www.bnz.co.nz) online with a focus on informative content and decision making tools and is now extending customer service towards mobile platforms.

BNZ's Liquid Encryption card security technology was awarded a Canstar Cannex award for innovation excellence. In addition to this, AMEX signed on to the technology which supports the bank's goal of exporting this technology to the world.

On 9 March 2011, more than 3,000 BNZ staff worked as volunteers for over 500 different community projects across the country in an initiative called "Closed for Good".

"Our people working in the community is a double boon, as an organisation we can make a meaningful contribution to the hard working volunteer sector and staff spend a day working on a project that they are passionate about to support the wider goal of a higher achieving New Zealand," says Thorburn.

BNZ's Legal Entity (Disclosure Statement) financial results will be released at the end of May 2011.

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\* New Zealand Banking Operations (includes BNZ Partners, Retail and BNZ Insurance)

	Half Year to				
	Mar 11 NZ\$m	Sep 10 NZ\$m	Mar 10 NZ\$m	Mar 11 v Sep 10 %	Mar 11 v Mar 10 %
Net interest income	640	638	595	0.3	7.6
Other operating income	225	223	219	0.9	2.7
Net operating income	865	861	814	0.5	6.3
Operating expenses	(369)	(367)	(365)	(0.5)	(1.1)
Underlying profit	496	494	449	0.4	10.5
Charge to provide for bad and doubtful debts	(95)	(99)	(88)	4.0	(8.0)
Cash earnings before tax	401	395	361	1.5	11.1
Income tax expense	(118)	(126)	(106)	6.3	(11.3)
<b>Cash earnings</b>	<b>283</b>	<b>269</b>	<b>255</b>	<b>5.2</b>	<b>11.0</b>
<b>Average Volumes (NZ\$ bn)</b>					
Gross loans and acceptances	55.4	54.9	55.0	0.9	0.7
Interest earning assets	57.2	56.9	57.2	0.5	-
Total assets	57.8	57.6	57.8	0.3	-
Retail deposits	30.4	28.8	27.7	5.6	9.7
<b>Performance Measures</b>					
Cash earnings on average assets	0.98%	0.93%	0.88%	5 bps	10 bps
Net interest margin	2.24%	2.24%	2.08%	-	16 bps
Cost to income ratio	42.7%	42.6%	44.8%	(10 bps)	210 bps

## Ends

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