

## Media Release

For immediate release  
10 May, 2012

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### **BNZ reports a strong result in a restrained economy**

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Bank of New Zealand (BNZ) has today reported cash earnings for its New Zealand Banking operations<sup>1</sup> for the six months to 31 March 2012 of \$385 million. This is an increase of \$56 million or 17% compared to the half year to September 2011. Underlying profit<sup>2</sup> for the period has increased by \$37 million or 7.0% over the September 2011 half year.

BNZ CEO Andrew Thorburn says, “This is an excellent result for the bank in a slow economic environment and is testament to our strength. It’s this strength that allows BNZ to continue to be a bank that will help the local economy as we face into the challenging times that are ahead. BNZ has delivered this solid half year performance based on good revenue and deposit growth, improvement in net interest income, disciplined management of costs and a pleasing reduction in bad and doubtful debts.”

BNZ’s focus on deposits has seen strong growth in its retail deposits in a highly competitive market. When compared to the September 2011 half year, BNZ has grown retail deposits<sup>3</sup> from \$31.8 billion to \$33.5 billion, an increase of \$1.7 billion or 5.3%. Market share has increased from 18.0% in September 2011 to 18.7%. BNZ’s balance sheet has also been further strengthened as a result.

Andrew Thorburn says, “Growing our share of locally sourced deposits and a further capital investment of \$400 million announced today by our parent bank National Australia Bank (NAB) combines to further strengthen the fundamentals of the bank and positions us well to support growth in New Zealand. This further increases BNZ’s capital strength in advance of Basel III implementation.”

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<sup>1</sup> BNZ’s New Zealand Banking operations include Retail, Business, Agribusiness, Corporate and Insurance businesses. It excludes BNZ’s Wholesale banking operations.

<sup>2</sup> Underlying profit represents profit before impairment charges and income tax expense

<sup>3</sup> Average volumes

As at 31 March 2012, BNZ Banking Group's regulatory capital levels remain well above the RBNZ's prescribed minimum levels.

BNZ continues to lead the covered bond market in Australasia as the first New Zealand bank to establish a covered bond programme and the first bank to issue covered bonds in New Zealand in June 2010. During the March 2012 half year, BNZ completed its second successful European covered bond issue, raising EUR 500 million of 3.25 year funding. BNZ also completed two domestic covered bond issuances, raising NZ\$350 million of 6 year funding.

BNZ's revenue for the March 2012 half year was \$944 million compared to \$910 million for the September 2011 half year. Revenue performance is characterised by improved net interest income which increased by \$27 million or 3.9% from the September 2011 half year.

During the half year to March 2012, BNZ has increased its market share in certain key segments, including agricultural lending which increased from 20.8% in September 2011 to 21.1%. BNZ's housing market share remained steady at 16.2%. Average volumes of gross loans and advances grew by \$1.1 billion or 2.0% over the half year.

Showing a solid improvement this half year is the charge to provide for bad and doubtful debts, which decreased by \$22 million compared to the September 2011 half year. The result is primarily driven by lower specific provision charges on business exposures and overall improvement in asset quality as the economic recovery continues.

BNZ's ongoing focus on continuous improvement and cost efficiencies across its business continues to be a feature of the bank's success over the period. Operating expenses have decreased slightly by \$3 million or 0.8% compared to the September 2011 half year.

BNZ is near completion of its \$200 million transformation of its Retail stores and Partners network with 170 Retail stores and 31 Partners centres completed and rolled out to date. The remaining 9 stores and 2 Partners centres are scheduled to be completed over the coming months.

"BNZ's Store and Partners network is a significant investment in both urban and regional centres up and down the country, but it's much more than an investment in our properties, it's an investment in our staff and our customers. We've created environments within our stores that are wholly people-centric. The new store layout offers an enhanced banking experience that allows our staff to better interact with customers so they can provide the best solutions and advice. Our Partners centres exist as unique facilities in New Zealand for BNZ Partners customers," says Andrew Thorburn.

BNZ has continued to develop and deliver new and innovative products and services to the local market, with a particular focus on the bank's online channels. BNZ has, as part of an ongoing process of enhancing our technology offerings, upgraded internet banking systems making them easier to use and adding to their capabilities. The bank has further extended its customer driven innovation by delivering extended services across its mobile platforms. The bank's mobile channel has displayed a sharp growth in customer usage with a 300% increase in monthly log-ins since its launch in June 2011, an increase from 60,000 to 180,000 monthly log-ins.

On 8 May 2012, more than 3,000 BNZ staff worked as volunteers for over 450 different community projects across the country in an initiative called "Closed for Good".

"Our people working in the community has multiple benefits - 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. "This year's Closed for Good sees a marked change with the bank inviting members of the community to participate in New Zealand's biggest day of corporate volunteering," he says.

#### **New Zealand Banking (includes BNZ Partners, Retail, BNZ Insurance and support units)**

|  | Half Year to    |                 |                 | Mar 12 v<br>Sep 11% | Mar 12 v<br>Mar 11% |
|--|-----------------|-----------------|-----------------|---------------------|---------------------|
|  | Mar 12<br>NZ\$m | Sep 11<br>NZ\$m | Mar 11<br>NZ\$m |                     |                     |
| Net interest income                          | 711             | 684             | 640             | 3.9                 | 11.1                |
| Other operating income                       | 233             | 226             | 225             | 3.1                 | 3.6                 |
| Net operating income                         | 944             | 910             | 865             | 3.7                 | 9.1                 |
| Operating expenses                           | (375)           | (378)           | (369)           | 0.8                 | (16)                |
| Underlying profit                            | 569             | 532             | 496             | 7.0                 | 14.7                |
| Charge to provide for bad and doubtful debts | (34)            | (56)            | (95)            | 39.3                | 64.2                |
| Cash earnings before tax                     | 535             | 476             | 401             | 12.4                | 33.4                |
| Income tax expense                           | (150)           | (147)           | (118)           | (2.0)               | (27.1)              |
| <b>Cash earnings</b>                         | <b>385</b>      | <b>329</b>      | <b>283</b>      | <b>17.0</b>         | <b>36.0</b>         |
| Average Volumes (NZ\$bn)                     |                 |                 |                 |                     |                     |
| Gross loans and acceptances                  | 57.5            | 56.4            | 55.4            | 2.0                 | 3.8                 |
| Interest earning assets                      | 59.1            | 58.0            | 57.2            | 19                  | 3.3                 |
| Total assets                                 | 59.3            | 58.4            | 57.8            | 15                  | 2.6                 |
| Retail deposits                              | 33.5            | 318             | 30.4            | 5.3                 | 10.2                |
| Performance Measures                         |                 |                 |                 |                     |                     |
| Cash earnings on average assets              | 1.30%           | 1.12%           | 0.98%           | 18 bps              | 32 bps              |
| Net interest margin                          | 2.41%           | 2.35%           | 2.24%           | 6 bps               | 17 bps              |
| Cost to income ratio                         | 39.7%           | 41.5%           | 42.7%           | 180 bps             | 300 bps             |

BNZ Banking Group results for March 2012 are attached as Appendix A.

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## Ends

For further information please contact:

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## Appendix A

### BNZ Banking Group – Statutory Financial Results



## Income Statement Summary

For the six months ended 31 March 2012

| Dollars in Millions  | Consolidated<br>31/3/12 |
|--|-------------------------|
| Net interest income  | 747                     |
| Total operating income   | 904                     |
| Total operating profit before impairment losses on credit exposures and income tax expense | 518                     |
| Total operating profit before income tax expense   | 488                     |
| Income tax expense on operating profit   | 136                     |
| Net profit attributable to shareholders of Bank of New Zealand                             | 352                     |

## Balance Sheet Summary

As at 31 March 2012

| Dollars in Millions                                    | Consolidated<br>31/3/12 |
|--|-------------------------|
| Total assets   | 71,716                  |
| Total liabilities                                      | 67,043                  |
| Net assets   | 4,673                   |
| Ordinary shareholder's equity                          | 3,763                   |
| Contributed equity – perpetual preference shareholders | 910                     |
| Total shareholders' equity                             | 4,673                   |
| Tier One capital ratio                                 | 9.59%                   |
| Total qualifying capital ratio                         | 12.39%                  |