New Zealand banks safely navigate their way through the headwinds of the past

PwC analysis of the major banks' results for the first half of their 2012 financial years

Banking Perspectives

Major banks analysis August 2012

pwc

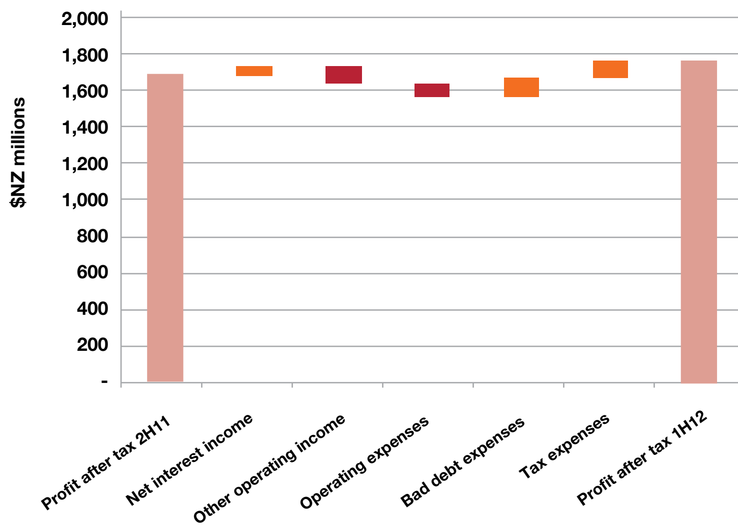
Introduction

New Zealand's five major banks (ANZ National, ASB, Bank of New Zealand, Kiwibank and Westpac) reported a small decrease of 0.6% in profit before tax in the first half of their 2012 financial years (1H12) of $2.44bn as compared to the second six months of their 2011 financial years (2H11) where the profit before tax was $2.45bn. This modest reduction has been driven by 1% growth in net interest income ($43m) and a 27% reduction in bad debt expenses ($102m) being offset by a reduction in operating income of $89m (7%) and an increase in operating expenses which rose by 3% or $70m. Given that the major banks' performance for 2H11 was considered to be strong and positive, they will be reassured they have effectively managed to maintain this level of performance in 1H12.

This publication focuses on the major banks' performance for 1H12 with reference to 2H11. As can be seen in figure 1, this has been a largely flat period of performance when you break down the components that determine the banks' profits, with no one single component standing out when compared to the others. The banks have got their groove on.

However, as the banks continue to compete aggressively in respect of their mortgage rates coupled with continued uncertainty in respect of funding costs as various regional economies continue to grapple with excessive levels of government debt, the banks will need to work hard to maintain their profitability. This is something the banks have been successful at over the last few years. What is pleasing though is the strong awareness by governments, central banks and other global bodies that these global financial concerns or sovereign funding issues need to be fully addressed for the world as a whole.

Figure 1: New Zealand major banks' change in profit after tax



Looking forward there are mixed signs for our major banks. Whilst GDP expectations for New Zealand were cut late last year both locally by Treasury and the OECD, GDP data for the first quarter of 2012 exceeded those expectations.

Business confidence as measured by the National Bank, has trended up for the start of 2012, only to then trend down in both the May and June.

Internationally, the European debt crisis rumbles on. Whilst the New Zealand economy is sheltered to some degree from what is taking place, any further deterioration in the situation will continue to have both direct and indirect impacts on the New Zealand banks. Anything that adversely impacts the New Zealand economy will inevitably have adverse knock-on consequences for the banks. In addition, given the New Zealand banks rely on overseas funding which at times remains a challenging source of funding, any increase in funding costs in the mid term will have a direct impact on the profitability of New Zealand banks. This will ensure competition for retail deposits will remain strong. That said, New Zealand's major banks are well positioned to deal with anything they are confronted by. This is due in no small part to the New Zealand major banks increasing their funding through retail deposits and also tapping into the domestic wholesale markets, with reliance on overseas funding falling. During 1H12 the proportion of wholesale funding fell to 39% from 42% at the end of 2H11. For the same period the proportion of overseas funding fell to 34% from 36%.

Looking closer to home, with data suggesting the Chinese economy is slowing and the Australian economy also facing challenges, many sectors of the New Zealand economy will be feeling nervous. It is therefore not surprising that whilst the bad debt expense overall has fallen, this has largely been driven in the household sector, with bad debt expenses down $102m when comparing 1H12 to 2H11. Bad debt charges in respect of non-household lending have remained relatively flat for the last four half-years, ranging between $165m and $203m over these periods.

This trend in bad debt expense is in contrast to the major banks in Australia who have seen their bad debt expense deteriorate by 15% over the same six month period. Having said that, the Australian experience, like in New Zealand, is one of improving impaired asset and asset delinquency statistics.

As has been the case for the last 12 to 18 months, the major New Zealand banks continue to perform well, particularly in relation to some of their global peers, in the context of a fragile economy with an uncertain outlook.

27%

reduction in bad debt expense

Proportion of wholesale funding drops from

42%

to **39%**

Five majors' combined performance

Semi-annual results

Comparing 1H12 to 2H11 we see core earnings have dropped by 4% from $2.8bn to $2.7bn.

This decrease has been driven by:

- A 7% decrease in other operating income with the volatility again being driven by the global markets impact on those instruments held at fair value. In 1H12 losses were made on those instruments held at fair value of $38m compared to a gain of $114m in 2H11. The fees and commissions impact on other operating income is largely stable at $1,248m for the six month period.
- A 3% increase in operating expenses as one-off costs continue to create volatility in expenses.

But partially offset by:

- A 1% increase in net interest income, as reduced income on loans (down from $9.6bn in 2H11 to $9.4bn in 1H12) is more than offset by lower funding costs (down from $6.0bn in 2H11 to $5.8bn in 1H12).

4%

drop in core earnings

1%

growth in net interest income

This reduction in core earnings has translated into a drop in profit before tax of just under 1% or $14m for 1H12 to $2.4bn. Putting aside the accounting noise generated by the fair value changes of those financial instruments held at fair value, the quality of core earnings and profit before tax has remained consistent with 2H11. The impact of bad debt expenses has resumed its favourable trend which was experienced in the immediate aftermath of the GFC but halted as the banks experienced the credit loss impact of the Christchurch earthquakes. The 1H12 bad debt expense charge has reduced by 27% in comparison to 2H11.

In looking at the profit after tax for the banks, this has increased from $1.7bn in 2H11 to $1.8bn in 1H12. This is thanks to an effective tax rate in 1H12 of 27% compared to 31% in 2H11. This effective tax rate is now more in line with expectations given a corporate tax rate of 28% has come into force in the current period.

Figure 2: New Zealand major banks' combined performance ($NZ millions)

	1H12	2H11	1H11	1H12 v 2H11	1H12 v 1H11
Interest income	9,431	9,623	9,759	-2%	-3%
Interest expense	(5,765)	(6,000)	(6,382)	4%	10%
Net interest income	3,666	3,623	3,377	1%	9%
Other operating income	1,210	1,299	1,072	-7%	13%
Operating expenses	(2,164)	(2,094)	(2,187)	-3%	1%
Core earnings	2,712	2,828	2,262	-4%	20%
Bad debt expenses	(277)	(379)	(355)	27%	22%
Profit before tax	2,435	2,449	1,907	-1%	28%
Tax expenses	(660)	(756)	(559)	13%	-18%
Outside equity interest	(9)	(11)	(11)	18%	18%
Statutory profits	1,766	1,682	1,337	5%	32%

Net interest income

The New Zealand major banks' net interest income is slightly up on 2H11 increasing by a mere $43m to $3,666m but continues the growth seen since the beginning of their 2010 financial years.

Looking at one six month period in isolation it is difficult to assess the exact reasons for the slow-down in net interest income growth. However, given the low credit growth it is certainly not surprising. The banks have reported an average net interest margin (NIM) of 2.40% in 1H12, up from 2.31% in 2H11. These reported NIMs are adjusted by the banks for various factors and are not prepared on a consistent basis. This contrasts with the banks in Australia where NIM fell from 2.29% to 2.21% over the same period.

As can be seen in figure 3, the post-GFC story of wider interest margins has continued in 1H12, with the calculated margin remaining at 1.94%* as it was in 2H11. The major banks' balance sheets continue to remain at similar levels. Figure 4 shows a small increase in the level of loans and advances to customers in comparison to 2H11. However, the levels of growth that were enjoyed pre-GFC continue to elude the major banks. This lack of balance sheet growth puts increasing pressure on the net interest income as the banks try to gain market share by competing on interest rates and taking advantage of historically low interest rates that are likely to remain at these low levels for a longer period than originally expected. We have seen evidence of this competition in recent months as the banks have cut their fixed and floating rates. This competition coupled with customers being encouraged by various media outlets to negotiate more aggressively on their lending rates mean we fully expect NIM to come under pressure in the coming periods, unless the reduced rates are able to fuel balance sheet growth. This appears to be borne out by Reserve Bank data which shows a narrowing in margins in the months since the end of 1H12

** Calculation based on the interest bearing assets and liabilities disclosures made in the disclosure statements to calculate the weighted average interest rate (WAIR) for both interest income and interest expense.*

In looking at the interest income and interest expense separately, we can see both amounts have fallen since 2H11, with interest income falling by 2% or $192m and interest expense falling by 4% or $235m. The fact that these amounts have fallen whilst the net interest margin has lifted suggests the major banks have been adept at managing their funding costs whilst their loans and advances re-price.

Figure 3: Movements in the NZ major banks' net interest margins

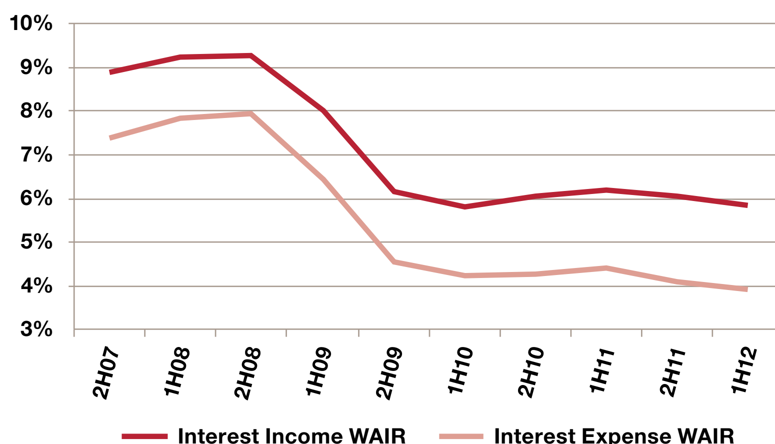
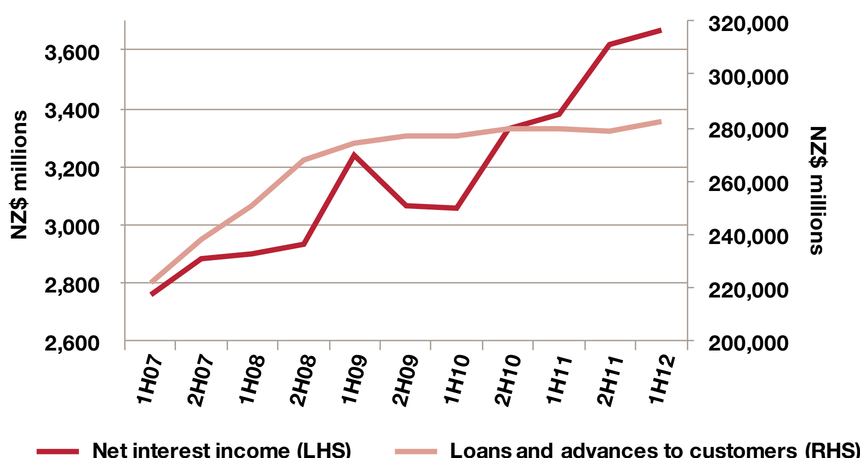


Figure 4: Net interest income of NZ major banks in relation to loans and advances to customers



Lending

The lending portfolios of the major banks' have grown from $279.1bn at 2H11 to $281.9bn at 1H12. Whilst this only represents a growth rate of 1% or $2,835m, which is small compared to the growth rates seen in the lending books pre-GFC, this has significance.

This represents the first period post GFC where the increase in corporate lending has topped $1bn in a six month period. This increase of $1,045m to $104.3bn in 1H12, although modest, is a positive indicator for the New Zealand economy. Not to be outdone, household lending in New Zealand continues to grow (by 1% or $1,790m to $177.6bn in 1H12).

If you look at this corporate lending growth in the context of GDP growth (production based GDP grew 2.5% year on year in the March 2012 quarter) which was above expectations, there are reasons to be optimistic as this data indicates there is growth in various sectors of the economy. However, as has been the case since the GFC, the spectre of various global economies struggling remains and this in turn creates concerns for the New Zealand economy, particularly in relation to those segments of the economy reliant on exports.

The recent love affair of the household borrower with floating rate products continues, as can be seen in figure 6. 63% of borrowers are on a floating rate as at the end of 1H12. This compares with 58% at the end of 2H11 and 50% at the end of 1H11. It will be interesting to see the speed with which customers move to fixed rates, once interest rates increase or through borrowers choosing to be risk adverse by locking in interest rate certainty. Also of interest will be how the banks chose to price their fixed rate products once the demand increases. Certainly, the months since 1H12 have seen the major banks typically move to cut their fixed rates, whilst maintaining their floating rates. This appears to have translated into an increased take up of fixed rate borrowing based on Reserve Bank data, which shows 60% of borrowers remain on floating interest rates at the end of June 2012. The bulk of the recent fixing of mortgage interest rates appears to be in the 1-2 year band.

63%

of borrowers are on a floating interest rate

up from

50%

at 1H11

Figure 5: NZ major banks' lending portfolios (by class)

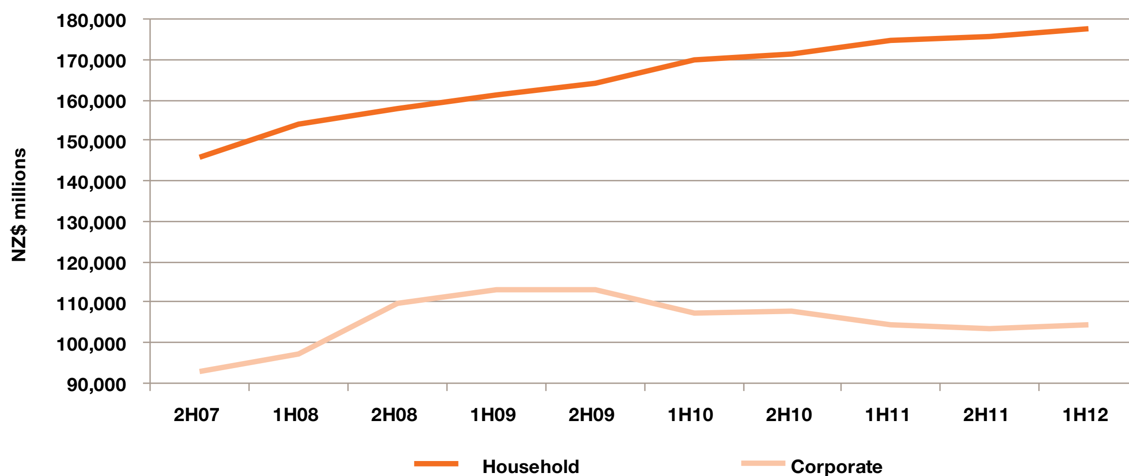
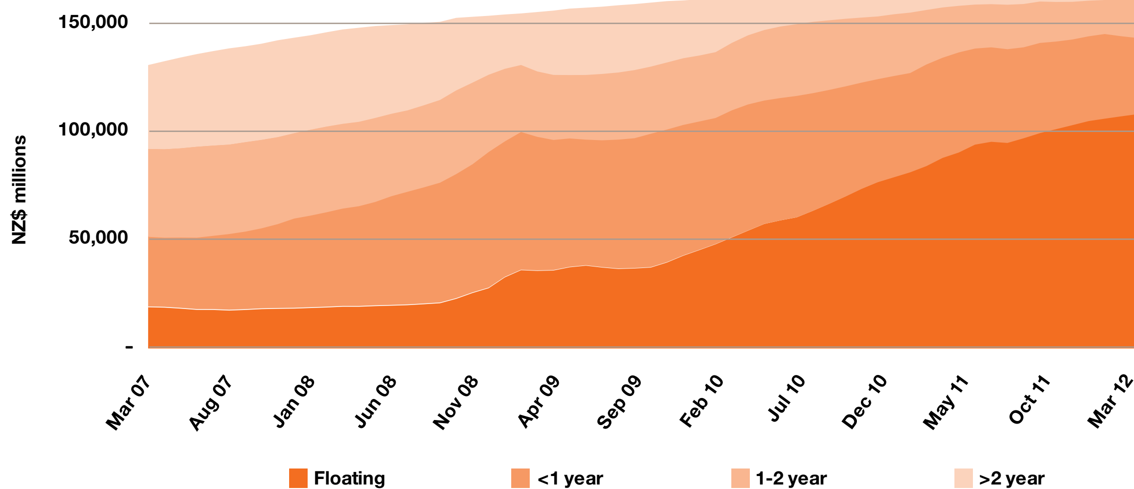


Figure 6: Maturities of residential mortgage lending performed by NZ registered banks



Source: Reserve Bank of New Zealand

Funding

As with the lending portfolio of NZ's major banks, the funding of the banks has increased by a small amount during 1H12.

Funding has increased from $305.9bn at 2H11 to $306.3bn at 1H12. This represents an increase of just over 0.1%.

The rate of growth in deposits, which had slowed in 2H11, has increased dramatically in 1H12. Customer deposits have grown by 6.9% or $12.2bn in 1H12, a level of growth which has not been seen for some years. It will be interesting to see if this growth in 1H12 is a "one-off" or if this reluctance to place savings in other products continues. As can be seen in figures 7 and 8, the growth in deposits from customers continues to outstrip the growth in lending to customers. This ability for the New Zealand major banks to self-fund could reduce the impact of any future shocks to the wholesale funding markets. A geographical analysis shows that New Zealand sourced funding has increased by 3.7% ($7.3bn) during 1H12. This has enabled the banks to reduce their reliance on overseas funding by an equivalent amount.

However, the funding from wholesale sources is still significant (with 39% (42% at the end of 2H11) of funding coming from sources other than customer deposits). As a result, any shocks to the debt markets as a result of issues in the Eurozone, the US or in China will be keenly felt by the New Zealand banks, and could result in a sharp increase in funding costs. This is particularly the case as the maturity of bank funding has reduced in 1H12 as illustrated in figure 9. This reduction is largely due to many of the medium term notes issued by the New Zealand major banks over the last five years transitioning to an earlier maturity bucket. Given the shorter maturities, the funding book will reprice quicker and any dramatic increase in rates will be felt more acutely, subject to the hedging strategies the banks have in place. Having said that, the increased use of the domestic wholesale markets will reduce some of the impact of the reliance on overseas funding.

Increased use of the domestic wholesale markets will reduce some of the impact of the reliance on overseas funding

Globally a number of banks have suffered credit rating downgrades by the rating agencies. In contrast, the Australian owned New Zealand banks have been relatively stable following the credit rating downgrades in 2011. This keeps the Australian owned New Zealand banks in the upper echelons from a credit rating perspective.

Figure 7: Respective movements in the advances to and deposits from customers by the NZ major banks

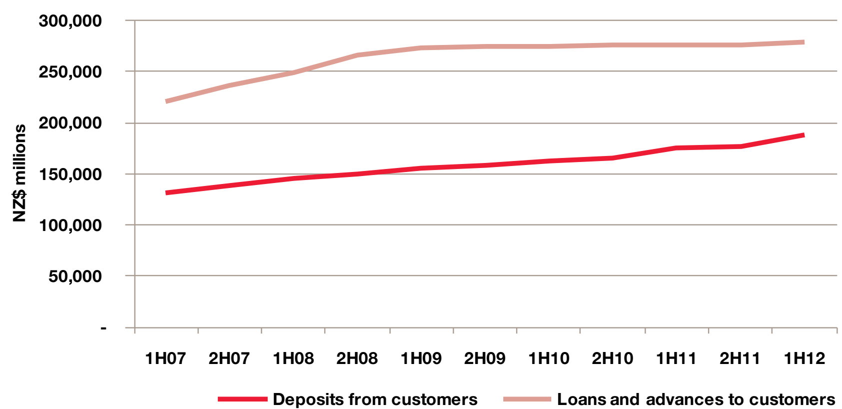


Figure 8: Net cash flows with customers

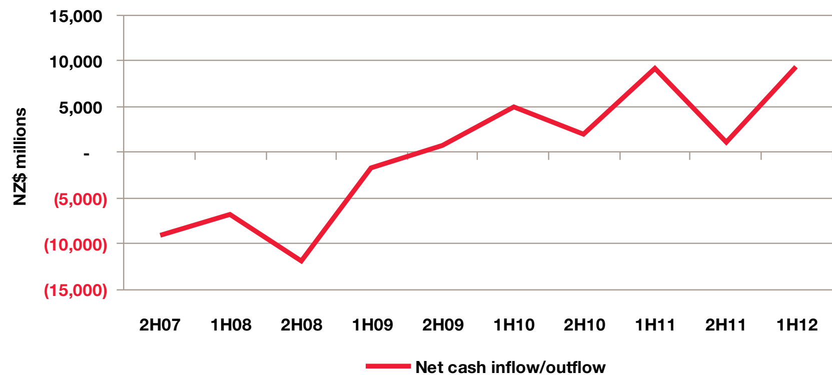
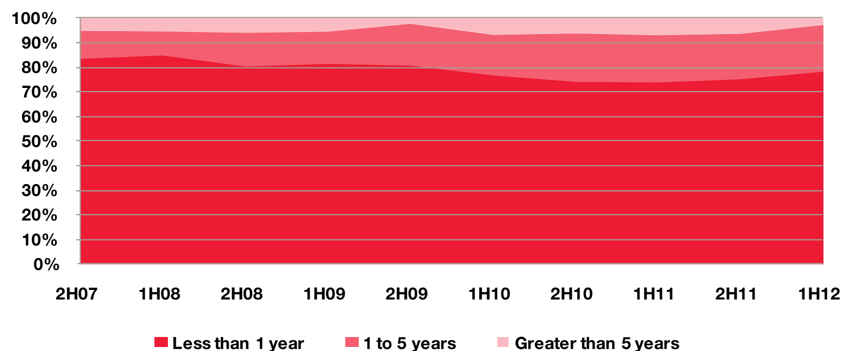


Figure 9: Relative maturities of funding for the NZ major banks



Other operating income

Other operating income has fallen 7% half-on-half. In 1H12 other operating income contributed $1,210m as compared to $1,299m in 2H11.

The key drivers of other operating income are fees and commissions and trading income. Fee and commission income has remained relatively stable for 1H12, totalling $1,248m for the period, with the fall in other operating income being a reduction in trading income driven by the volatility in financial instruments, reversing some of the gains seen in 2H11. Trading income for 1H12 was a loss of $38m, as compared to a gain of $114m in 2H11.

It is interesting to note the major banks in Australia derive a greater proportion of their bottom line through other operating income. As with the New Zealand banks, trading income is the smaller component of other operating income, with the majority of the other operating income being derived through fees and commissions from either the core banking business or the wealth management business. For 1H12, other operating income equates to 32% of total income for the Australian major banks as compared to 25% for the New Zealand major banks.

Expenses

Operating expenses have increased by 3% from 2H11. In 1H12 operating expenses stood at $2,164m as compared to $2,094m. Given the lack of growth in the balance sheets of the major New Zealand banks, costs continue to be an area of focus.

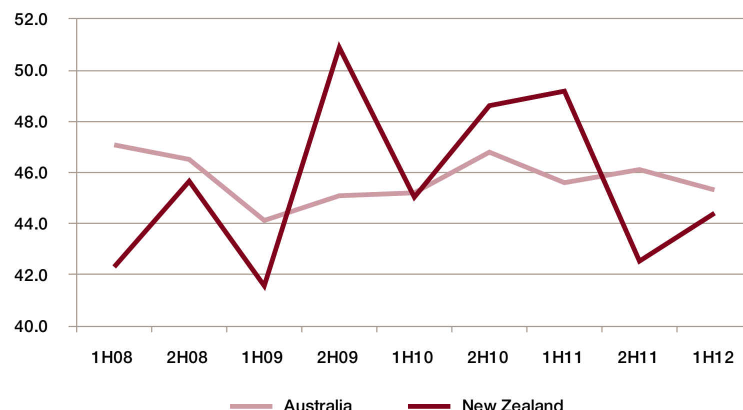
Despite the increase in the half, a cost-income ratio of just over 44% (refer figure 10) is a creditable performance and continues to compare favourably with the major banks in Australia where the cost-income ratio is just over 45%. It should be noted that the cost-income ratio is to some extent influenced by the volatility in other operating income brought about by gains and losses in financial instruments. This in turn has created a greater volatility in the cost-income ratio, when compared with the Australian equivalent, as the Australian banks are exposed to a broader range of other operating income reducing the impact of the movement in gains and losses in financial instruments.

Our sister publication produced by PwC in Australia has looked at the cost-income ratios for other banks around the world. This analysis showed that whilst both Australian and New Zealand banks compare unfavourably to the major Chinese banks (with a ratio of 38%), they compare very favourably with Canadian, Euro and UK banks who have cost –income ratios of 59%, 71% and 65% respectively. With the exception of the European banks, the Australian banks pay their staff more on average than their peers in these territories, although this shows in greater productivity as Australian banks have more assets per FTE than their peers (including the European banks).

Whilst these lower cost-income ratios reflect well on the New Zealand banks, it does suggest that driving growth in profitability from improving efficiency is more of a challenge in the local market as many of the easy runs will already be on the board. Notwithstanding this, the New Zealand major banks will be optimistic that their significant investment in technology will provide a platform for improving efficiency further. Continuing regulatory reform will counteract some of these productivity gains, however, with Basel III, US regulation such as the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Foreign Account Tax Compliance Act, as well as local regulation through the Anti-Money Laundering and Countering Financing of Terrorism Act and the Open Bank Resolution policy all adding to the compliance costs of the New Zealand banks.

The tax expenses have reduced from $756m to $660m in the six month period, being driven by a reduction in the effective tax rate from 30.9% to 27.1%, following the reduction in the corporate tax rate to 28%.

Figure 10: Cost to income ratios of the NZ and Australian major banks



Asset quality

The bad debt expense for 1H12 of $277m is the lowest charge for a six month period since 1H08, the last period before the GFC. This represents a 27% fall in the charge in comparison to 2H11 which totalled $379m.

This is illustrated in figure 11 which shows that the trend of decline in bad debt expense which began in 1H10 has resumed following the halt largely brought about by the impact of the Christchurch earthquakes.

Looking at this data more closely, the household bad debt expense is very close to pre-GFC levels, with the expense totalling $99m in 1H12 compared to $102m in 1H08. Where the New Zealand major banks continue to feel a degree of pain is in the non-household sector where the bad debt expense has remained largely consistent for the last four half-years ranging between $165m and $203m during that time. Improving GDP growth data is a sign that the banks may well see reducing bad debt charges in respect of the non-household sector going forward, but with business confidence falling away again, whether the GDP growth continues and whether this translates into reduced bad debt charges remains to be seen.

Figure 11: NZ major banks: composition of bad debt expenses

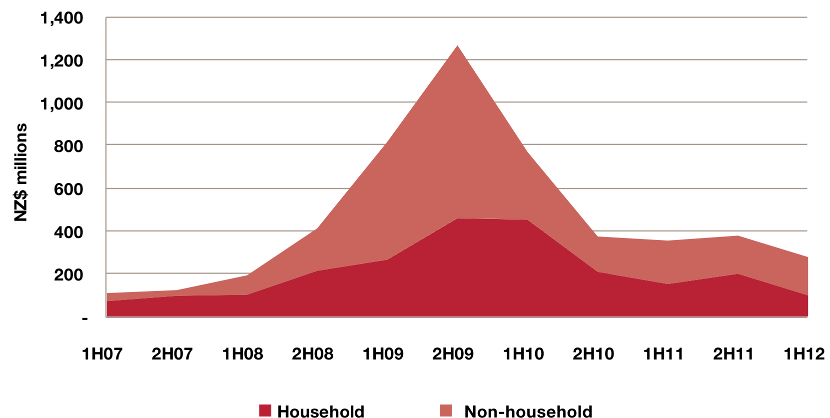


Figure 12 further illustrates the good news in relation to asset quality with loan loss provisions decreasing. Provisions have fallen from $2,619m at the end of 2H11 to $2,541m at the end of 1H12. Again the good news is driven by the household sector rather than the non-household sector where the provisioning has remained flat. Household sector provisioning as a proportion of the New Zealand major banks' lending portfolios fell to 54bps for 1H12 from 59bps for 2H11. Non-household sector only fell to 151bps from 153bps. Given household lending constitutes 63% of the overall lending of the major banks the major banks will be encouraged by this trend.

Looking at figure 13 and some other indictors of asset quality, the impaired assets as a function of gross loans and advances have continued to fall. Impaired assets overall have fallen from $3,725m at the end of 2H11 to $3,418m at the end of 1H12. This is consistent with the reduction in bad debt expense. What is also positive is that the 90 day past due assets as a function of gross loans and advances are at a level even lower than pre GFC. 90 day past due assets have fallen to $1,017m for 1H12 from $1,134m at 2H11. This suggests that the major banks have a good grip on their lending portfolios and have been quick to take action before lending arrears creep out significantly.

Unless there is a significant shock to the economy we do not anticipate the bad debt expense increasing significantly in the remainder of the 2012 financial year or indeed into the next financial year, subject to any major one off corporate losses. However, we do not expect the rate of decrease to continue as the banks are likely to continue to factor into their provisions the various economic indicators which show the local economy is still fragile.

Household bad debt expense is very close to pre-GFC levels

Figure 12: NZ major banks: basis point loan loss provisions

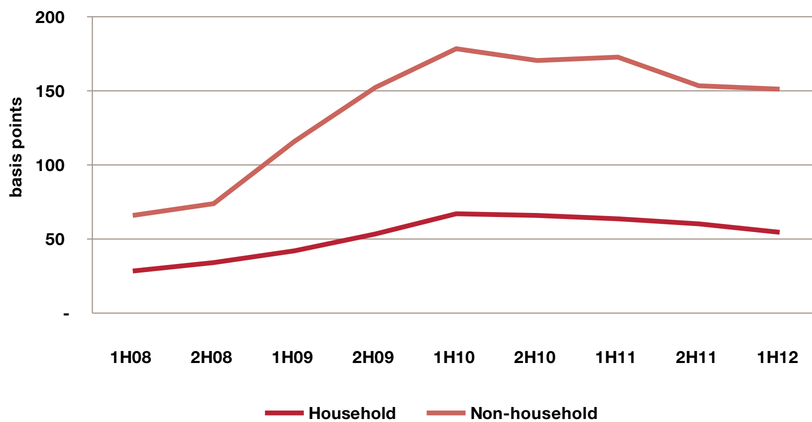
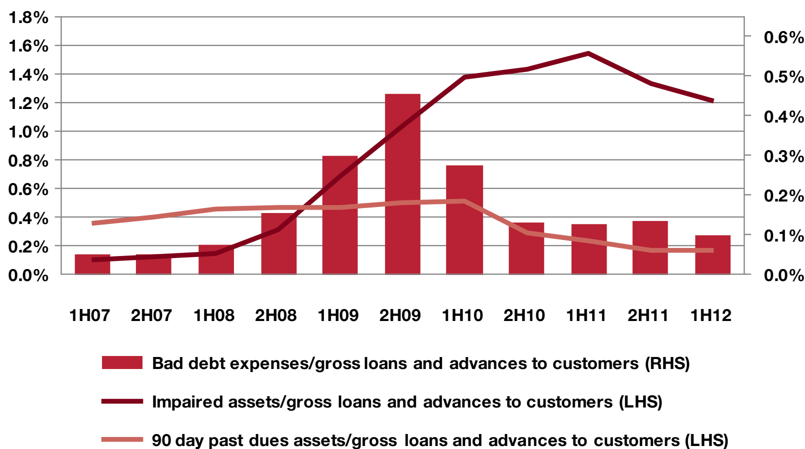


Figure 13: NZ major banks: asset quality and bad debt expenses



Unless there is a significant shock to the economy we do not anticipate the bad debt expense increasing significantly

Capital adequacy

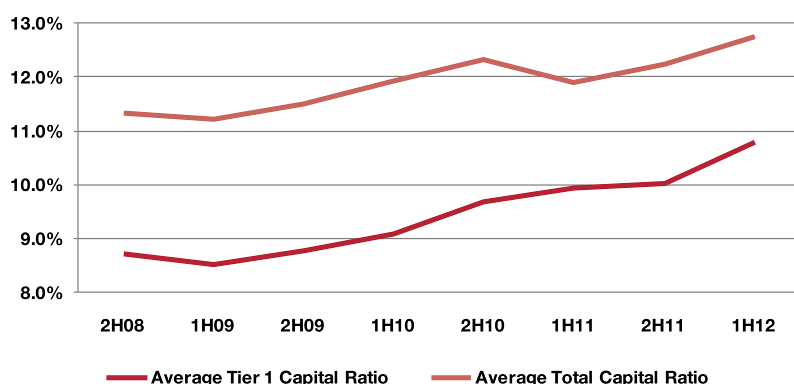
As is illustrated by figure 14, the banks continue to increase their capital ratios. It is encouraging the banks have been able to maintain their profitability as the level and the quality of their capital has increased. Tier 1 Capital is close to 7% above the regulatory minimum as at the end of 1H12, and Total Capital is close to 5% above the regulatory minimums.

The major banks have all accumulated more in retained earnings than they have distributed in dividends with $1,766m being earned in profit after tax for 1H12 with only $503m of this being distributed in dividends. Only one of the major banks has issued further share capital during 1H12 totalling $50m.

The Tier 1 Capital is now 85% of Total Capital which compares with 76% two years previously.

This increase in capital and quality of capital reflects the banks move to compliance with the impending requirements of Basel III and is discussed in more detail overleaf.

Figure 14: Average capital ratios of the major banks



The major banks have all accumulated more in retained earnings than they have distributed in dividends

Impact of Basel III

We have performed an analysis to understand what the major New Zealand banks' average regulatory capital ratios would look like under Basel III. Our analysis is based on the actual 1H12 Basel II capital ratios for the major New Zealand banks and takes into account the Reserve Bank of New Zealand's proposed changes in requirements for the terms of capital instruments. We have assumed no changes to risk weighted exposures or other changes to capital requirements.

The data shows an existing Tier 1 capital ratio of 10.7% on average and an existing total capital ratio of 12.8% under Basel II. Under Basel III, the proposed ratios are a Common Equity Tier 1 ratio of 7%, a proposed Total Tier 1 ratio of 8.5% and a Total Capital ratio of 10.5%.

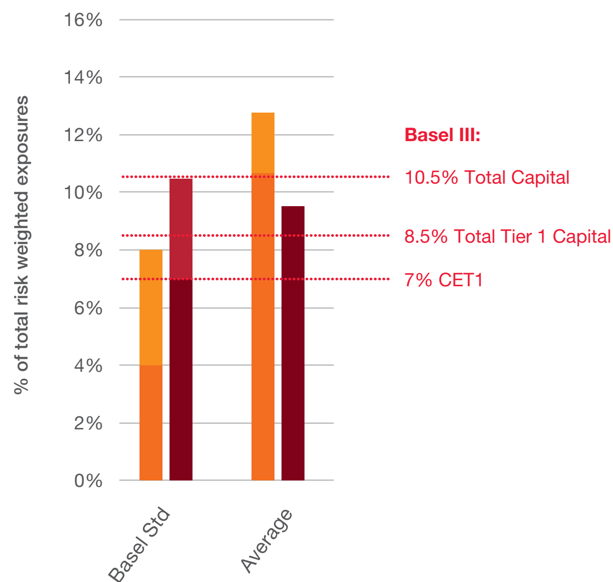
However, under Basel III certain instruments that previously qualified either as Tier 1 Capital or Total Capital will no longer meet those definitions. As a result, we have estimated that to meet the proposed requirements of the Reserve Bank of New Zealand, the major New Zealand banks will collectively need to raise over $460m of Tier 1 Capital and over $1.8bn of Total Capital (including the Tier 1 Capital) as the requirements kick in. There are significant differences in the amount of regulatory capital each New Zealand bank will need to issue and not all major New Zealand banks will be required to issue new qualifying capital instruments to conform to the proposed Reserve Bank of New Zealand Basel III capital requirements. It is important to note, given the New Zealand major banks largely have non-qualifying capital instruments under the Basel III rules which are issued to their parent company (or related entities) it is most likely that the existing non-qualifying capital instruments will be redeemed and replaced by the issuance of additional qualifying capital instruments (eg share capital). As a result, the New Zealand major banks are well placed to meet the Basel III capital requirements.

In response to submissions from the industry the Reserve Bank of New Zealand has proposed to phase in the new requirements for capital instruments between 2013 and 2018. It is proposed this will be done by applying an additional 20% haircut to non-qualifying capital instruments in each year from 1 January 2014 to 1 January 2018.

The most significant change other than the ratio increases is that all non-common equity (ordinary share) capital will be required to have terms which allow it to either be written off or converted to ordinary shares upon certain trigger events, such as the bank become non-viable. This should not have a significant impact on capital held by parent banks in Australia, which can merely be reissued on new terms, but would have significant impacts on non-common equity regularly capital issuances to the public.

At this point in time the Reserve Bank of New Zealand is still consulting on the proposed rules for Basel III.

Capital adequacy: Basel III requirements



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Key Banking Statistics – First Half Year 2012 $NZ millions

	BNZ			WBC *(i)*			CBA *(ii)*			ANZN *(iii)*			Kiwibank		
	6 months	6 months	6 months	**6 months**	6 months	6 months	**6 months**	6 months	6 months	**6 months**	6 months	6 months	**6 months**	6 months	6 months
	1H12	2H11	1H11	**1H12**	2H11	1H11	**1H12**	2H11	1H11	**1H12**	2H11	1H11	**1H12**	2H11	1H11
Income statement															
Interest income	**1,885**	1,881	1,861	**1,990**	2,118	2,036	**1,899**	1,948	2,061	**3,276**	3,304	3,453	**381**	372	348
Interest expense	**(1,138)**	(1,169)	(1,186)	**(1,241)**	(1,278)	(1,342)	**(1,213)**	(1,294)	(1,427)	**(1,915)**	(1,989)	(2,168)	**(258)**	(270)	(259)
Net interest income	**747**	712	675	**749**	840	694	**686**	654	634	**1,361**	1,315	1,285	**123**	102	89
Other operating income	**157**	337	165	**292**	262	247	**238**	185	205	**442**	434	375	**81**	81	80
Operating expenses	**(386)**	(393)	(382)	**(427)**	(422)	(423)	**(355)**	(377)	(354)	**(863)**	(778)	(910)	**(133)**	(124)	(118)
Core earnings	**518**	656	458	**614**	680	518	**569**	462	485	**940**	971	750	**71**	59	51
Impairment losses on credit exposures	**(30)**	(57)	(95)	**(94)**	(107)	(119)	**(32)**	(62)	(25)	**(103)**	(105)	(85)	**(18)**	(48)	(31)
Total operating profit before income tax expense	**488**	599	363	**520**	573	399	**537**	400	460	**837**	866	665	**53**	11	20
Income tax expense	**(136)**	(183)	(108)	**(143)**	(187)	(120)	**(144)**	(122)	(138)	**(222)**	(259)	(187)	**(15)**	(5)	(6)
Net profit to minorities	**0**	0	0	**(1)**	(2)	(2)	**(8)**	(9)	(9)	**0**	0	0	**0**	0	0
Net profit attributable to shareholders	**352**	416	255	**376**	384	277	**385**	269	313	**615**	607	478	**38**	6	14
Balance sheet															
Net loans and advances to customers	**57,834**	56,661	55,719	**58,689**	58,114	56,770	**56,680**	56,419	57,546	**93,817**	93,613	95,395	**12,068**	11,495	10,933
Total assets	**71,716**	74,085	68,668	**75,661**	78,293	74,564	**71,337**	68,674	69,805	**124,738**	129,083	125,059	**14,386**	13,875	12,968
Deposits from customers	**33,883**	31,354	30,608	**39,424**	38,019	37,230	**39,056**	34,135	33,300	**64,179**	61,994	62,822	**11,716**	10,586	11,141
Total shareholders equity	**4,673**	4,349	4,070	**5,178**	4,761	4,378	**4,309**	4,182	4,118	**9,002**	8,465	7,964	**699**	608	600
Asset quality & provisioning															
Gross loans and advances to customers	**58,296**	57,099	56,172	**59,370**	58,779	57,617	**56,907**	56,675	57,810	**95,164**	94,927	96,695	**12,160**	11,582	10,979
Gross other individually impaired assets	**529**	659	796	**899**	919	1,018	**264**	269	289	**1,626**	1,772	2,127	**100**	106	64
Gross impaired assets as a % of loans and advances	**0.91%**	1.15%	1.42%	**1.51%**	1.56%	1.77%	**0.46%**	0.47%	0.50%	**1.71%**	1.87%	2.20%	**0.82%**	0.92%	0.58%
Gross other assets under administration	**14**	10	10	**0**	0	0	**27**	38	79	**9**	6	12	**0**	0	0
90 day past due assets	**214**	202	263	**226**	256	264	**257**	336	387	**295**	307	335	**25**	33	35
Allowance for impairment losses on individual financal assets	**138**	170	176	**283**	266	430	**77**	84	87	**511**	511	552	**48**	37	32
Individual assessed provision as a % of impaired assets	**26.09%**	25.80%	22.11%	**31.48%**	28.94%	42.24%	**29.17%**	31.23%	30.10%	**31.43%**	28.84%	25.95%	**48.00%**	34.91%	50.00%
Allowance for impairment losses on groups of financial assets	**198**	207	219	**438**	437	454	**165**	185	192	**639**	672	738	**44**	50	14
Bad debt charge as a % of loans and advances	**0.05%**	0.10%	0.17%	**0.16%**	0.18%	0.21%	**0.06%**	0.11%	0.04%	**0.11%**	0.11%	0.09%	**0.15%**	0.41%	0.28%
Other key data															
Other operating income (% of total income)	**17.4%**	32.1%	19.6%	**28.0%**	23.8%	26.2%	**25.8%**	22.1%	24.4%	**24.5%**	24.8%	22.6%	**39.7%**	44.3%	47.3%
Expense/income ratio *(iv)*	**42.7%**	37.5%	45.5%	**41.0%**	38.3%	45.0%	**38.4%**	44.9%	42.2%	**47.9%**	44.5%	54.8%	**65.2%**	67.8%	69.8%
Tier 1 capital ratio *(v)*	**9.6%**	9.0%	9.2%	**11.7%**	10.5%	10.3%	**11.2%**	11.2%	11.0%	**11.3%**	10.5%	10.5%	**10.1%**	9.0%	9.5%
Total capital ratio *(v)*	**12.4%**	11.8%	11.3%	**13.7%**	13.0%	13.0%	**12.9%**	12.8%	13.3%	**12.6%**	13.0%	12.1%	**12.1%**	10.5%	11.7%

(i) Represents the aggregated results of the New Zealand banking operations of Westpac Banking Corporation.

(ii) Represents the aggregated results of the New Zealand banking operations of Commonwealth Bank of Australia including ASB Bank.

(iii) Represents the aggregated results of the New Zealand banking operations of Australia and New Zealand Banking Group including ANZ National Bank.

(iv) Recalculated from the banks' disclosure statements based on net interest income, other operating income and operating expenses.

(v) Taken from the relevant locally incorporated bank's disclosure statements, in relation to Basel II.

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