

Thursday 1 November 2018

BNZ backs a growing New Zealand

Bank of New Zealand's (BNZ) strong performance during the 2018 financial year ended 30 September 2018 (FY18) provides confidence that continuing to invest in growing New Zealand businesses and supporting Kiwis on to the property ladder is the right thing to do, according to CEO Angie Mentis.

BNZ has announced a statutory net profit¹ for its banking group² of \$1,029 million for FY18, an increase of 9.8%. Total operating revenue³ for the BNZ Banking Group increased 6.2% to \$2,505 million due to strong growth in lending to businesses and home owners, combined with growth in customer deposits.

"BNZ has been supporting the ambitions of our business customers to invest in their enterprises with \$8.3 billion in new lending in FY18. In the past year we also helped more than 14,000 New Zealanders realise their home ownership goals. Supporting our customers and their communities is at the very centre of who we are at BNZ," says Ms Mentis.

Announcing BNZ's financial results today, Ms Mentis revealed the bank's key strategic themes for 2019 and beyond:

- **BNZ will support the provinces with \$10 billion available for lending to businesses outside Auckland, Wellington and Christchurch over the next five years**
- **BNZ is investing \$250 million in new initiatives over the next three years to accelerate its drive to deliver a world-class, fast and simple, banking experience for its customers**
- **BNZ will continue to deliver great customer outcomes with an aim to halve its products and simplify its fees across its banking services over three years**
- **BNZ is committed to listening to its customers, working with our regulators, and fixing issues quickly to maintain the trust of New Zealanders**

SUPPORTING OUR PROVINCES

"It's important we support New Zealand businesses wherever they are based," says Ms Mentis. "With \$10 billion available for lending over the next five years, we'll back business owners outside Auckland, Wellington and Christchurch to help create meaningful jobs and opportunities in their towns and communities."

BNZ is also trialling a range of initiatives aimed at finding new ways to deliver personalised banking to more customers across New Zealand, especially in the provinces.

This will be in addition to the 153 BNZ branches and teams of BNZ people already supporting their communities. "While we trial these initiatives over the next year, there'll be no changes to our branch network," says Ms Mentis.

BNZ is about to commission its first BNZ mobile branch, expected to be on the road early in 2019. "The mobile branch is designed to provide our customers with the best of BNZ banking services at their local centre on a regular basis. Supporting our first-class bankers will be the latest technology to deliver the right services and advice to all of our customers," says Ms Mentis.

FOCUS ON FASTER, SIMPLER BANKING

“That focus on delivering better customer experiences through smart technology to make banking faster and simpler helps set BNZ apart,” says Ms Mentis. “This year BNZ won a number of awards including the Canstar Bank of the Year – Online Banking award and we are constantly seeking new ways to make banking faster and simpler for customers.”

“Over the coming months our customers will be able to use a range of new products and services, like our new selfie sign-up feature, helping make their experience with us seamless. We’ve committed \$250 million over the next three years to continue this work, recognising that the need to innovate is an essential ingredient to improving customer service,” says Ms Mentis.

LISTENING TO CUSTOMERS AND WORKING WITH REGULATORS

“As we simplify our products and fees we’re passing savings on to our customers,” says Ms Mentis. “This year BNZ has removed or reduced a series of fees and we will continue to do so. This month for example we’re removing the replacement fee for the thousands of customers who lose or have their BNZ card stolen each year.”

BNZ has been working closely with the Financial Markets Authority and Reserve Bank of New Zealand to support their review of conduct and culture in the New Zealand banking industry.

“Our customers’ trust in BNZ is well-founded and we will continue to take proactive steps to ensure that remains the case,” says Ms Mentis.

“BNZ’s already making positive changes as we identify opportunities to improve the way we work and quickly fix issues where they are identified. We have already removed sales targets for staff in key customer roles in branches and call centres, so our people can focus on delivering better results for customers.”

“The continued success of BNZ is interwoven with our purpose of enabling a high achieving New Zealand and that means a dedication to consistently deliver the best possible outcomes for all of our customers,” says Ms Mentis.

KEY FINANCIAL RESULTS (compared to the financial year ended 30 September 2017, unless otherwise stated)

BNZ Banking Group²

- Statutory net profit¹ of \$1,029 million, an increase of 9.8%, which includes mark to market movements on offshore debt instruments and increased cash earnings
- Operating revenue³ increased by 6.2% to \$2,505 million (excludes mark to market movements)

NAB NZ Banking Reporting Segment⁴

- Cash earnings⁵ of \$1,004 million, an increase of 6.7%
- Total revenue increased 7.0% to \$2,414 million, driven by strong volume growth in housing, business lending and deposits, and supported by improved net interest margin
- Net interest margin increased 9 basis points to 2.27% due to improved margins and lower funding cost
- Housing lending increased by 6.4% to \$39.8 billion
- Business lending increased by 2.7% to \$41.5 billion
- Customer deposits increased by 6.2% to \$58.5 billion
- Operating expenses increased by 7.3% to \$946 million, driven by investment in digital and technology
- Credit impairment charge increased by 7.0% to \$76 million



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1. Statutory net profit has been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). It complies with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards.
 2. BNZ Banking Group excludes the Insurance operation in New Zealand and includes BNZ's Group Capital Management, BNZ Markets Trading operations and other central units.
 3. Operating revenue on a BNZ Banking Group cash earnings basis.
 4. NAB NZ Banking Reporting segment comprises the Consumer, Wealth, Business, Agribusiness, Corporate, Insurance and Market Sales operations in New Zealand, operating under the 'BNZ brand'. It excludes BNZ's Group Capital Management, BNZ Markets Trading operations and central units reported at a Group (NAB) level.
 5. Cash earnings is a non-IFRS key financial performance measure used by BNZ for its internal management reporting as it better reflects what BNZ considers to be underlying performance. Cash earnings is calculated by excluding fair value movements and hedging gains/(losses) as they introduce volatility and/or distortion within the statutory net profit which is income neutral over the full term of transactions. A reconciliation of cash earnings to net profit is included on the final page. Cash earnings is not a statutory financial measure, is not presented in accordance with NZ GAAP and is not audited or reviewed in accordance with International Standards on Auditing (New Zealand).

ENDS

For media enquiries, please contact:

Janine Ogier, External Communications Consultant, BNZ

T. 03 924 3975, M. 027 753 4360, E. janine_ogier@bnz.co.nz

For further information, please contact:

Amber Oram, General Manager, Governance and Company Secretary, BNZ

T. 09 924 9209, M. 021 757504, E. amber_oram@bnz.co.nz

BNZ Banking Group¹

	Sep 18	Sep 17	Sep 18 v Sep 17 %
Income Statement Summary (NZ\$m)			
Net interest income	1,946	1,794	8.5
Gains less losses on financial instruments	191	118	61.9
Other operating income	419	403	4.0
Total operating income	2,556	2,315	10.4
Operating expenses	(1,045)	(932)	12.1
Total operating profit before credit impairment charge and income tax expense	1,511	1,383	9.3
Credit impairment charge	(82)	(83)	(1.2)
Total operating profit before income tax expense	1,429	1,300	9.9
Income tax expense on operating profit	(400)	(363)	10.2
Net profit attributable to shareholder of Bank of New Zealand²	1,029	937	9.8
Balance Sheet Summary (NZ\$bn)			
Loans and advances to customers	83.1	79.4	4.7
Total assets	100.0	95.3	4.9
Deposits and other borrowings	63.4	59.9	5.8
Total liabilities	92.6	88.4	4.8
Total shareholder's equity	7.4	6.9	7.2

NAB NZ Banking Reporting Segment³

(NZ\$m)	Sep 18	Sep 17	Sep 18 v Sep 17 %
Net interest income	1,848	1,692	9.2
Other operating income	566	565	0.2
Net operating income	2,414	2,257	7.0
Operating expenses	(946)	(882)	7.3
Underlying profit	1,468	1,375	6.8
Credit impairment charge	(76)	(71)	7.0
Cash earnings before tax	1,392	1,304	6.7
Income tax expense	(388)	(363)	6.9
Cash earnings (NAB NZ Banking Reporting Segment)	1004	941	6.7
Reconciling items to statutory net profit (BNZ Banking Group)			
Structural differences between NAB NZ Banking Reporting Segment and BNZ Banking Group	9	42	(78.6)
Cash earnings (BNZ Banking Group)	1,013	983	3.1
Fair value movements and hedging gains/(losses) ⁴	22	(63)	large
Taxation on reconciling items	(6)	17	large
Net profit attributable to shareholder of Bank of New Zealand	1,029	937	9.8

Volumes (NZ\$b) ⁵	Sep 18	Sep 17	Sep 18 v Sep 17 %
Gross loans and acceptances	82.6	79.1	4.4
Average Interest earning assets	81.6	77.7	5.0
Total assets	86.4	82.6	4.6
Customer deposits	58.5	55.1	6.2

Performance Measures ⁵	Sep 18	Sep 17	Sep 18 v Sep 17 %
Cash earnings on average assets	1.19%	1.18%	1 bps
Net interest margin	2.27%	2.18%	9 bps
Cost to income ratio	39.2%	39.1%	10 bps

- BNZ Banking Group excludes the Insurance operation in New Zealand and includes BNZ's Group Capital Management, BNZ Markets Trading operations and other central units.
- Statutory net profit has been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). It complies with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards.
- NAB NZ Banking Reporting segment comprises the Retail, Business, Agribusiness, Corporate, Insurance and Market Sales operations in New Zealand, operating under the 'BNZ brand'. It excludes BNZ's Group Capital Management, BNZ Markets Trading operations and other central units reported at a Group (NAB) level.
- Unrealised fair value gains or losses on economic hedges that do not qualify for hedge accounting and hedge ineffectiveness causes volatility in statutory profit, which is excluded from cash earnings as it is income neutral over the full term of transactions. This arises from fair value movements relating to trading derivatives for risk management purposes; fair value movements relating to assets; liabilities and derivatives designated in hedge relationships; and fair value movements relating to asset and liabilities designated at fair value.
- Spot volumes (unless otherwise stated) and performance measures are based on NAB NZ Banking Reporting segment operations. Performance measures are calculated on a cash earnings basis.

Our year FY18

Statutory Net Profit

\$1.029bn **9.8%** ON FY17

Operating Revenue*

\$2.4bn **7.0%** ON FY17

Operating Expenses*

\$946m **7.3%** ON FY17
DUE TO INVESTMENT IN DIGITAL & TECHNOLOGY

LARGEST SMART ATM FLEET IN NZ

250 New Smart ATMs

HELPED

14,000

New Zealanders to realise their home ownership goals

\$8.3bn
new lending to help businesses grow



30,000
Kindy kids, teenagers and seniors improved their financial literacy through Closed For Good

Offered Internet banking and app in

TE REO

CANSTAR BANK OF THE YEAR

Small Business
Online Banking
Business Credit Cards
Innovation Excellence



121,329

High quality conversations with customers

LOANED

\$1.5m **60%** ON FY17
in low or no interest loans to 522 families



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