

Media statement

Wednesday 28 October 2015

Record year for BNZ

Strong underlying performance in its business banking (BNZ Partners) and wholesale (BNZ Markets) divisions has seen Bank of New Zealand (BNZ) report a statutory net profit for its banking group¹ of NZ\$1.04 billion for the year to 30 September, 2015.

“This result demonstrates the underlying strength of our business and our resolve to deliver in a testing and competitive year,” said BNZ CEO Anthony Healy. “It’s also been a year of building foundations – we’ve made bold strategic decisions and investments that will set us up for success in future years. I’ve never been more proud of our people and what they’ve achieved.”

Key financial results:

(Note: comparisons are with year ending 30 September, 2014, unless otherwise stated for both BNZ banking group and New Zealand banking operations)

BNZ banking group¹

- **Statutory net profit¹** of NZ\$1.04 billion
- **Cash earnings²** increased by NZ\$71 million or 7.9% to \$966 million driven by growth in lending volumes and a strong Markets result.
- **Common Equity Tier 1, Tier 1 and total capital ratios¹** of 10.70%, 11.69% and 12.67%, respectively.

New Zealand banking operations³

- **Underlying profit³** increased by NZ\$69 million or 5.8% as revenue growth outpaced expense growth.
- **Cash earnings²** showed a small increase of NZ\$16 million or 2.0% to \$823 million, reflecting the impact of increased charges for bad and doubtful debts.
- **Net interest income³** increased by NZ\$113 million or 7.5% driven by growth in business and housing volumes and net interest margin.
- **Net interest margin³** increased by five basis points to 2.39% driven by lower funding costs. This was partially offset by further shifts in the portfolio mix from floating to fixed rate housing products in a competitive market.
- **Other operating income³** decreased by NZ\$24 million or 4.9%, due to lower interchange income and accounting changes (leading to deferred recognition of fee income under IFRS9).
- **Operating expenses³** increased by NZ\$20 million or 2.5% mainly due investment in people, technology and compliance.
- **Charges for bad and doubtful debts³** increased by NZ\$47 million or 54.0%. This was driven by increased collective provision charges as a result of changes to the economic cycle adjustment. This reflects the New Zealand economic outlook, particularly given the outlook for dairy commodity prices.
- **Average customer deposits³** increased by NZ\$2.3 billion or 5.4%, driven by a focus on higher quality personal deposits and managing deposit growth in line with asset growth. This resulted in a 1.3% decline in market share⁴, to 17.5%.
- **Average lending volumes³** grew by NZ\$2.8 billion or 4.4%. Average housing volumes were up by NZ\$1.4 billion or 4.8% and business lending by NZ\$1.5 billion or 4.7%.

1. “Banking Group” means Bank of New Zealand’s financial reporting group, which consists of Bank of New Zealand, all of its wholly owned entities and other entities consolidated for financial reporting purposes.

2. Cash earnings is a common measure of financial performance which excludes items introducing volatility and one-off distortions that are unrelated to BNZ’s ongoing financial performance. Cash earnings is based on statutory net profit which is adjusted to exclude fair value movements, hedging gains/(losses) and the disposal of subsidiaries. These items are excluded from cash earnings as they introduce volatility and/or distortions and are shown in the cash earnings to net profit reconciliation included on the final page. Cash earnings is calculated in accordance with Group (NAB) policy.

3. “BNZ’s New Zealand banking operations”: excludes BNZ’s Group Capital Management and BNZ Markets operations (previously known as Wholesale Banking) from the “Banking Group” and includes the Insurance operation in New Zealand for management reporting purposes.

4. Source: RBNZ Market Share (August 15).

Mr Healy announced BNZ would boost its support of key initiatives that contribute to enabling a high-achieving New Zealand.

1. Our **community finance programme** offers low and no interest loans to people who don't meet typical bank borrowing criteria. BNZ will offer an additional \$50 million in new lending to help low-income New Zealanders be good with money. We continue to work with our partners to expand the scheme, which has had a very successful first year of operation.
2. BNZ will lend more than **\$1 billion to small and medium business** owners looking to grow, expand or export. This enhances BNZ's additional investment in at least 50 more small business bankers.
3. We're pledging a billion dollars of lending to support housing growth in Auckland, including a range of initiatives targeted at the delivery of **affordable housing solutions**, working with other organisations including Community Housing Aotearoa and New Zealand Council for Infrastructure Development.

Commentary – Anthony Healy

Market and business performance

"BNZ Markets had an outstanding year which is reflected in our financial results. BNZ Partners has delivered strong performance in a competitive environment in the business and commercial segments, with good momentum going into FY16."

Agribusiness

"We have a continued focus on supporting our agri customers dealing with volatile commodity prices. We have taken a conservative through-the-cycle approach to the dairy industry, with an economic cycle adjustment to our collective provisions to recognise a period of lower and more volatile dairy prices.

"Asset quality in our agri and dairy book remains extremely sound. We are well-placed to continue supporting our farming customers through a more volatile trading period. They've been through these cycles before and their BNZ partners are well-placed to support them with good advice.

Auckland housing and housing market share

"BNZ re-entered the broker market as borrower preference for brokers has increased, especially in Auckland. We've only been back with brokers for four months and we've already exceeded our targets. So now we're building capability and resource in our internal broker hub to meet this growing demand. Our primary focus in housing has been to expand our presence in Auckland, having already accredited 197 brokers and hired more than 30 additional mobile bankers."

Small business

"Small business has always been integral for BNZ, as it is to the New Zealand economy. We were rewarded with being named Canstar's small business bank of the year for the fifth year running. We've recruited more than 50 small business bankers including 20 people in a new hub in Hamilton, 10 people in Christchurch and the remaining 20 in Auckland."

Digital investment

"We have accelerated our investment in digital platforms and technology so we can deliver seamless experiences and innovative solutions for our customers. We know 65% of our customers now log in through mobile channels and this figure is rising – a fundamental shift in how New Zealanders do their banking. That's why we were the first with Touch ID for Apple phones and were a partner in offering New Zealand's first digital wallet, Semble.

"You Money, our internet banking platform, is award-winning and was integral in BNZ being named Canstar Everyday Bank of the Year 2015. We're migrating all our retail customers to YouMoney by Christmas and the remainder of our business customers throughout 2016."

Credit cards

“The decrease in our market share for credit cards is largely due to customer losses flowing from the departure from GlobalPlus. The new card and rewards programme, BNZ Advantage, is resonating really well with our customers. They have the choice to get cash back off their credit card bill or to save that cash back to a separate savings account. BNZ Advantage customers can earn Fly Buys at an accelerated rate and choose from a range of additional, exclusive rewards.”

Capital and Funding Position

BNZ maintains a robust capital structure, with a strong balance sheet that is well funded through diversified and stable funding sources.

BNZ’s Core Funding Ratio (CFR) exceeded the Reserve Bank of New Zealand minimum requirement of 75% as at 30 September, 2015. BNZ’s Common Equity Tier 1, Tier 1 and Total capital ratios of 10.70%, 11.69% and 12.67%, respectively, as at 30 September, 2015 were well above the RBNZ minimum capital ratio requirements of 7.00%, 8.50% and 10.50%, respectively. BNZ’s capital position was strengthened by a NZ\$500million capital injection by NAB Group in March 2015. BNZ paid NZ\$345 million in ordinary dividends during the financial year. BNZ remained active in term wholesale funding markets during the financial year, completing NZ\$3.5 billion of term issuance in NZD, USD, EUR, CHF, HKD and AUD currencies, supporting its strategy of maintaining a diversified funding base. Collectively, BNZ’s funding and capital position is supportive of BNZ’s long-term senior unsecured issuer credit ratings of AA-/Aa3/AA- (S&P/Moody’s/Fitch).

Ends

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Note for editors**IFRS9**

IFRS9 is a new accounting standard that will replace IAS39 and will be compulsory for all banks from 1 January, 2018. BNZ, in line with its parent NAB, has made the decision to early adopt IFRS9 with 1H15 and FY15 results reported on this basis.

BNZ Banking Group

Income Statement Summary

	Sep 15 NZ\$m	Sep-14 NZ\$m
Net interest income	1,735	1,624
Gains less losses on financial instruments	322	69
Other operating income	375	443
Total operating income	2,432	2,136
Operating expenses	865	901
Total operating profit before impairment losses on credit exposures and income tax expense	1,567	1,235
Impairment losses on credit exposures	128	74
Total operating profit before income tax expense	1,439	1,161
Income tax expense on operating profit	401	311
Net profit attributable to shareholders of Bank of New Zealand	1,038	850

Balance Sheet Summary

	Sep-15 NZ\$m	Sep-14 NZ\$m
Assets		
Cash and liquid assets	1,634	1,779
Due from central banks and other institutions	2,009	2,822
Trading securities	4,918	4,396
Derivative financial instruments	7,895	4,644
Loans and advances to customers	68,216	64,437
Other assets	2,115	1,607
Total assets	86,787	79,685
Liabilities		
Due to central banks and other institutions	1,439	2,147
Short term debt securities	5,027	4,963
Derivative financial instruments	8,310	4,438
Deposits from customers	46,729	45,379
Bonds and notes	16,156	14,651
Other liabilities	2,084	2,366
Total liabilities	79,745	73,944
Total shareholders' equity	7,042	5,741
Performance Measures¹		
Net profit on average assets	1.27%	1.12%
Net interest margin	2.28%	2.26%
Cost to income ratio	35.6%	42.2%

Capital Adequacy Ratios²

	Sep 15 Basel III	Sep 14 Basel III
Common Equity Tier One capital ratio	10.70%	9.36%
Tier One capital ratio	11.69%	10.64%
Total qualifying capital ratio	12.67%	12.04%
Buffer ratio for Common Equity Tier One capital	4.67%	4.04%

1. Performance measures are based on the BNZ Banking Group which excludes the Insurance operation in New Zealand and includes BNZ's Group Capital Management and BNZ Markets operations. Performance measures are calculated on a net profit basis.

2. Based on the RBNZ's Capital Adequacy Framework.

New Zealand Banking operations

	Sep 15	Sep 14	Sep 15 v
	NZ\$m	NZ\$m	Sep 14 %
Net interest income	1,624	1,511	7.5%
Other operating income	468	492	(4.9%)
Net operating income	2,092	2,003	4.4%
Operating expenses	(826)	(806)	(2.5%)
Underlying profit	1,266	1,197	5.8%
Charge to provide for bad and doubtful debts	(134)	(87)	(54.0%)
Cash earnings before tax	1,132	1,110	2.0%
Income tax expense	(309)	(303)	(2.0%)
Cash earnings (NZ Banking)¹	823	807	2.0%
Reconciling items to statutory net profit (BNZ Banking Group)			
Structural differences between NZ Banking and BNZ Banking Group ²	143	88	61.8%
Cash earnings (Legal Entity)	966	895	7.9%
Fair value movements and hedging gains/(losses) ³	100	(69)	244.9%
Taxation on reconciling items	(28)	24	(216.7%)
Net profit attributable to shareholders of Bank of New Zealand⁴	1,038	850	22.1%
Average Volumes (NZ\$m)⁵			
Gross loans and acceptances	65.8	63.0	4.4%
Interest earning assets	68.0	64.6	5.3%
Total assets	68.6	64.9	5.7%
Customer deposits	44.9	42.6	5.4%
Performance Measures⁵			
Cash earnings on average assets	1.20%	1.24%	(4 bps)
Net interest margin	2.39%	2.34%	5 bps
Cost to income ratio	39.5%	40.2%	70 bps

1. BNZ's New Zealand Banking operations are reported as a separate division and include the Retail, Business, Agribusiness, Corporate and Insurance businesses. It excludes BNZ's Group Capital Management and BNZ Markets (previously known as Wholesale Banking) operations reported at a Group (NAB) level.
2. BNZ Banking Group excludes the Insurance operation in New Zealand and includes BNZ's Group Capital Management and BNZ Markets operations.
3. Includes unrealised fair value gains or losses on economic hedges that do not qualify for hedge accounting and ineffectiveness of designated hedge accounting relationships. Fair value movements are mainly driven by changes in interest rates, credit spreads and volatility on cross currency swaps.
4. 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.
5. Average volumes and performance measures are based on BNZ's New Zealand Banking operations. Performance measures are calculated on a cash earnings basis.