

Media Release

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Key initiatives deliver strong performance, and position BNZ for success

Strong underlying revenue growth and careful expense management has seen Bank of New Zealand (BNZ) reporting a statutory net profit for its banking group¹ of NZ\$502 million for the six months to March 2015.

“This result is an extremely pleasing one, reflecting the underlying growth momentum we are building, and is testament to the efforts of all of BNZ’s people over the past six months to deliver for our customers,” said BNZ CEO Anthony Healy.

Key financial points:

BNZ banking group¹

- **Statutory net profit¹** of \$502 million for the six months to March 2015.
- **Cash earnings²** increased by NZ\$33 million or 7.3% to \$483 million driven by growth in lending volumes, good expense management and a strong Markets result.
- **Common Equity Tier 1, Tier 1 and total capital ratios¹** of 10.79%, 11.85% and 12.90% respectively as at 31 March 2015.

New Zealand banking operations³

- **Cash earnings²** increased by 4.5% to NZ\$418 million, compared to the March 2014 half, driven by increased revenue, partially offset by higher operating expenses and charges for bad and doubtful debts.
- **Net interest income³** increased by NZ\$58 million (7.8%) driven by growth in business and housing volumes and lower funding costs.
- **Net interest margin³** increased by seven basis points to 2.41% due to lower funding costs. This was partially offset by a decline in asset margins from customers switching to lower margin fixed interest rates.
- **Other operating income³** down 7.3% on the March 2014 half due to a change in the mix between margin and upfront fees, mainly for institutional customers, lower interchange fee income due to lower transaction volume, and accounting changes due to the implementation of NZ IFRS9.
- **Operating expenses³** well managed, increasing by just NZ\$7 million or 1.8% compared to the March 2014 half, due to an increase in personnel costs.
- **Charge for bad and doubtful debts³** increased by NZ\$5 million compared to the March 2014 half due to increased collective provision charges, but remained flat compared to September 2014 against the backdrop of a continuing positive economic outlook.
- **Customer deposits³** increased by NZ\$3.1 billion or 7.4% versus March 2014 half.
- **Average lending volumes³** grew by NZ\$2.5 billion or 4.0%, average housing volumes were up by NZ\$1.4 billion or 4.7% and business lending by NZ\$1.1 billion or 3.5%. Housing and Business market share⁴ remained largely stable.

“Investing in our people, leveraging our digital capability and expanding our reach are core to our strategy of helping New Zealanders be good with money,” said Mr Healy.

“And the investment we have made in our retail and partners’ networks over the past five years to create a unique point of difference in the market is really paying off.

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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 (March 15).

“That financial success enables us to continue investing in and supporting areas of our economy linked directly to the wider prosperity of ‘New Zealand Inc.’ – the SME sector, agriculture, housing and investing to support Auckland’s growth,” said Mr Healy.

Anthony Healy said he expects BNZ’s recent re-entry into the mortgage broker market to boost the bank’s home loan performance, and to position the bank strongly in the high-growth Auckland market.

“We know that 25% of customers choose to use a broker, so our decision made strategic and commercial sense. It extends our reach and will enhance BNZ’s capacity to help more New Zealanders to buy their own home.

“We have continued to demonstrate our strength in the agriculture sector, and have worked with our farming customers to support them in uncertain times. I am pleased to see that nearly 2000 farmers have attended one of our resilience workshops.

“Despite the drought in some parts of New Zealand and volatile milk powder prices, I am confident the industry is robust and will continue to take advantage of the huge demand from Asian consumers for high-quality, safe foodstuffs.

“At the same time New Zealand’s huge reliance on its agriculture sector does underline the need to develop a more diverse economic base. That’s why we continue to invest in and support the SME sector, as demonstrated by our long-standing, partnership with the ICEHOUSE,” said Mr Healy.

“Our investment programme in our digital and technology platforms is delivering market-leading capabilities for our customers in the areas of trade, payments and mobile banking.

“This programme will also simplify our end-to-end customer fulfilment processes to make it easier for our customers to interact with us and manage their money.

“We managed 88 million interactions through our digital channels in the last year. Customers are increasingly using our interactive banking platform, and our award-winning mobile app, YouMoney. They’re starting conversations and seeking advice online by using BNZ Community, a New Zealand first that enables peer-to-peer support in banking.”

BNZ was also a core partner in the Semble launch, which Mr Healy says represents a bold step into the new landscape of mobile payments.

Mr Healy said that strong financial results allow BNZ to invest in the communities that ultimately sustain it.

“This investment takes many forms, including Community Finance, Closed for Good, ongoing support of Plunket, and a highly successful partnership with Waikato-Tainui which delivers financial literacy for iwi members.”

BNZ maintains a robust capital structure, with a strong balance sheet that is well-funded through diversified stable funding sources. Collectively, BNZ’s funding and capital position is supportive of BNZ’s long-term credit rating of AA-/Aa3/AA- (S&P/Moody’s/Fitch).

BNZ’s Core Funding Ratio exceeded the RBNZ minimum requirement of 75% as at 31 March 2015. BNZ’s Common Equity Tier 1, Tier 1 and Total capital ratios of 10.79%, 11.85% and 12.90% are higher than the RBNZ minimums of 7.00%, 8.50% and 10.50% respectively. BNZ continues to be active in wholesale funding markets, completing an offshore US\$144a US\$600m, 3-year issue and a domestic NZ\$250m 4.3-year issue supporting the strategy of a diversified funding base.

BNZ paid \$163 million in tax³ for the half year and employs over 5000 people in its network of stores, Partners’ Centres and customer support functions.

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Note for editors

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

	Half Year to		
	Mar 15 NZ\$m	Sep 14 NZ\$m	Mar 14 NZ\$m
Net interest income	850	822	802
Gains less losses on financial instruments ²	133	77	(8)
Other operating income	182	230	213
Total operating income	1,165	1,129	1,007
Operating expenses	(420)	(479)	(422)
Total operating profit before impairment losses on credit exposures and income tax expense	745	650	585
Impairment losses on credit exposures	(47)	(36)	(38)
Total operating profit before income tax expense	698	614	547
Income tax expense on operating profit	(196)	(157)	(154)
Net profit attributable to shareholders of Bank of New Zealand	502	457	393

Balance Sheet Summary

Spot Balances (NZ\$m)	Mar-15	Sep 14	Mar 14
Total assets	82,083	79,685	76,922
Total liabilities	75,466	73,944	71,096
Total shareholders' equity	6,617	5,741	5,826
Ordinary shareholder's equity	5,967	5,091	4,916
Contributed equity – perpetual preference shareholders	650	650	910
Total shareholders' equity	6,617	5,741	5,826
Performance Measures ²			
Net profit on average assets	0.63%	0.60%	0.52%
Net interest margin	2.27%	2.29%	2.27%
Cost to income ratio	36.1%	42.4%	41.9%
Capital Adequacy Ratios ¹			
	Mar 15 Basel III	Sep 14 Basel III	Mar 14 Basel III
Common Equity Tier One capital ratio	10.79%	9.36%	9.13%
Tier One capital ratio	11.85%	10.64%	10.58%
Total qualifying capital ratio	12.90%	12.04%	12.13%

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

2. 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.

New Zealand Banking operations

	Half Year to			Mar 15 v Mar 15 v	
	Mar 15	Sep 14	Mar 14	Sep 14 %	Mar 14 %
	NZ\$m	NZ\$m	NZ\$m		
Net interest income	804	765	746	5.1%	7.8%
Other operating income	230	244	248	(5.7%)	(7.3%)
Net operating income	1,034	1,009	994	2.5%	4.0%
Operating expenses	(407)	(406)	(400)	(0.2%)	(1.8%)
Underlying profit	627	603	594	4.0%	5.6%
Charge to provide for bad and doubtful debts	(46)	(46)	(41)	0.0%	(12.2%)
Cash earnings before tax	581	557	553	4.3%	5.1%
Income tax expense	(163)	(150)	(153)	(8.7%)	(6.5%)
Cash earnings (NZ Banking) ¹	418	407	400	2.7%	4.5%
Reconciling items to statutory net profit (BNZ Banking Group)					
Structural differences between NZ Banking and BNZ Banking Group ²	65	38	50	71.1%	30.0%
Fair value movements and hedging gains/(losses) ³	27	10	(79)	170.0%	134.2%
Taxation on reconciling items	(8)	2	22	(500.0%)	(136.4%)
Net profit attributable to shareholders of Bank of New Zealand ⁴	502	457	393	9.8%	27.7%
Average Volumes (NZ\$bn)⁵					
Gross loans and acceptances	65.0	63.5	62.5	2.4%	4.0%
Interest earning assets	67.0	65.2	64.1	2.8%	4.5%
Total assets	67.7	65.9	63.9	2.7%	5.9%
Customer deposits	44.8	43.4	41.7	3.2%	7.4%
Performance Measures⁵					
Cash earnings on average assets	1.24%	1.23%	1.26%	1bp	(2 bps)
Net interest margin	2.41%	2.34%	2.34%	7 bps	7 bps
Cost to income ratio	39.4%	40.2%	40.2%	80 bps	80 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.