

28 April 2020



BNZ: Robust and ready to help rebuild New Zealand's economy

Bank of New Zealand (BNZ) today released its half year results to 31 March 2020 and says while the operating environment has changed, BNZ is well-capitalised and has the balance sheet strength to play its part in helping get New Zealand back on its feet.

BNZ announced its statutory net profit of \$367 million for the first half of the financial year which included a software capitalisation policy change that reduced BNZ's capitalised software balance. Excluding this specific item, statutory net profit decreased by \$74 million (13.5%) over the prior comparable period.

COVID-19

BNZ CEO Angela Mentis says, "Together with the New Zealand Government and Reserve Bank, our focus has been on rapidly responding to assist our customers as they navigate this very difficult time."

During March and April BNZ supported its customers with a variety of support measures including assisting over 21,000 customers with new and restructured home lending to the value of \$10 billion.

Ms Mentis says, "We have been working with our business customers, having open conversations to ensure they have the information to make the right decisions. For some sectors and businesses, the path to recovery is going to be very challenging and we will be responsive while remaining responsible in our support for them."

BNZ has helped tens of thousands of its business customers through a combination of BNZ's business support measures and the Business Finance Guarantee Scheme provided in partnership with the Government.

To assist businesses, BNZ removed all contactless debit transaction fees for SMEs for three months, lowered overdraft interest rates, provided extensions of trade credit and principal repayment deferrals, amongst other initiatives. BNZ has also launched its QuickBiz portal, an online, 24/7 capability for businesses to apply for up to \$100,000 without additional security.

Ms Mentis says, "Through Level 4 lockdown we kept those that are most vulnerable in our community at the forefront of our minds.

"We introduced an Aged Customer Care Helpline for our over 70-year-old customers to provide targeted support, including getting them started on internet banking, and opened branches on Thursdays for customers who needed access to physical service," she says.

BNZ also helped people avoid the perils of predatory lenders.

Ms Mentis says, "Together with Good Shepherd NZ, we extended our Community Finance no-interest loan scheme with \$5 million to help people pay outstanding bills like rent and utilities, or to refinance or consolidate existing high-cost debt."

Digital acceleration

Ms Mentis says, “More than ever our customers are choosing to interact with us via digital channels and we will continue to invest significantly in the technology and digital capability to meet those expectations. The most recent example is the use of digital signing to improve convenience for customers.

“COVID-19 has fast tracked online banking activity and customers have adopted this as a convenient and practical way to stay safe and get things done during the Level 4 lockdown,” she says.

Strong and supportive

Ms Mentis acknowledged the challenges New Zealanders now face from COVID-19 but says that in the six months to 31 March this year, BNZ helped 7,720 Kiwis buy homes including 2,616 customers buy their first home. BNZ also supported more than 9,000 SMEs start or grow their businesses and year on year has achieved growth of 15% in KiwiSaver members.

“While our response to COVID-19 and the ongoing support for our customers is the priority, BNZ continues to perform strongly,” she says.

BNZ COVID 19 support measures

COVID-19 Support	Number	Volume
Home loan support	>21,000 customers	\$9 billion
Business Finance Guarantee Scheme loans	>1,000 applications	\$200 million pipeline
Business Assistance	>17,200 customers	\$16 billion
Calls to contact centre	>140,000	
Calls to Aged Customer Care Helpline	>14,000	
Branches open during lockdown	48	

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Key Financial Results

***Note:** compared to the six months ended 31 March 2019, unless otherwise stated.

BNZ Banking Group¹

Statutory net profit² of \$367 million, a decrease of \$183 million, impacted by:

- Software capitalisation policy change that increased the minimum threshold at which software is to be capitalised from \$2 million to \$5 million.
- Increase in credit impairment charge driven by an increase in the economic adjustment.
- Strong volume growth supporting net interest income.
- Net favourable mark to market movement driven by offshore debt instruments and related swaps.

NAB NZ Banking Reporting Segment³

Cash earnings⁴ of \$562 million, an increase of 5.6% reflecting higher revenue which benefitted from growth in housing and business lending, and lower operating expenses due to productivity benefits achieved through continued simplification of the business and reduced amortisation charges.

BNZ Banking Group¹

Income Statement Summary (NZ\$m)	Mar 20	Sep 19	Mar 19	Mar 20 v	Mar 20 v
				Sep 19 %	Mar 19 %
Net interest income	1,051	1,027	1,034	2.3	1.6
Gains less losses on financial instruments	76	105	24	(27.6)	Large
Other operating income	190	222	244	(14.4)	(22.1)
Total operating income	1,317	1,354	1,302	(2.7)	1.2
Operating expenses	(656)	(643)	(492)	2.0	33.3
Total operating profit before credit impairment charge and income tax expense	661	711	810	(7.0)	(18.4)
Credit impairment charge	(151)	(68)	(46)	122.1	Large
Total operating profit before income tax expense	510	643	764	(20.7)	(33.2)
Income tax expense on operating profit	(143)	(171)	(214)	(16.4)	(33.2)
Net profit attributable to shareholder of Bank of New Zealand²	367	472	550	(22.2)	(33.3)

Balance Sheet Summary (NZ\$bn)					
Loans and advances to customers	89.5	88.0	85.7	1.7	4.4
Total assets	118.5	109.1	103.8	8.6	14.2
Deposits and other borrowings	73.0	68.0	66.4	7.4	9.9
Total liabilities	109.9	101.2	96.1	8.6	14.4
Total shareholder's equity	8.6	7.9	7.6	8.9	13.2

NAB NZ Banking Reporting Segment³

Reconciling items to statutory net profit (BNZ Banking Group)	Mar 20	Sep 19	Mar 19	Mar 20 v	Mar 20 v
				Sep 19 %	Mar 19 %
Cash earnings⁴ (NAB NZ Banking Reporting Segment)	562	523	532	7.5	5.6
Structural differences between NAB NZ Banking Reporting Segment and BNZ Banking Group	(246)	(82)	62	Large	Large
Cash earnings (BNZ Banking Group)	316	441	594	(28.3)	(46.8)
Fair value movements and hedging gains/(losses) ⁵	71	43	(61)	65.1	Large
Taxation on reconciling items	(20)	(12)	17	66.7	Large
Net profit attributable to shareholder of Bank of New Zealand	367	472	550	(22.2)	(33.3)
Add-back: Noteable items after tax ⁶	109	86	-	26.7	Large
Net profit attributable to shareholder of Bank of New Zealand excluding one-off items	476	558	550	(14.7)	(13.5)

Volumes (NZ\$bn) ⁷					
Gross loans and acceptances	89.6	87.2	84.9	2.8	5.5
Average Interest earning assets	89.8	87.1	85.0	3.1	5.6
Total assets	94.1	90.9	88.7	3.5	6.1
Customer deposits	63.8	61.5	59.7	3.7	6.9

Performance Measures ⁸					
Cash earnings on average assets	1.21%	1.16%	1.22%	5 bps	(1 bp)
Net interest margin	2.24%	2.20%	2.30%	4 bps	(6 bps)
Cost to income ratio	36.2%	38.2%	37.8%	(200 bps)	(160 bps)

1. BNZ Banking Group excludes the Insurance operation in New Zealand and includes BNZ's Group Capital Management, BNZ's Markets Trading operations and other central units.
2. 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.
3. 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 other central units.
4. 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 statutory 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).
5. 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.
6. Notable items are due to a change in software capitalisation policy in both the 31 March 2020 and 30 September 2019 reporting periods. The change in September 2019 increased the minimum threshold to \$2m. In March 2020 the minimum threshold at which software is to be capitalised increased from \$2 million to \$5 million.
7. Spot volumes (unless otherwise stated) and performance measures are based on NAB NZ Banking Reporting segment operations.
8. Performance measures are calculated on a cash earnings basis.