

Media Release

30 October 2014

Focus on key initiatives drives solid annual result for BNZ

Bank of New Zealand (BNZ) today reported a statutory net profit for its banking group¹ of NZ\$850 million for the twelve months to September 2014.

Chief executive Anthony Healy, who was appointed CEO in May, says the result represents solid underlying performance in an environment of intense competition and regulatory change.

Cash earnings² for BNZ's New Zealand banking operations³ increased by NZ\$19 million or 2.4% to NZ\$807 million, compared to the previous year. The result was largely driven by improved revenue and bad and doubtful debt charges.

Average lending volumes increased by NZ\$2.4 billion or 4% to NZ\$63 billion compared to the prior year³. The business lending portfolio experienced steady growth.

Housing volume grew by \$600 million over the second half following a subdued first half influenced by the RBNZ high loan to value ratio lending limits, and intense market competition.

“A focus on the areas that are important to New Zealanders such as investing in key business sectors and helping customers pay down debt and increase savings over the long term, has ensured a steady underlying result within the challenges that the 2014 financial year presented,” says Mr Healy.

“Strong performance from agribusiness, supported by recent growth in home loans, driven by that focus, has created momentum that we expect to continue into the new financial year.”

Customer deposits continued to grow strongly, increasing by NZ\$4.1 billion or 10.6%³, driven by a continued focus on balance sheet strength.

BNZ maintains a robust capital structure, with a strong balance sheet that is well funded through diversified and stable funding sources. In February 2014, BNZ established a U.S. Rule 144A programme, enabling it to raise term funding in the U.S. market, further broadening the bank's wholesale funding base. BNZ's core funding ratio (CFR) was comfortably above the RBNZ minimum requirement of 75%¹. Collectively, BNZ's funding and capital position is supportive of BNZ's long-term AA-/Aa3/ (S&P/Moody's) credit rating.

Net interest margin (NIM) was impacted by customers' preference for lower margin fixed rate lending in a rising interest rate environment. The two basis points reduction in NIM to 2.34%³, compared with the same period last year, was partially offset by reduced funding costs. NIM was stable compared to the six months ended 31 March 2014.

Other operating income decreased by NZ\$7 million or 1.4%³ compared to the prior year, primarily driven by lower lending and commitment fees across BNZ Partners and Retail bank.

Operating expenses increased by NZ\$15 million or 1.9%³, primarily due to depreciation costs on completed projects as well as the bank's commitment to ongoing investment in technology and digital programmes.

Provisions for bad and doubtful debts reduced by NZ\$12 million or 12.1% due to ongoing improvements in the credit risk environment.

Mr Healy says the bank is having different conversations about money with New Zealanders.

The bank's HomeAdvantage home loan saw BNZ as the first bank in New Zealand to offer customers a credit card rate matched to a variable interest rate for the life of their mortgage. The bank followed that with a campaign designed to help New Zealanders shred up to \$156,000 of interest off a standard 30-year \$300,000 home loan, with its tailored home loan product which allows customers to make small increases every year in repayments.

Mr Healy says that the bank's 18-month-old BNZ KiwiSaver scheme has experienced the fastest growth in the market, with NZ\$376 million funds under management at 30 September.

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 (August 14). Retail deposits exclude some deposits by business banking customers captured in money market deposits in the BNZ Disclosure Statement.

In May, BNZ committed NZ\$10m to a community finance initiative offering interest free and low interest loans to people banks don't normally lend to. The programme will start with a one-year pilot and will be delivered in partnership with the New Zealand Government, Good Shepherd NZ and The Salvation Army.

"For this country to be prosperous we must support all New Zealanders, including those who for a variety of reasons don't have access to traditional sources of credit," says Mr Healy.

The bank continues to lead in encouraging workplace diversity. Earlier this month BNZ was named supreme winner at the UN White Camellia Awards, recognising the bank's corporate leadership for gender equality and its progress in implementing the UN Women's Empowerment principles.

Mr Healy says there is also a continued focus on reinvestment in the business to drive future growth and efficiencies, particularly in the development of customer-focused digital channels.

"We're channelling investment into the issues that matter to New Zealand such as diversity in our workplaces, focusing on New Zealand's key growth sectors such as agribusiness and SME as well as helping New Zealanders purchase and pay off their homes.

"We continue to lead the market in SME banking and this year were awarded Canstar SME bank of the year for the fifth year in a row.

"Our investment in developing customer-focused ways for our customers to view and manage their finances is being recognised," Mr Healy says.

The bank's groundbreaking YouMoney digital banking platform continues to win awards a year following launch, picking up gold at the 2014 BEST awards, which recognises how design influences business outcomes.

BNZ paid NZ\$303 million in tax³ for the year and employs over 5000 people in its nationwide network of stores, Partners' Business Centres and customer support functions.

Ends

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Income Statement Summary

	Year to	
	Sep 14 NZ\$m	Sep-13 NZ\$m
Net interest income	1,624	1,565
Gains less losses on financial instruments ²	69	(94)
Other operating income	443	434
Total operating income	2,136	1,905
Operating expenses	(901)	(843)
Total operating profit before impairment losses on credit exposures and income tax expense	1,235	1,062
Impairment losses on credit exposures	(74)	(113)
Total operating profit before income tax expense	1,161	949
Income tax expense on operating profit	(311)	(254)
Net profit attributable to shareholders of Bank of New Zealand	850	695

Balance Sheet Summary

Spot Balances (NZ\$m)	Sep-14	Sep-13
Total assets	79,685	75,310
Total liabilities	73,944	69,623
Total shareholders' equity	5,741	5,687
Ordinary shareholder's equity	5,091	4,777
Contributed equity – perpetual preference shareholders	650	910
Total shareholders' equity	5,741	5,687

Capital Adequacy Ratios¹

	Sep 14	Sep-13
	Basel III	Basel III
Common Equity Tier One capital ratio	9.36%	8.87%
Tier One capital ratio	10.63%	10.68%
Total qualifying capital ratio	12.03%	12.61%

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

2. September 2013 includes a loss of \$142 million (\$104 million post tax) due to own credit adjustments (OCA) on BNZ debt securities as a result of tightening global credit spreads. In March 2014, BNZ adopted OCA changes in IFRS9 and therefore these mark to market movements are now recognised through retained earnings rather than through the banks statutory profit.

New Zealand Banking operations

	Year to		
	Sep 14 NZ\$m	Sep-13 NZ\$m	Sep 14 v Sep 13 %
Net interest income	1,511	1,466	3.1
Other operating income	492	499	(1.4)
Net operating income	2,003	1,965	1.9
Operating expenses	(806)	(791)	(1.9)
Underlying profit	1,197	1,174	2.0
Charge to provide for bad and doubtful debts	(87)	(99)	12.1
Cash earnings before tax	1,110	1,075	3.3
Income tax expense	(303)	(287)	(5.6)
Cash earnings (NZ Banking) ¹	807	788	2.4

Reconciling items to statutory net profit (BNZ Banking Group)

Structural differences between NZ Banking and BNZ Banking Group ²	88	60	46.7
Fair value movements and hedging gains/(losses) ³	(69)	(221)	68.6
Taxation on fair value movements and hedging gains/(losses)	24	68	(64.7)
Net profit attributable to shareholders of Bank of New Zealand ⁴	850	695	22.3

Average Volumes (NZ\$bn)⁵

Gross loans and acceptances	63.0	60.6	4.0
Interest earning assets	64.6	62.0	4.2
Total assets	64.9	62.0	4.7
Customer deposits	42.6	38.5	10.6

Performance Measures⁵

Cash earnings on average assets	1.24%	1.27%	(3 bps)
Net interest margin	2.34%	2.36%	(2 bps)
Cost to income ratio	40.2%	40.3%	10 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 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.