

Thursday 2 November 2017

Bank of New Zealand focuses on creating a high achieving New Zealand

Bank of New Zealand (BNZ) has today announced strong financial results which CEO Anthony Healy says is an excellent outcome for the bank's people, its customers and its shareholders. He emphasised that making a meaningful contribution to communities needs to happen in tandem with good financial results.

"My focus is on BNZ's role in contributing to a high achieving New Zealand – from the families we help into their first home, to the small business owners we assist to open their doors for the first time and the entrepreneurs we enable to flourish. It includes the time our agri bankers spend visiting our customers in the most remote farming communities, through to helping our largest corporates expand," said Mr Healy.

BNZ plays a vital role in contributing to a high achieving New Zealand

"We recognise that we have a wide range of stakeholders and we need to work closely with all of them to focus on financial results and our contribution to a successful New Zealand," said Mr Healy.

The expansion of the Community Finance partnership to 13 regions was a highlight for BNZ which was enabled by \$4.2 million in operational funding from the government. Together with Good Shepherd and BNZ's community providers, Community Finance is now in 13 cities and towns from Whangarei to Invercargill. Community Finance offers low and no interest loans to New Zealanders who don't meet standard bank criteria. BNZ estimates its \$1.45 million in lending to 31 August 2017 has saved customers more than \$780,000 versus borrowing through alternative lenders and the bank has made \$60 million in lending available to Community Finance customers.

"I'm incredibly proud of the difference we are making in communities around New Zealand and the stand we have taken on ethical investment in our KiwiSaver funds, developing a responsible investment policy that excluded investments in companies involved in the production of cluster munitions, anti-personnel mines, nuclear weapons and tobacco or tobacco products," said Mr Healy.

Delivering a strong financial result

"Our continued focus on our priority segments has delivered further market share growth in our core business and home lending segments, supporting New Zealand businesses and communities to grow and families to invest in homes. Importantly, this growth has driven a strong result for shareholders, which is critical because they are the ones who provide us with the capital that enables us to put more back into the country," said Mr Healy.

BNZ has today reported an increase in cash earnings¹ of 7.9% to \$983 million on the prior year and a statutory net profit for its banking group² of NZ\$937 million.

BNZ cites the ongoing growth and investment in its Partners offering as a key driver of the bank's performance in 2017. "Our unique Partners model continues to resonate strongly with our business and agri clients across New Zealand. We have invested in the rebuild of Canterbury, opened a new Partners Centre in the Christchurch CBD in December 2016,

¹ 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).

² "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.

and in March 2017 opened a co-working space there which specifically caters to the needs of small businesses, called community 101," said Mr Healy.

The bank has continued to grow its specialist capabilities across high growth areas such as Health, ICT, start-ups and entrepreneurs – all of which are vital to New Zealand's future; and for the fourth year BNZ Private Bank has been awarded 'Best Private Bank in New Zealand' at The Banker/PWM Global Private Banking Awards 2017.

"It has been pleasing to see the recovery of the dairy sector which has delivered improving on-farm cash flows. We are also seeing the unwinding of the Dairy Impaired No Loss category, which has reduced 73 percent over FY17, from \$823 million to \$222 million. This is the result of the effort we made to support our farmers through the downturn and shows the resilience of the sector," said Mr Healy.

BNZ continues its focus on sustainable growth in housing, resulting in an increase of \$2.3 billion. BNZ says its presence in the broker market continues to deliver expanded distribution reach. Nationally it has partnerships with more than 900 brokers across six aggregator groups, of which 60 percent are in Auckland.

Results delivered via digital investment and a re-shaped bank

"We recognise that the world of banking is changing and we've invested heavily in creating more seamless customer experiences, from our market leading digital platforms to our new and emerging technology partnerships," said Mr Healy.

Last week BNZ launched Apple Pay and in December 2016 BNZ was the first bank to bring Android Pay to New Zealand, as well as being the first bank in Asia Pacific to integrate the payment method into its app.

In October 2017, BNZ joined the Intel Saffron Early Adopter Program to accelerate the use of Artificial Intelligence (AI) technologies in banking. Working with Intel Saffron and its innovative, leading edge AI technologies will enhance BNZ's ability to understand its customers better than ever and help them do great things with their money.

"We're proud to be helping home owners take steps to becoming debt-free, faster. Our home loan repayment tool means customers can increase their home loan payments online from their couch. Customers who've used this tool stand to save \$273 million and take 63,000 years off their home loans. On average, a customer using this tool has taken four years and 11 months off their home loan," said Mr Healy.

An agenda to transform

"Our job is to reimagine banking for the 21st century and that means adopting an accelerated transformation agenda underpinned by being truly customer-centric. Customers don't want banking to dictate their lives – they want their lives to dictate banking," said Mr Healy.

BNZ says its customers expect intuitive experiences, speed, simplicity and technology that is "always on". It says its new, customer-led proposition – Bank of You – will be critical in helping it deliver the types of experiences its customers want, and it will be essential in transforming the bank.

"The shape of the bank is changing – our physical network, our digital platforms, and our products and services, are being shaped by our customers lives and how they want to interact with us. This is an accelerating shift that is guiding our investment agenda and our areas of strategic focus, as well as our focus on partnering and working with companies such as Intel, Salesforce, Apple, Google and Figured, to deliver innovative and emerging capabilities to enable great customer experiences. Over time, this will also deliver productivity benefits, and allow us to continue to grow revenue and enhance shareholder returns," said Mr Healy.

Key results:

Comparison with the 12 months ending 30 September 2016, unless otherwise stated

BNZ Banking Group¹

- **Statutory net profit**² of NZ\$937 million, NZ\$24 million or 2.6% higher compared to prior year.
- **Cash earnings**³ of \$983 million, increased by NZ\$72 million or 7.9% driven by greater revenue to expense growth and lower charges for bad and doubtful debts.

NAB NZ Banking Reporting Segment⁴

- **Cash earnings**³ increase of NZ\$77 million or 8.9% to \$941 million was driven by higher net interest income and lower charges for bad and doubtful debts.
- **Underlying profit** increased by NZ\$61 million or 4.6% mainly due to higher net interest income.
- **Net interest income** increased by NZ\$85 million or 5.3%, driven by growth in lending and deposit volumes, partly offset by lower net interest margin.
- **Net interest margin** decreased by 6bps to 2.18%, driven by lower earnings on capital and a competitive deposit market.
- **Other operating income** decreased by NZ\$9 million or 1.6% mainly due to lower revenue in the credit card portfolio and life insurance business.
- **Operating expenses** increased by NZ\$15 million or 1.7% to support continued investment in digital and technology.
- **Charges for bad and doubtful debts** decreased by NZ\$54 million or 43.2% as a result of improved economic conditions, including the outlook for the dairy portfolio.
- **Gross loans and advances** increased by NZ\$5.0 billion or 6.7% driven by housing and business lending.
- **Customer deposits** increased by NZ\$4.6 billion or 9.1%.

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) of 85.8% was comfortably above the Reserve Bank of New Zealand's (RBNZ) minimum requirement of 75% as at 30 September 2017. BNZ's Common Equity Tier 1, Tier 1 and Total capital ratios of 10.65%, 12.14% and 13.36% respectively, as at 30 September 2017, exceeded the RBNZ's minimum capital ratio requirements of 7.00%, 8.50% and 10.50% respectively.

Collectively, BNZ's funding and capital position is supportive of its long-term senior unsecured issuer credit ratings of AA-/A1/AA- (S&P/Moody's/Fitch).

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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 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 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).

⁴ "NAB NZ Banking Reporting Segment": excludes BNZ's Group Capital Management and BNZ Markets Trading operations from the "Banking Group" and includes the Insurance operation in New Zealand for management reporting purposes.

BNZ Banking Group

Income Statement Summary

For the year ended 30 September 2017

	Sep 17 NZ \$m	Sep 16 NZ \$m	Sep 17 v Sep 16 %
Net interest income	1,794	1,757	2.1%
Gains less losses on financial instruments	118	106	11.3%
Other operating income	403	406	(0.7%)
Total operating income	2,315	2,269	2.0%
Operating expenses	932	889	4.8%
Total operating profit before impairment losses on credit exposures and income tax expense	1,383	1,380	0.2%
Impairment losses on credit exposures	83	120	(30.8%)
Total operating profit before income tax expense	1,300	1,260	3.2%
Income tax expense on operating profit	363	347	4.6%
Net profit attributable to shareholders of Bank of New Zealand	937	913	2.6%

Condensed Balance Sheet

As at 30 September 2017

	Sep 17 NZ \$m	Sep 16 NZ \$m	Sep 17 v Sep 16 %
Assets			
Cash and liquid assets	2,209	2,450	(9.8%)
Due from central banks and other institutions	2,244	1,648	36.2%
Trading securities	5,778	4,703	22.9%
Derivative financial instruments	3,805	7,319	(48.0%)
Loans and advances to customers	79,441	74,378	6.8%
Other assets	1,838	2,043	(10.0%)
Total assets	95,315	92,541	3.0%
Liabilities			
Due to central banks and other institutions	1,594	1,244	28.1%
Derivative financial instruments	3,219	7,786	(58.7%)
Deposits and other borrowings	59,912	57,511	4.2%
Bonds and notes	20,157	16,723	20.5%
Other liabilities	3,492	2,272	53.7%
Total liabilities	88,374	85,536	3.3%
Total shareholders' equity	6,941	7,005	(0.9%)
Performance Measures¹			
Net profit on average assets	0.98%	1.01%	(3 bps)
Net interest margin	2.06%	2.19%	(13 bps)
Cost to income ratio	40.3%	39.2%	108 bps
Capital Adequacy Ratios²	Basel III	Basel III	
Common Equity Tier One capital ratio	10.65%	10.21%	44 bps
Tier One capital ratio	12.14%	10.54%	160 bps
Total qualifying capital ratio	13.36%	12.04%	132 bps
Buffer ratio	5.36%	4.04%	132 bps

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.

NAB NZ Banking Reporting Segment

	Sep 17	Sep 16 ¹	Sep 17 v
	NZ \$m	NZ \$m	Sep 16 %
Net interest income	1,692	1,607	5.3%
Other operating income	565	574	(1.6%)
Net operating income	2,257	2,181	3.5%
Operating expenses	882	867	1.7%
Underlying profit	1,375	1,314	4.6%
Charge to provide for bad and doubtful debts	71	125	(43.2%)
Cash earnings before tax	1,304	1,189	9.7%
Income tax expense	363	325	11.7%
Cash earnings (NAB NZ Banking Reporting Segment)²	941	864	8.9%
Reconciling items to statutory net profit (BNZ Banking Group)			
Structural differences between NAB NZ Banking Reporting Segment and BNZ Banking Group ³	42	47	(10.6%)
Cash earnings (BNZ Banking Group)	983	911	7.9%
Fair value movements and hedging gains/(losses) ⁴	(63)	3	large
Taxation on reconciling items	17	(1)	large
Net profit attributable to shareholders of Bank of New Zealand⁵	937	913	2.6%
Volumes (NZ \$b)⁶			
Gross loans and acceptances	79.1	74.1	6.7%
Average interest earning assets	77.7	71.9	8.1%
Total assets	82.6	77.5	6.6%
Customer deposits	55.1	50.5	9.1%
Performance measures⁶			
Cash earnings on average assets	1.18%	1.17%	1 bps
Net interest margin	2.18%	2.24%	(6 bps)
Cost to income ratio	39.1%	39.8%	(70 bps)

¹ Certain comparative balances have been restated to align with the presentation used in the current financial year. Statutory net profit remains consistent with prior periods. The previously reported NZ Banking segment has been changed to align with the restated NAB NZ Banking Reporting segment which includes Markets Sales operations. This represents a movement between cash earnings and the structural differences reconciling items of \$50m for the September 2016 year, and movements between cash earnings and fair value movements and hedging gains/(losses) of \$31m for the September 2016 year.

² 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 and BNZ Markets Trading operations reported at a Group (NAB) level.

³ BNZ Banking Group excludes the Insurance operation in New Zealand and includes BNZ's Group Capital Management and BNZ Markets Trading operations.

⁴ 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.

⁵ 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.

⁶ Spot volumes and performance measures are based on NAB NZ Banking Reporting segment operations. Performance measures are calculated on a cash earnings basis.