



CUSTOMER AND COMMUNITY FOCUS DELIVERING STRONG MOMENTUM FOR BNZ

Bank of New Zealand's (BNZ) increased focus on customers and communities has underpinned a strong result for the first half of the 2019 financial year.

“The first six months have been all about enabling our people to deliver the basics brilliantly for BNZ customers, backing our regions, and supporting at-risk communities across New Zealand. We have purposefully realigned the business to deliver improved customer outcomes, and we're encouraged by our progress to date and excited about the future,” says BNZ CEO Angie Mentis.

BNZ has announced a statutory net profit¹ for its BNZ Banking Group² of \$550 million for the six months ended 31 March 2019, with operating revenue³ increasing by 9.0% over the prior comparable period.

Operating revenue growth was supported by strong housing and business loan growth and improved net interest margin. Statutory net profit was impacted by the gain on the sale of BNZ's 25% shareholding in Paymark and unfavourable mark to market movements on offshore debt instruments. “This performance demonstrates we're on track to deliver on our key strategic themes for 2019 and beyond,” says Ms Mentis.

Announcing BNZ's results today, Ms Mentis updated progress on those themes:

- **BNZ has supported the regions with \$800 million in new lending to businesses in the regions (\$10 billion available over five years)**
- **Driving innovation and simplification of BNZ products and making it easier to do business with us by creating simpler ways to open accounts and delivering products that meet the needs of our customers**
- **Continued commitment to improving financial wellbeing with 55,000 New Zealanders having a financial health check with BNZ in the past six months**

BACKING THE REGIONS

“We remain committed to supporting businesses and this half of the financial year, we've helped 8,800 small and medium enterprises to start or grow their businesses wherever they are based, creating meaningful opportunities right across New Zealand”, says Ms Mentis.

With \$10 billion available over five years, BNZ has supported the regions with \$800 million in new lending so far this financial year.

BNZ is also launching the first of a range of initiatives to find new ways of personalising banking, especially in the regions.

“The first Mobile BNZ will visit towns across the Manawatu-Wanganui region in June 2019. BNZ customers there can meet a banker in person without having to drive to Palmerston North. We're starting in Pahiatua, Marton and Foxton with other towns to follow,” says Ms Mentis.

In addition to this new initiative, BNZ's commitment made in November 2018 to maintaining its 153 branch network stands.

SUPPORTING AT-RISK COMMUNITIES

“We’re continuing to work hard to support our communities,” says Ms Mentis. “Being an active part of so many New Zealand communities gives BNZ the opportunity to help customers plan for the future and offer increased financial security for those most in need,” says Ms Mentis.

“For us, taking an active part in communities also means making a difference where it’s needed most. We’ve partnered with The Salvation Army to establish ‘The Good Shop’ which aims to support communities with high quality goods and services at fair prices directly to their homes. At the same time, we’re also able to undermine the business models of lenders who take advantage of some of our most vulnerable communities.”

“We’re ramping up our Community Finance programme with Good Shepherd that offers zero and low interest loans by doubling the number of Good Shepherd loan workers in communities where they are most needed,” says Ms Mentis. “We’ve already had nearly 5,000 conversations since Community Finance launched four years ago and helped more than 1,400 customers with nearly \$4 million in lending.”

“As we come into winter we’re also providing a \$1 million interest free credit line to help Habitat for Humanity to carry out more urgent repairs and alterations for low-income homeowners throughout the North Island. This means that more of the great work Habitat for Humanity does can be fast tracked to help ensure people in need can stay in their homes with the support they require,” says Ms Mentis.

CONTINUED CUSTOMER FOCUS

Our customers want banking to be easy and we have continued our focus on reducing the number of products and simplifying fees.

BNZ recently provided a comprehensive response to the Financial Markets Authority and Reserve Bank of New Zealand’s review of conduct and culture in the New Zealand banking industry.

“Our response highlighted BNZ’s focus and resolve on conduct to do the best we can for our customers and outlines our plan to meet the increasing expectations of our customers and stakeholders.”

“Proactively fixing issues where we find them is key to delivering great customer outcomes, and continuing to listen and proactively support New Zealanders is the right thing for BNZ to do,” says Ms Mentis.

HELPING NEW ZEALANDERS ACHIEVE THEIR HOME OWNERSHIP GOALS

In the first half of this financial year, BNZ has increased its share of the housing loan market by 1.2x the market growth rate and helped more than 7,500 New Zealanders realise their home ownership goals, with 2,500 of those being first home buyers.

“Our housing loan growth was particularly pleasing as we know home ownership plays a key role in New Zealanders’ sense of on-going financial wellbeing and people are looking to BNZ to help take this important step,” says Ms Mentis.

“BNZ is also expanding the options available for first home buyers to get into the market with the introduction of a shared-ownership pilot programme,” says Ms Mentis.

FAST + SIMPLE = BETTER BANKING

“We’re accelerating our drive to deliver a fast and simple banking experience for our customers.

Our “Anywhere Sign-Up” launch is proof of that with around 10% of new account openings using the selfie sign-up function. With our new online pin set-up, we have improved the self-service experience to join BNZ. These are just the sort of banking experiences customers expect when choosing who they give their business to.

There is more innovation in BNZ’s digital pipeline to come, all aimed at enhancing our customers’ experience,” says Ms Mentis.

ENDS

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KEY FINANCIAL RESULTS

(compared to the six months ended 31 March 2018, unless otherwise stated)

BNZ Banking Group²

- Statutory net profit¹ of \$550 million, an increase of 12.2%, impacted by:
 - Higher cash earnings in BNZ Banking Group
 - The gain on sale of BNZ's 25% shareholding in Paymark in January 2019
 - Unfavourable mark to market movements on offshore debt instruments
- Operating revenue³ increased by 9.0% to \$1,278 million (excluding gains less losses on financial instruments)

NAB NZ Banking Reporting Segment⁴

- Cash earnings⁵ of \$532 million, an increase of 7.7%
- Net operating income increased 5.5% to \$1,258 million, driven by strong volume growth in housing, business lending and deposits, and supported by improved net interest margin
- Net interest margin increased 6 basis points to 2.30% due to improved funding composition, partially offset by lower lending margins
- Gross loans and acceptances increased by 6.4% to \$84.9 billion driven by housing and business lending
- Customer deposits increased by 2.6% to \$59.7 billion
- Credit impairment charge increased by \$3 million to \$44 million
- Operating expenses increased by 2.2% to \$475 million

1. 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.
2. 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.
3. Operating revenue excluding gains less losses on financial instruments.
4. 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's Markets Trading operations and other central units.
5. 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).

BNZ Banking Group¹

Income Statement Summary (NZ\$m)	Mar 19	Sep 18	Mar 18	Mar 19 v	Mar 19 v
				Sep 18 %	Mar 18 %
Net interest income	1,034	988	958	4.7	7.9
Gains less losses on financial instruments	24	94	97	(74.5)	(75.3)
Other operating income	244	204	215	19.6	13.5
Total operating income	1,302	1,286	1,270	1.2	2.5
Operating expenses	(492)	(503)	(542)	(2.2)	(9.2)
Total operating profit before credit impairment charge and income tax expense	810	783	728	3.4	11.3
Credit impairment charge	(46)	(34)	(48)	35.3	(4.2)
Total operating profit before income tax expense	764	749	680	2.0	12.4
Income tax expense on operating profit	(214)	(210)	(190)	1.9	12.6
Net profit attributable to shareholder of Bank of New Zealand²	550	539	490	2.0	12.2

Balance Sheet Summary (NZ\$bn)	Mar 19	Sep 18	Mar 18	Mar 19 v	Mar 19 v
				Sep 18 %	Mar 18 %
Loans and advances to customers	85.7	83.1	80.2	3.1	6.9
Total assets	103.8	100.0	97.1	3.8	6.9
Deposits and other borrowings	66.4	63.4	63.0	4.7	5.4
Total liabilities	96.1	92.6	90.0	3.8	6.8
Total shareholder's equity	7.6	7.4	7.1	2.7	7.0

NAB NZ Banking Reporting Segment³

(NZ\$m)	Mar 19	Sep 18	Mar 18	Mar 19 v	Mar 19 v
				Sep 18 %	Mar 18 %
Net interest income	973	943	905	3.2	7.5
Other operating income	285	279	287	2.2	-0.7
Net operating income	1,258	1,222	1,192	2.9	5.5
Operating expenses	(475)	(481)	(465)	-1.2	2.2
Underlying profit	783	741	727	5.7	7.7
Credit impairment charge	(44)	(35)	(41)	25.7	7.3
Cash earnings before tax	739	706	686	4.7	7.7
Income tax expense	(207)	(196)	(192)	5.6	7.8
Cash earnings (NAB NZ Banking Reporting Segment)	532	510	494	4.3	7.7

Reconciling items to statutory net profit (BNZ Banking Group)	Mar 19	Sep 18	Mar 18	Mar 19 v	Mar 19 v
				Sep 18 %	Mar 18 %
Structural differences between NAB NZ Banking Reporting Segment and BNZ Banking Group	62	34	(25)	Large	Large
Cash earnings (BNZ Banking Group)	594	544	469	9.2	26.7
Fair value movements and hedging gains/(losses) ⁴	(61)	(7)	29	Large	Large
Taxation on reconciling items	17	2	(8)	Large	Large
Net profit attributable to shareholder of Bank of New Zealand	550	539	490	2.0	12.2

Volumes (NZ\$bn) ⁵	Mar 19	Sep 18	Mar 18	Mar 19 v	Mar 19 v
				Sep 18 %	Mar 18 %
Gross loans and acceptances	84.9	82.6	79.8	2.8	6.4
Average Interest earning assets	85.0	82.3	80.9	3.3	5.1
Total assets	88.7	86.4	84.0	2.7	5.6
Customer deposits	59.7	58.5	58.2	2.1	2.6

Performance Measures ⁵	Mar 19	Sep 18	Mar 18	Mar 19 v	Mar 19 v
				Sep 18 %	Mar 18 %
Cash earnings on average assets	1.22%	1.20%	1.19%	2 bps	3 bps
Net interest margin	2.30%	2.29%	2.24%	1 bps	6 bps
Cost to income ratio	37.8%	39.4%	39.0%	(160 bps)	(120 bps)

- 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.
- 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.
- 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.
- 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.
- Spot volumes (unless otherwise stated) and performance measures are based on NAB NZ Banking Reporting segment operations. Performance measures are calculated on a cash earnings basis.