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Financial Institutions
Performance Survey

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JUNE 2014 QUARTERLY RESULTS

Our cover image of the wind turbine mirrors the economy and the banks' performance this quarter. Like the wind, the economy can be intermittent; it can come or move in any direction, there can be lulls or gusts, all occurring at irregular intervals. The wind is not continuous or consistent and like those affected by the wind, those affected by the economy need to harness its changing force.

Quarterly net profit rises again

Profits across the sector have risen again, driven by lending and asset growth, improvements in interest margins, the strongest quarter for non-interest income seen in years and loan impairment which represents only 8 basis points (bps) of gross loans and advances (a level which is well below the long-run average of 19 bps). Overall net profit after tax for the sector in June 2014 was $1,125 million, which at the headline level was actually a reduction of approximately $25 million from the March quarter. However, if we back out the insurance settlement that ANZ Bank recorded in the March 2014 quarter of $91 million, as this major one-off is distorting underlying results, the 'normalised' result is a 6.2% increase in profits in the current quarter (although acknowledging that we haven't adjusted for any other one offs).

> **Overall Net Profit after Tax for the sector in June 2014 was $1,125 million, which at the headline level was actually a reduction of approximately $25 million from the March quarter.**

Now this isn't saying, the Banks have had it all their own way; yes profits have increased, yes loans and advances have increased by 1.22% in the quarter, yes funding costs stayed down driven by cheap offshore funding, yes costs have been kept constrained with a mere 41.35% cost to income ratio, and yes the bad loans are harder to find than a cheap house in Auckland. Competition has continued to be intense during the quarter with more varied and different give aways for residential mortgage borrowers. The rural sector is coming to terms with the fact that $8.65/kg milk payout experienced in 2013/14 is going to feel a bit like the day after a big night out…. a bit groggy, a bit headachy and wondering how you spent so much the night before…. and the Commercial Sector is still holding its breath waiting to see the outcome of the election.

Overall while a number of economists are concerned that the four increases in the Official Cash Rate (OCR) may have put the brakes on the economy, one can't help but reflect that we still have a banking sector which remains in a strong state.

Good asset and lending growth

Total assets for the June 2014 quarter climbed to another all-time high of $390 billion a 0.83% increase from March 2014 and a yearly increase of 2.38% from June 2013. With the growing confidence in offshore funding, we have seen some reductions in liquidity holdings, and as such an increase in gross loans and advances with the June 2014 quarter growing by 1.22%. This is indicative of a housing market continuing to grow, particularly in the Auckland and Christchurch markets, and business confidence remaining strong to the end of the June quarter.

Economic outlook a bit patchy

The New Zealand economy has lost some momentum since talk of the 'rock star' economy at the beginning of the year, but continued with a 0.7% growth in GDP for the June quarter and 3.5% growth for the year to 30 June 2014. This was on the back of construction growth especially in Canterbury, low interest rates and the surge in net migration which hit a ten year high in the year to June.

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Four OCR increases in the past year, have culminated in the current rate of 3.5%, re-affirmed in September 2014, and has continued to have a mixed impact on the housing market. House sales volumes are dropping and homeowners continue to further shift to fixed mortgage rates with the quantum of residential fixed mortgages more than double that of residential floating mortgages during the June 2014 quarter. The flow rate of loans into fixed rate mortgages is roughly 70% of all lending. Against these slowing volumes, we still continue to see reporting of record and sustained price increases in some markets (most notably

Auckland) which points to a supply/demand issue in the market.

More balls in the air

Regulation continues and this quarter has seen a number of high priority financial regulations are being implemented. One of these is the Foreign Account Tax Compliance Act (FATCA) which commenced on 1 July 2014. FATCA requires all New Zealand financial institutions to register and report details of financial accounts relating to US citizens or entities, to the US Internal Revenue Service, a pretty far reaching requirement. However, things are moving forward, the InterGovernmental Agreement was signed, and the FACTA Act passed through the house on time.

A lot of talk in the sector has been around responsible lending, and while the Credit Contracts and Consumer Finance Amendment Act 2014 was probably not targeted directly at the banks, but rather the payday lenders and loan sharks, it just adds another layer of regulation for the banks to monitor. The draft Responsible Lending Code is to be released for consultation in November and regulations expected to be in force in December.

With the first phase of the provisions of the Financial Markets Conduct Act already in force since 1 April 2014, there still continues to be ongoing consultations in specific sectors. For derivative issuers, consultations are ongoing around license conditions requiring issuers to assess the suitability of products for clients. For managers of registered managed investment schemes, consultations are ongoing around the limits included in the statement of investment policy and objectives (SIPO) and reporting breaches of those limits to the supervisor. Submissions on both of these consultations are closing at the end of September.

What else is happening?

In July 2014, credit rating agency Fitch raised its outlook on the New Zealand economy from stable to positive. They also reaffirmed Kiwibank's credit rating of AA+ and upgraded their outlook from stable to positive. A continuation of positive credit ratings news in the sector.

Peer-to-peer lending hit the headlines in the quarter with the FMA licensing Auckland-based Harmoney in July under the provisions of the Financial Markets Conduct Act 2013. On 8 September, Heartland announced that they have bought a 10% shareholding in Harmoney which will allow Heartland to access a unique niche market.

As if 19 banks weren't enough for one little country, the RBNZ announced on 15 July that CCB New Zealand Limited has been registered as a bank in New Zealand becoming the 20th bank in New Zealand (24th license if you count two ANZ's, two ASB/CBA, two Rabos and two Westpacs). CCB New Zealand Limited is a fully-owned subsidiary of China Construction Bank Corporation.

> **“**
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Quarterly analysis

Quarterly net profit after tax (NPAT) growth stalls

Figure 1 outlines the movement in the main income statement categories for all Survey participants, which shows:

- Net interest income increased by $56.9 million (2.81%)
- Non-interest income increased by $23.5 million (3.46%)
- Operating expenses increased by $49.6 million (4.5%)
- Impaired asset expense increased by $55.6 million (521.65%)
- Tax expense increased by $0.21 million (0.05%).

As can be seen from the summary of movements in figure 1, the slight decrease in overall NPAT is to do with increases in operating expenses and impaired asset expenses slightly off set by the increases in net interest income and non-interest income.

We have normalised levels from the March quarter by excluding the large one off insurance settlement gain of $91 million in the ANZ Bank results.

CBA continued to incur a decline in profits during this quarter, mostly as a result of the impairment expense increasing for two consecutive quarters and a $10 million increase in operating expenditure, due to costs the move to ASB's new North Wharf headquarters and on-going investment in IT infrastructure. However, when we compared the yearly results to 30 June 2014, CBA recorded an impressive 17% increase in NPAT, which is attributed to the increase in business and rural lending and favourable funding conditions which resulted in an improvement in interest margin year on year.

Of the three major banks to show increases in NPAT over the June quarter, Westpac saw the largest increase in NPAT with a $51 million (22%). This was off the back of increases in net interest income and non-interest income, with the latter improving by 38%. Kiwibank closely followed with an increase in quarterly NPAT of 18%, leading to a record high annual net profit of $100 million.

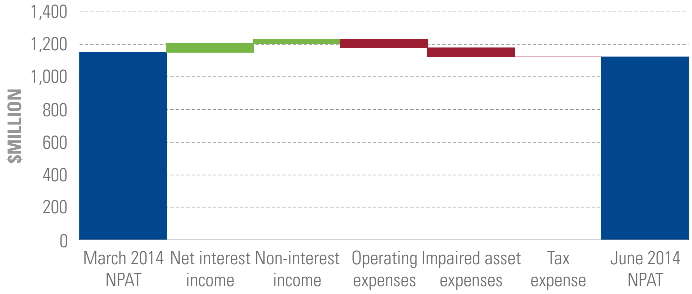
Net interest margin – Overall margin spread increasing

Net interest margin (NIM) is a measure in which movement is rarely consistent among the banks, as seen in figure 8, has shown greater consistency in the June quarter. ANZ was the only bank whose interest margin was down over the quarter, from 2.29% to 2.27%. This was due to them also having the largest increase in interest expense over the quarter and the ANZ Group media release highlighted that improved funding and deposit pricing has been offset by some asset pricing pressure which was broadly based. A not uncommon situation for the sector, asset pricing has been competitive, but deposit pricing has been eased slightly.

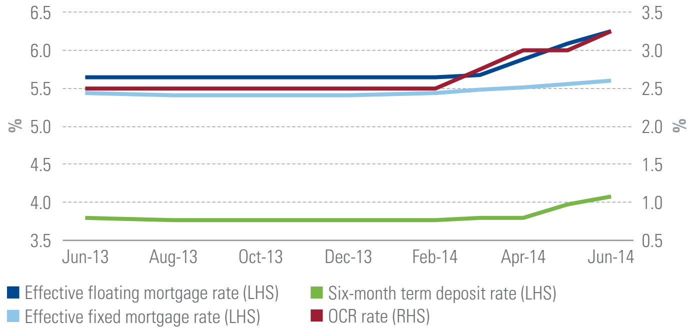
However, excluding ANZ, the remaining eight Survey participants have all shown improvements in their NIM, giving an overall increase of 7 bps from 2.22% to 2.29%. This indicates that overall the sector is riding the Reserve Bank of New Zealand (RBNZ) OCR rate changes well on the way up and the growing competitiveness in retail mortgages is still allowing some margin growth.

Interest earning assets for the sector have maintained similar growth to the prior quarter, at 1.22% in June quarter compared to 1.18% in March quarter.

1 MOVEMENT IN NET PROFIT AFTER TAX



2 RETAIL INTEREST RATES ON LENDING AND DEPOSITS



Source: Reserve Bank of New Zealand Statistics

However, most of this growth is driven by ANZ and Westpac, who increased their interest earning assets by 3.2% and 1.9% respectively.

Banks have now passed on more of the OCR rise over the quarter as the effective floating mortgage rate has risen 58 bps since March 2014. The increase in OCR has also been reflected in six-month deposit rates, which have gone up by 28 bps over the quarter; however, the banks have still managed to preserve their margins. Fixed mortgage rates have also increased; however, not as significantly as floating rates, which can be seen in figure 2.

The swap curve, has flattened significantly during the year. The short end of the yield curve has risen driven by the impact of successive OCR increases on bank bills while the longer end has been subdued by a combination of overseas investors seeking higher yield and weaker economic data (e.g. dairy, housing, exchange rates, commodity prices etc.) than that expected from the 'rock star' economy at the start of the year. The mid points of the curve have not moved significantly, upwards pressure driven by demand for fixed mortgages being matched by supply from overseas investors seeking New Zealand's relatively higher yields.

As expected, due to the larger spread between fixed rates and floating rates and expectations of a rise in interest rates in the future, customers are continuing to switch from floating to fixed interest rates. The latest RBNZ data shows that in June 2014, 32% of loans were floating, compared to 36% in March 2014 and 41% in December in 2013, shown by the movements in figure 3. However, as the RBNZ kept the OCR unchanged in September, this may start to stabilise.

Competition in the housing loan market still remains intense with some bank Executives commenting that the current pricing does not match the risk. Cash incentives on home loans continue to be offered by all banks included in this Survey (except Heartland) to match current pricing levels. With current interest margins, banks can afford these cash contributions, but these offers could become a burden with an abrupt change in the markets (i.e. funding).

TABLE 1: MOVEMENT IN INTEREST MARGIN	30-Jun-14 Quarter ended (%)	Movement during the quarter (BP)	Movement for the 6 months (BP)	Movement for the 12 months (BP)
ANZ Banking Group[(a)]	2.27%	-2	-8	-1
Bank of New Zealand	2.37%	7	5	8
Commonwealth Bank of Australia[(a)]	2.29%	5	3	13
Heartland Bank	4.94%	49	33	67
Kiwibank Limited	1.96%	14	14	13
Southland Building Society	2.81%	23	28	40
The Co-operative Bank	2.85%	7	7	11
TSB Bank Limited	2.17%	18	16	20
Westpac Banking Corporation[(a)]	2.18%	4	6	-13
Sector	**2.28%**	**3**	**1**	**2**

TABLE 2: MOVEMENT IN IMPAIRED ASSET EXPENSE/ AVERAGE GROSS LOANS	30-Jun-14 Quarter ended (%)	Movement during the quarter (BP)	Movement for the 6 months (BP)	Movement for the 12 months (BP)
ANZ Banking Group[(a)]	0.07%	15	15	5
Bank of New Zealand	0.11%	-2	0	7
Commonwealth Bank of Australia[(a)]	0.16%	7	22	-10
Heartland Bank	0.46%	15	13	-335
Kiwibank Limited	-0.11%	-14	-14	-26
Southland Building Society	0.51%	8	13	7
The Co-operative Bank	0.07%	0	-7	-12
TSB Bank Limited	0.11%	6	3	8
Westpac Banking Corporation[(a)]	0.01%	7	-7	-17
Sector	**0.08%**	**7**	**7**	**-6**

Footnote

(a) The results for Australia and New Zealand Banking Group, Commonwealth Bank of Australia and Westpac Banking Corporation relate to the total New Zealand operations of these entities.

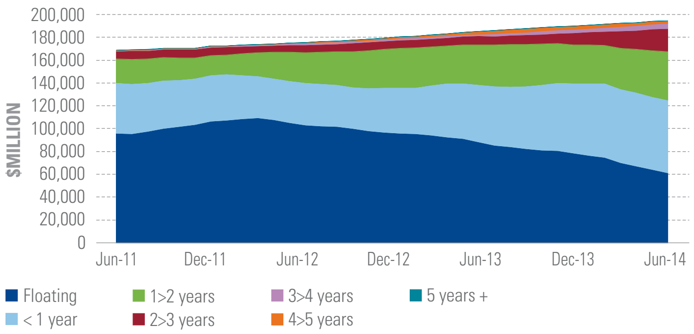
Impaired loans on the increase?

Asset quality has deteriorated over the quarter, but this moves the level of impaired loans from miniscule to tiny. Overall credit quality continues to be very strong, as can be seen in figure 4.

In the previous two quarters ended 31 December 2013 and March 2014, the total impairment expense for all sector participants were $7.9 million and $10.7 million respectively, resulting in an almost nil (0.01%) impaired asset expense to gross loans and advances ratio. For the current quarter, this ratio has returned to a more normal level at 0.08%, slightly below the ratios seen pre the LVR implementation.

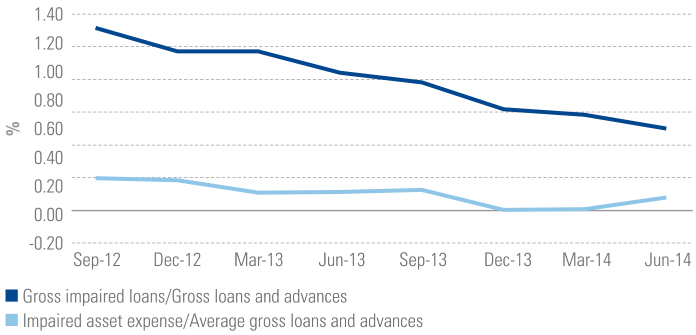
Kiwibank and BNZ were the only banks out of all sector participants to have improved their asset expense to gross loans and advances ratio. Kiwibank had a small impairment reversal for the quarter of $4 million, while BNZ slightly improved their impairment expense from the previous quarter of $20 million to $17 million.

3 RESIDENTIAL MORTGAGE LOANS MATURITY PROFILE



Source: Reserve Bank of New Zealand Statistics

4 MAJOR BANKS: GROSS IMPAIRED VS IMPAIRED ASSET EXPENSE



Overall, impaired asset expense for all survey participants increased from $10.7 million at 31 March 2014 to $66.2 million at 30 June 2014. This was mainly due to large increases in impaired asset expense for ANZ (increased by $39 million from a net recovery in the March quarter), Westpac ($12 million) and CBA ($11 million).

Despite impaired asset expense increasing during the quarter, both the collective provisioning and individual provisioning decreased when compared to the size of their loan books, indicating that overall, banks are confident in the strength of the economy and are expecting less impairment in the future. This is further shown by the total provision for doubtful debts over gross loans and advances ratio having reduced every quarter since 31 March 2011, and is now at 0.60% at 30 June 2014. This was mainly driven by reductions of the collective provisioning rather than individual provisioning.

Loans and advances

Gross loans and advances have maintained solid growth over the quarter, with SBS being the only bank to contract over the quarter. A notable change from prior quarters is Heartland, who managed to increase their gross loans and advances for the first time since they announced their change in strategy in June 2013, which involved taking their focus away from non-core lending property assets.

Kiwibank and The Co-operative Bank continue to lead the way in increasing their gross loans and advances, growing by 1.85% and 2.58% respectively over the quarter, and 10.66% and 11.85% respectively over the year, as seen in table 3.

The overall growth in gross loans and advances over the quarter is largely due to business confidence remaining strong, and a strong housing market continuing to grow, especially in Auckland and Christchurch. The latest RBNZ sectorial analysis (which includes registered banks as well as non-bank lending institutions) shows that housing lending continues to be the main driver of overall lending, and has increased by 1.23% over the quarter, slightly lower than last quarter's growth rate of 1.26%. Non-housing lending also increased over the quarter, and this was mainly driven by a 2.07% increase in agriculture lending.

Speaking of agriculture lending, the drop of the dairy payout for the 2014-2015 season to $6/kg milk payout announced by Fonterra, is predicted to have a significant impact on dairy farmers' revenue. Some banks like ANZ and ASB have adjusted their 2014-15 Fonterra milk price even further down with ANZ predicting a $5.1 billion annual drop in farmers' revenue with a forecast price of $5.25/kg milk payout. Total dairy farming lending represents $34,519 million as at 30 June 2014 based on recent data released by the RBNZ. This will be closely watched by the whole country as we move back into the next year's production cycle.

Operating expenses/Operating income

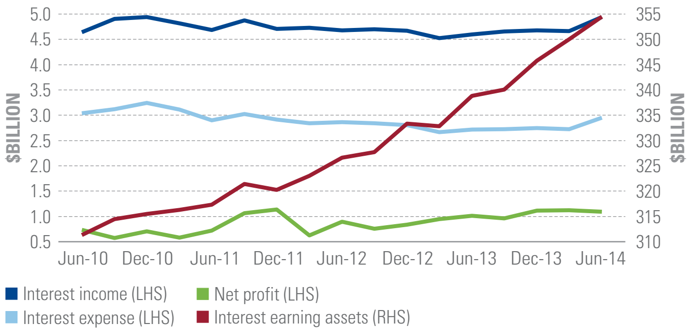
The average operating expenses to operating income ratio for all Survey participants increased slightly to 41.35%, but still remains a world class ratio. Although operating income for the sector grew during the June 2014 quarter, this was outweighed by higher operating expenses across the board with five of the nine Survey participants experiencing increases in this area.

The investment programme continues to contribute to the rise in operating expenses for BNZ through the likes of depreciation charges on upgrading

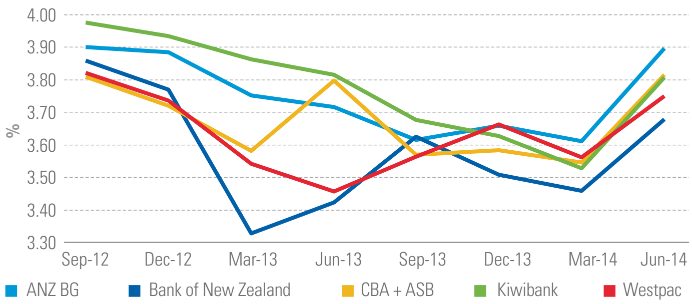
TABLE 3: ANALYSIS OF GROSS LOANS

Quarterly analysis	30-Jun-14 Quarter ended $Million	31-Mar-14 Quarter ended $Million	% Increase	Annual analysis	30-Jun-14 Quarter ended $Million	30-Jun-13 Quarter ended $Million	% Increase
ANZ Banking Group	104,788	103,432	1.31%	ANZ Banking Group	104,788	99,692	5.11%
Bank of New Zealand	64,222	63,305	1.45%	Bank of New Zealand	64,222	62,127	3.37%
Commonwealth Bank of Australia	64,093	63,484	0.96%	Commonwealth Bank of Australia	64,093	61,692	3.89%
Heartland Bank	2,003	1,930	3.77%	Heartland Bank	2,003	2,061	-2.80%
Kiwibank Limited	14,689	14,422	1.85%	Kiwibank Limited	14,689	13,274	10.66%
Southland Building Society	2,288	2,300	-0.53%	Southland Building Society	2,288	2,254	1.50%
The Co-operative Bank	1,449	1,412	2.58%	The Co-operative Bank	1,449	1,295	11.85%
TSB Bank Limited	3,133	3,103	0.94%	TSB Bank Limited	3,133	2,975	5.31%
Westpac Banking Corporation	64,669	64,059	0.95%	Westpac Banking Corporation	64,669	61,501	5.15%
Total	**321,334**	**317,448**	**1.22%**	**Total**	**321,334**	**306,871**	**4.71%**

5 MAJOR BANKS: INTEREST EARNING ASSETS COMPARED TO INTEREST INCOME AND EXPENSE



6 MAJOR BANKS: COST OF FUNDS



BNZ's branch and partner's networks. Technology and marketing costs are also rising especially in relation to BNZ's KiwiSaver scheme which launched in late February. ANZ have seen expenses rise on the back of development costs associated with mobile banking and completion of new major branches in Auckland and Wellington while the ASB North Wharf development was the main driver of CBA's increase in operating expenses.

Of these five major banks, only Westpac saw their ratio improve with a 359 bps decrease over the June 2014 quarter due to a large increase in operating income whilst well managed operating expenses. This was off the back of an $88 million realised gain for the sale of Visa Shares.

TSB Bank saw the best improvement in this ratio following a record high level of total operating income for the quarter.

KiwiSaver income continues to increase having a significant impact on operating income for the major banks. A growing number of customers are switching their funds into bank schemes from non-bank alternatives and the average level of fees is increasing despite the improved fee disclosure requirements introduced through the KiwiSaver (Periodic Disclosure) Regulations. As at 30 June 2014 there was a total of $19.94 billion worth of KiwiSaver assets with the associated fees varying from broadly 0.4% to 1.5% per annum.

In addition, the default providers' review saw an increased from six to nine in default providers, and some general reductions in management fees as part of the process.

Deposits growth and Basel III Issuance

Deposits continue to grow with an increase of 7.05% as at 30 June 2014 from the levels reported a year ago, helping banks meeting their capital requirements and not place so much reliance on wholesale funding. There is a strong correlation between the gross domestic product (GDP) and deposits growth with a rough rule of thumb quoted as deposit growth equals 1.6 times GDP.

During the quarter ended 30 June 2014, ASB and Kiwibank have both raised Tier 2 capital this year in order to meet the RBNZ's regulatory capital requirement. ASB borrowed $400 million and Kiwibank $100 million through subordinated debt issues. ASB's 10-year subordinated, unsecured debt securities was priced at five-year swap plus 205 bps whereas Kiwibank's 10-year unsecured subordinated capital notes, issued by sister company Kiwi Capital Funding Limited is priced at five-year swap plus 215 bps.

The Kiwibank issue has a BB credit rating from Standard & Poor's (S&P) reflecting its subordination and loss absorption features, whilst the ASB issue has a BBB+ S&P credit rating making the Kiwibank pricing all the more impressive.

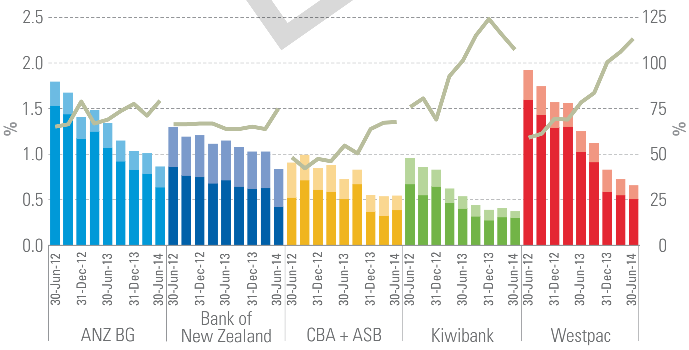
TABLE 4: MOVEMENT IN OVER 80% LVR LENDING (ON AND OFF BALANCE SHEET)

Quarterly analysis	Quarterly analysis				Six month analysis			
	30-Jun-14 $Million	31-Mar-14 $Million	Movement during the quarter $Million	% Change	30-Jun-14 $Million	31-Dec-13 $Million	Movement during the six month period $Million	% Change
ANZ Banking Group	10,940	11,825	-885	-7.48	10,940	13,827	-2,887	-20.88
Bank of New Zealand	3,935	4,113	-178	-4.33	3,935	4,489	-554	-12.34
Commonwealth Bank of Australia	9,577	9,910	-333	-3.36	9,577	10,198	-621	-6.09
Heartland Bank	32	43	-11	-25.54	32	53	-21	-40.28
Kiwibank Limited	2,191	2,296	-105	-4.57	2,191	2,428	-237	-9.76
Southland Building Society	367	390	-23	-5.86	367	406	-39	-9.50
The Co-operative Bank	183	193	-10	-4.96	183	197	-14	-6.83
TSB Bank Limited	442	437	4	1.02	442	488	-46	-9.52
Westpac Banking Corporation	8,509	8,809	-300	-3.41	8,509	9,050	-541	-5.98
Total	**36,176**	**38,016**	**-1,840**	**-4.84**	**36,176**	**41,136**	**-4,960**	**-12.06**

Retail banks – quarterly analysis

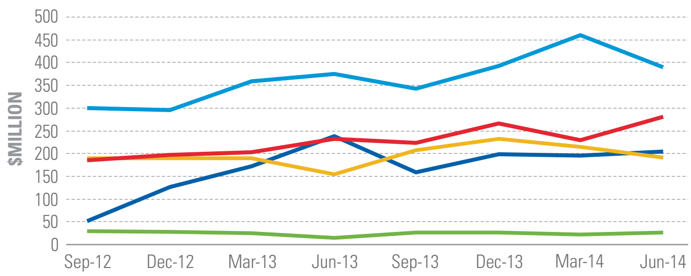
Major banks – quarterly analysis	Size & strength measures							
	30-Sep-12	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13	31-Mar-14	30-Jun-14
	Total assets ($Million)							
ANZ Banking Group – New Zealand Banking Group[a]	127,366	127,227	125,149	129,169	126,399	128,109	129,529	132,422
Bank of New Zealand	72,945	73,865	72,622	75,930	75,127	75,481	76,740	75,845
Commonwealth Bank of Australia New Zealand Banking Group[a]	68,497	70,296	69,921	71,155	71,341	71,950	72,586	72,077
Heartland Bank[b]	n/d	2,320	2,445	2,477	2,386	2,462	2,423	2,368
Kiwibank Limited Banking Group	14,930	15,176	15,311	15,145	15,596	16,032	16,344	16,590
SBS Bank Limited	2,875	2,829	2,826	2,868	2,809	2,806	2,784	2,786
The Co-operative Bank Limited[c]	1,475	1,511	1,516	1,521	1,554	1,595	1,616	1,664
TSB Bank Limited	5,236	5,380	5,429	5,472	5,559	5,684	5,682	5,655
Westpac Banking Corporation – New Zealand Division[a]	77,202	77,355	76,709	77,003	76,845	76,807	78,857	80,392
Total	**370,526**	**375,960**	**371,928**	**380,740**	**377,617**	**380,926**	**386,561**	**389,799**
	Increase in gross loans and advances (%)							
ANZ Banking Group – New Zealand Banking Group[a]	1.03	0.75	0.49	1.15	1.14	1.41	1.16	1.31
Bank of New Zealand	1.16	1.49	1.66	1.41	0.77	0.69	0.42	1.45
Commonwealth Bank of Australia New Zealand Banking Group[a]	1.79	2.25	1.46	1.86	1.47	0.92	0.49	0.96
Heartland Bank[b]	n/d	-1.59	0.08	-0.63	-2.99	-2.96	-0.49	3.77
Kiwibank Limited Banking Group	1.42	1.59	1.33	1.42	1.82	3.73	2.87	1.85
SBS Bank Limited	-2.43	-1.78	-2.89	0.10	1.38	0.62	0.03	-0.53
The Co-operative Bank Limited[c]	2.42	2.06	0.49	0.57	1.94	3.83	3.02	2.58
TSB Bank Limited	-0.12	1.81	1.87	3.22	2.71	1.31	0.26	0.94
Westpac Banking Corporation – New Zealand Division[a]	1.10	-0.38	1.18	0.85	1.77	1.17	1.16	0.95
Average	**1.20**	**1.70**	**1.08**	**1.29**	**1.28**	**1.20**	**0.93**	**1.22**
	Capital adequacy (%)							
ANZ Banking Group – New Zealand Banking Group[a],[d]	12.20	12.10	11.70	11.40	12.20	11.20	12.10	12.10
Bank of New Zealand	13.29	13.46	12.75	13.06	12.61	12.06	12.13	11.82
Commonwealth Bank of Australia New Zealand Banking Group[a],[d]	11.00	10.90	10.90	11.20	10.70	11.20	11.20	12.00
Heartland Bank[b]	n/d	14.89	14.80	13.76	14.54	14.73	14.71	14.39
Kiwibank Limited Banking Group	10.80	12.90	12.00	12.60	11.70	11.50	11.60	13.00
SBS Bank Limited	14.89	15.10	14.34	14.33	13.41	13.69	13.69	15.64
The Co-operative Bank Limited[c]	17.10	17.00	16.90	17.00	16.80	16.60	16.80	16.80
TSB Bank Limited	15.39	14.93	14.56	13.57	13.40	13.70	14.21	14.77
Westpac Banking Corporation – New Zealand Division[a],[d]	11.70	12.10	12.50	11.80	12.30	11.30	12.10	11.70
	Net profit ($Million)							
ANZ Banking Group – New Zealand Banking Group[a]	300	296	359	375	342	393	460	390
Bank of New Zealand	52	126	172	238	159	198	195	205
Commonwealth Bank of Australia New Zealand Banking Group[a]	190	189	190	154	208	232	214	191
Heartland Bank[b]	-	5	6	-10	9	9	9	10
Kiwibank Limited Banking Group	30	28	25	14	26	26	22	26
SBS Bank Limited	2	4	3	4	3	4	5	4
The Co-operative Bank Limited[c]	1	1	1	1	2	2	2	2
TSB Bank Limited	13	14	12	15	8	14	13	16
Westpac Banking Corporation – New Zealand Division[a]	186	197	203	232	223	266	230	281
Total	**775**	**860**	**971**	**1,023**	**979**	**1,144**	**1,150**	**1,125**

7 MAJOR BANKS: PAST DUE AND GROSS IMPAIRED ASSETS VS GROSS LOANS AND ADVANCES

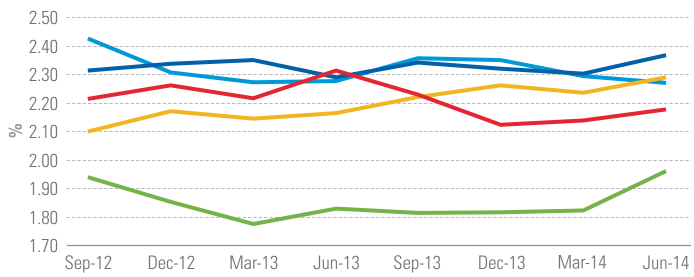


■ Gross impaired/Gross loans and advances (LHS)
■ Past due/Gross loans and advances (LHS)
■ Total provisions/Past due and gross impaired assets (RHS)

8 MAJOR BANKS: NET PROFIT AFTER TAX



9 MAJOR BANKS: INTEREST MARGINS



■ ANZ BG ■ Bank of New Zealand ■ CBA + ASB ■ Kiwibank ■ Westpac

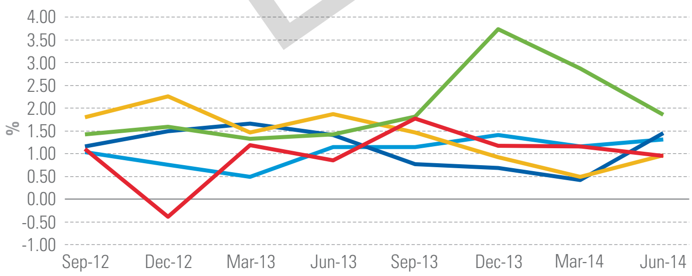
Footnotes

(a) The results for Australia and New Zealand Banking Group, Commonwealth Bank of Australia and Westpac Banking Corporation relate to the total New Zealand operations of these entities.
(b) Heartland published its first Disclosure Statement as a registered bank for December 2012. Financial statements were not available for the period ended 30 September 2012, so balances and performance measures were calculated over a six month period. Net profit for the quarter is calculated as half of the six month net profit for the period ended 31 December 2012.
(c) The Co-operative Bank obtained bank registration on the 26th October 2011. However, for all quarters prior to the December 2011 quarter figures disclosed are in accordance with Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011.
(d) The capital adequacy ratio's reported are for the overseas banking group.
(e) Operating income for Heartland includes net interest income, net operating lease income, other income and fee income.

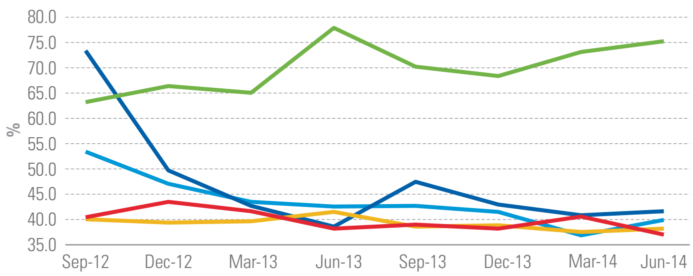
n/d = In this or the previous quarter the Bank did not publish the standard disclosure statement and therefore we are unable to calculate the necessary figures

	Profitability measures							
	30-Sep-12	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13	31-Mar-14	30-Jun-14
	Interest margin (%)							
ANZ Banking Group – New Zealand Banking Group[a]	2.43	2.31	2.27	2.28	2.36	2.35	2.29	2.27
Bank of New Zealand	2.31	2.34	2.35	2.29	2.34	2.32	2.30	2.37
Commonwealth Bank of Australia New Zealand Banking Group[a]	2.10	2.17	2.15	2.16	2.22	2.26	2.24	2.29
Heartland Bank[b]	n/d	4.26	4.21	4.27	4.53	4.61	4.45	4.94
Kiwibank Limited Banking Group	1.94	1.85	1.78	1.83	1.81	1.82	1.82	1.96
SBS Bank Limited	2.59	2.52	2.46	2.41	2.45	2.53	2.58	2.81
The Co-operative Bank Limited[c]	2.76	2.86	2.46	2.74	2.77	2.78	2.78	2.85
TSB Bank Limited	2.03	2.06	1.98	1.97	1.98	2.01	1.99	2.17
Westpac Banking Corporation – New Zealand Division[a]	2.22	2.26	2.22	2.31	2.23	2.12	2.14	2.18
Average	**2.27**	**2.28**	**2.24**	**2.26**	**2.29**	**2.27**	**2.25**	**2.28**
	Non-interest income/Total tangible assets (%)							
ANZ Banking Group – New Zealand Banking Group[a]	0.67	0.60	0.67	0.76	0.47	0.65	0.88	0.73
Bank of New Zealand	-0.51	0.19	0.42	0.81	0.41	0.61	0.47	0.53
Commonwealth Bank of Australia New Zealand Banking Group[a]	0.67	0.61	0.62	0.68	0.70	0.64	0.59	0.64
Heartland Bank[b]	n/d	0.44	0.51	0.53	0.56	0.52	0.63	0.45
Kiwibank Limited Banking Group	1.16	1.17	1.02	1.16	1.17	1.16	1.24	1.09
SBS Bank Limited	0.72	0.68	0.63	0.72	0.74	0.74	0.71	0.77
The Co-operative Bank Limited[c]	1.66	1.32	1.36	1.29	1.13	1.30	0.90	1.17
TSB Bank Limited	0.36	0.38	0.29	0.41	0.43	0.32	0.33	0.33
Westpac Banking Corporation – New Zealand Division[a]	0.82	0.76	0.71	0.82	0.75	1.05	0.69	0.93
Average	**0.49**	**0.58**	**0.63**	**0.78**	**0.59**	**0.74**	**0.71**	**0.73**
	Impaired asset expense/Average gross loans (%)							
ANZ Banking Group – New Zealand Banking Group[a]	0.21	0.18	0.00	0.02	0.07	-0.08	-0.08	0.07
Bank of New Zealand	0.13	0.24	0.24	0.04	0.22	0.11	0.13	0.11
Commonwealth Bank of Australia New Zealand Banking Group[a]	0.08	0.13	0.13	0.26	0.15	-0.06	0.09	0.16
Heartland Bank[b]	n/d	0.50	0.51	3.81	0.33	0.33	0.31	0.46
Kiwibank Limited Banking Group	0.03	-0.03	0.06	0.15	-0.06	0.03	0.03	-0.11
SBS Bank Limited	1.02	0.60	0.83	0.44	0.60	0.38	0.43	0.51
The Co-operative Bank Limited[c]	0.25	0.19	0.19	0.19	0.04	0.14	0.07	0.07
TSB Bank Limited	0.08	0.14	0.03	0.03	1.36	0.08	0.05	0.11
Westpac Banking Corporation – New Zealand Division[a]	0.39	0.23	0.14	0.18	0.14	0.08	-0.06	0.01
Average	**0.20**	**0.19**	**0.12**	**0.14**	**0.14**	**0.01**	**0.01**	**0.08**
	Operating expenses/Operating income (%)							
ANZ Banking Group – New Zealand Banking Group[a]	53.37	46.99	43.42	42.59	42.62	41.52	36.83	39.85
Bank of New Zealand	73.43	49.64	42.74	38.55	47.39	42.91	40.85	41.67
Commonwealth Bank of Australia New Zealand Banking Group[a]	40.00	39.40	39.57	41.51	38.58	38.78	37.52	38.15
Heartland Bank[b]	n/d	60.39	57.10	79.62	53.07	53.93	51.35	47.98
Kiwibank Limited Banking Group	63.16	66.37	65.09	77.88	70.18	68.38	73.17	75.20
SBS Bank Limited	59.68	61.86	58.42	65.96	67.35	64.55	61.20	63.33
The Co-operative Bank Limited[c]	85.64	84.97	89.61	84.92	85.48	77.63	83.96	81.97
TSB Bank Limited	39.33	37.51	46.48	37.95	37.05	39.39	42.26	36.91
Westpac Banking Corporation – New Zealand Division[a]	40.48	43.41	41.60	38.19	39.03	38.14	40.54	36.95
Average	**50.79**	**46.51**	**43.69**	**42.91**	**43.69**	**42.22**	**40.75**	**41.35**

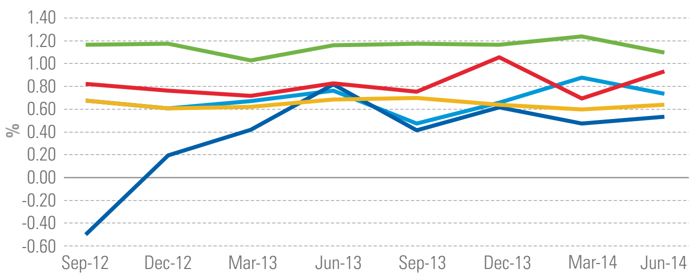
10 MAJOR BANKS: QUARTERLY INCREASE IN GROSS LOANS AND ADVANCES



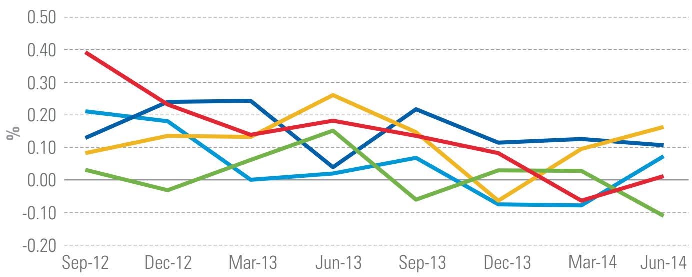
11 MAJOR BANKS: OPERATING EXPENSES VS OPERATING INCOME



12 MAJOR BANKS: NON-INTEREST INCOME VS AVERAGE TOTAL ASSETS



13 MAJOR BANKS: IMPAIRED ASSET EXPENSE VS AVERAGE GROSS LOANS AND ADVANCES



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