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FIPS quarterly

Financial Institutions
Performance Survey

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DECEMBER 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.

More modest levels of profitability achieved by the banking sector during the December 2014 quarter

The banking sector experienced a fall in profit for the quarter with a decrease in non-interest income and rising impaired asset expenses leading to a $103 million decrease in overall net profit after tax (NPAT) from $1,254 million in September 2014 to $1,151 million in December 2014. At first glance this decrease may seem alarming; however, the results are tempered by the fact that the profits achieved in September were at record levels not seen before by the banking sector and the December results still reflect a strong and sustainable level of profitability. It also comes against a background of intense competition for lending, an end to the release or reduction of provisioning and also demonstrates the volatility of the valuation of fair value through the profit or loss instruments. Across the sector, five of the nine participants actually recorded growth in NPAT with the overall decrease primarily attributed to the 9.2% and 7.9% fall in NPAT recorded by the country's largest and third largest banks, ANZ Bank and BNZ respectively, mainly due to the decrease in this quarter of their non-interest income caused by unfavourable movements of hedging activities and financial instruments compared to the September 2014 quarter.

The New Zealand banking sector continues to maintain a strong position and with comparably favourable economic conditions, low unemployment, and a stable interest rate environment, it is in all likelihood that this position will be maintained for the near future.

Total assets continue to grow

Continued confidence in the New Zealand economy has seen economic activity continue to rise with total assets maintaining consistent and prosperous growth to achieve new record high levels of $402 billion across the sector, a $3 billion increase or 0.76% improvement on the September 2014 quarter. The housing market continues to go from strength to strength despite the loan-to-value (LVR) restrictions put in place by the Reserve Bank of New Zealand (RBNZ) and this has led to a 1.5% increase in gross loans and advances within the December quarter. While it has long been mentioned that the effects of the global financial crisis (GFC) are wearing off, this is now clearly the case with total assets across the sector increasing every quarter since September 2013 with no signs of slowing down as favourable economic conditions prevail.

Economic outlook continues to be optimistic

The New Zealand economy over the past 12 months has transitioned from a 'rock star' economy to what industry experts coin a 'Goldilocks' economy with solid, though not exceptional growth that in comparison to other international economies can be seen as relatively strong. This is evidenced by a 3.3% growth in GDP for year ended December 2014, which is the strongest growth since 2007 before the GFC based upon data from Statistic New Zealand. This was achieved primarily through activity in a construction sector driven by the Christchurch rebuild and unprecedented demand for housing particularly in Auckland. In the December 2014 quarter it was also noted a strong growth of the retail and accommodation sector buoyed by an increase tourist spending which, according to Statistics New Zealand, is the largest growth since the 2011 Rugby World Cup. Contributing also to this growth is the low domestic interest rates and with the RBNZ confirming in March that for the fifth consecutive quarter the Official Cash Rate (OCR) will remained unchanged at 3.5%, domestic demand should continue its upward trend.

A 50% fall in oil prices from their June 2014 peak has fuelled economic growth both here and abroad as businesses benefit from reduced costs and consumers gain increased purchasing power. This, together with a strong NZ dollar, has helped further stimulate domestic supply and demand; however, it has been accompanied by a downturn in the CPI with inflation for the December quarter falling 2 basis points (bps) to 0.8%.

These areas of growth have been offset by the sharp decline in dairy prices experienced throughout 2014, something that the rural sector is still trying to come to terms with. Dairy prices fell 15% in the December quarter leading to a fall in exports and a worsening terms of trade for the second consecutive quarter. The story was a little bit more promising in February 2015 when dairy prices had a more significant improvement; however, at the latest auction on 18 March 2015, dairy prices fell by 8.8% as additional volumes become available on the Global Dairy Trade auction. The recent fall of dairy prices had some analysts questioning the level of payout for 2015/2016 with more volatility expected.

The local economy is not without its risks, namely dairy prices, the seemingly overvalued NZ dollar, an over reliance on construction and a weak global inflation rate, stand in the way of the country's economic growth targets. However, high levels of construction activity and low interest rates together with a strong and growing labour market, record levels of net migration and increasing business confidence, all poised to give the New Zealand economy a strong foothold going forward and the potential for a continued sustained growth throughout 2015.

Regulatory environment

Regulation of the banking sector continues and a prominent feature of discussions held with the Survey participants. One of a number of recent high priority regulations is the Foreign Account Tax Compliance Act (FATCA) that had its registration deadline of 31 December 2014 following its commencement on 1 July 2014. As of this date, all NZ financial institutions had to be registered with the United States Internal Revenue Service for the purposes of reporting details of financial accounts relating to US citizens or entities.

The Responsible Lending Code is making steady progress in its aim to give lenders guidance on how to implement the new responsible lending obligations set out in the Credit Contracts and Consumer Finance Amendment Act 2014. A draft code was issued by the Government in November 2014 and submissions remain open for all interested parties to contribute feedback before a final Code is issued in March 2015. With the Code due to come into force in June 2015 there will still be a window for lenders to adjust their processes accordingly to conform with the Code and its ultimate aim of protecting vulnerable borrowers from predatory loan sharks and pay-day lenders without imposing unnecessary compliance costs on lenders who are already lending responsibly.

The long-term overhaul of the Financial Markets regulation has now largely been completed with phase two of the Financial Markets Conduct Act 2013 (FMCA) coming into effect on 1 December 2014. The second and final phase of the FMCA saw licencing provisions extended to several hundred further financial service providers as well as an upheaval of product disclosure statements for financial products.

The RBNZ has released a number of consultation papers proposing a new asset class treatment for residential mortgage loans to property investors within its capital adequacy requirements to ensure that banks hold adequate capital for the risk that they face from investment property lending. The RBNZ is also consulting on the potential removal of the public disclosure requirement for solo bank financial statements.

What else is happening?

The number of licenced banks in New Zealand continues to grow with the Reserve Bank announcing the registration of the Bank of China (New Zealand) on 18th of November, making it the country's 21st bank.

In January 2015 the RBNZ was recognised on a global scale picking up the London-based Central Banking Publications award for 'Central Bank of the Year'. The award serves as recognition for the RBNZ's innovative approach in its contribution to the New Zealand economy including being one of the first in developed nations to raise interest rates and the implementation of the LVR restrictions to counter house price inflation.

Heartland increased its investment in Harmoney, after TradeMe took a 15% shareholding in January 2015. Heartland's shareholding represents now approximately 10%.

In relation to the interest rate swaps investigation undertaken by the Commerce Commission against ANZ, ASB and Westpac, in December 2014 the Commerce Commission announced that it has reached a settlement for $19 million and $3.2 million with the ANZ and ASB respectively. More recent in February 2015 the Commission also reached a $3.97 million settlement with Westpac.

In February 2015, Fitch Ratings has affirmed the credit ratings of all four New Zealand subsidiaries of Australian owned banks Westpac, BNZ, ANZ and ASB. All of them have an AA- credit rating with a stable outlook. However, Fitch also noted their concerns of their large exposures to mortgages and the agriculture sector should these sectors become under pressure which could erode the asset quality of the Banks' exposures. Kiwibank also saw its credit rating of Aa3 with a stable outlook affirmed by Moody's in February 2015.

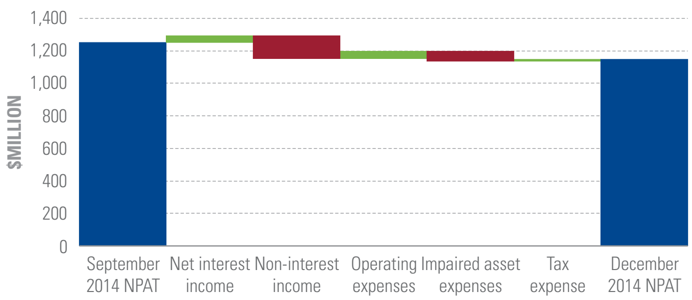
Quarterly analysis

December quarterly net profit after tax declining

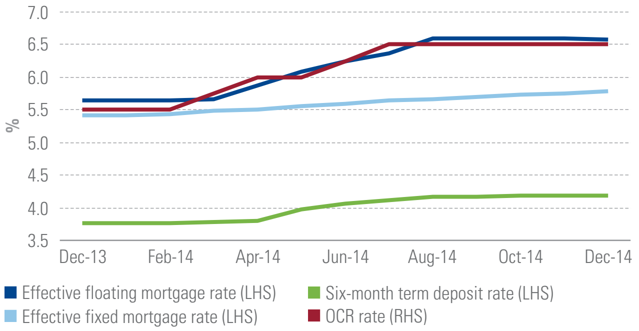
The December 2014 quarter NPAT has moved against the trend of the last three quarters. NPAT over the quarter has decreased by 8.25%, after coming off a strong September quarter in which net profit improved by 11.47%. NPAT reduced from $1,254 million to $1,151 million, with over half of the Survey participants experiencing a reduction in NPAT. Heartland and the Co-operative Bank had the best improvements in the sector, at 4.62% and 34.31%. Heartland achieved its growth mostly through strong net interest income and other income. This was driven mainly by a strong growth in core assets and a successful integration of the acquisition of the Home Equity Release Mortgage business with higher than expected repayment rates received by Heartland. While the Co-operative Bank achieved its growth through making solid improvement in all major income statement categories. TSB had the most significant reduction in net profit: recording a loss of $18.3 million. TSB's loss was driven by the writing off Solid Energy New Zealand bonds of $53.9 million

Volatility in fair value gains and losses on financial instruments continues to have a significant impact on profits, the changes in fair value can result in a very dramatic

1 MOVEMENT IN NET PROFIT AFTER TAX

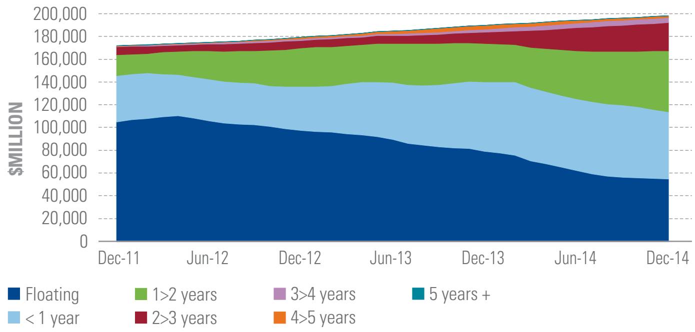


2 RETAIL INTEREST RATES ON LENDING AND DEPOSITS



Source: Reserve Bank of New Zealand Statistics

3 RESIDENTIAL MORTGAGE LOANS MATURITY PROFILE



Source: Reserve Bank of New Zealand Statistics

change to the overall net result of the Survey participants. This quarter saw ANZ and BNZ with a combined $26 million loss on the fair value of hedging activities and other financial instruments, while in the September quarter these entities made a gain of $87 million.

Westpac stayed fairly flat in terms of profitability, increasing by only 0.83%. However, they showed strong margin growth and improvements in asset quality. Increases in operating expenditure and decreases in non-interest income pushed down what would otherwise be a very favourable profit figure.

It is noted that the reduction of NPAT for the quarter was mainly driven by the decrease of non-interest income and a significant increase of the impaired asset expense by $61.9 million. Banks appear to have now started increasing their provisions (collective) as the lending books grow but the majority of this increase is driven by the increase in the impaired asset expense of TSB by $41.5 million for the December quarter due to the write off of the Solid Energy bonds.

A summary of the financial performance of Survey participants is as follows:

- Steady improvement in net interest income; up by 1.94%
- Non-interest income reduced by 16.12%
- Operating expenses reduced by 3.72%
- Impaired asset expense was up 76.55%
- Tax expense dropped by 2.66%.

TABLE 1: MOVEMENT IN INTEREST MARGIN	31-Dec-14 Quarter ended (%)	Movement during the quarter (BP)	Movement for the 6 months (BP)	Movement for the 12 months (BP)
ANZ Banking Group[a]	2.33%	1	6	-2
Bank of New Zealand	2.28%	0	-9	-4
Commonwealth Bank of Australia[a]	2.40%	0	11	14
Heartland Bank	5.06%	7	12	45
Kiwibank Limited	2.17%	4	21	35
Southland Building Society	2.97%	0	16	44
The Co-operative Bank	2.90%	-5	5	12
TSB Bank Limited	2.15%	-15	-2	14
Westpac Banking Corporation[a]	2.28%	5	10	16
Sector average	**2.34%**	**2**	**6**	**7**

TABLE 2: MOVEMENT IN IMPAIRED ASSET EXPENSE/ AVERAGE GROSS LOANS	31-Dec-14 Quarter ended (%)	Movement during the quarter (BP)	Movement for the 6 months (BP)	Movement for the 12 months (BP)
ANZ Banking Group[a]	0.05%	1	-2	12
Bank of New Zealand	0.02%	-10	-9	-9
Commonwealth Bank of Australia[a]	0.29%	19	13	35
Heartland Bank	0.52%	16	6	19
Kiwibank Limited	0.16%	8	27	13
Southland Building Society	0.43%	8	-8	5
The Co-operative Bank	0.07%	-1	0	-7
TSB Bank Limited	6.06%	521	595	598
Westpac Banking Corporation[a]	0.12%	-1	11	4
Sector average	**0.17%**	**7**	**9**	**16**

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.

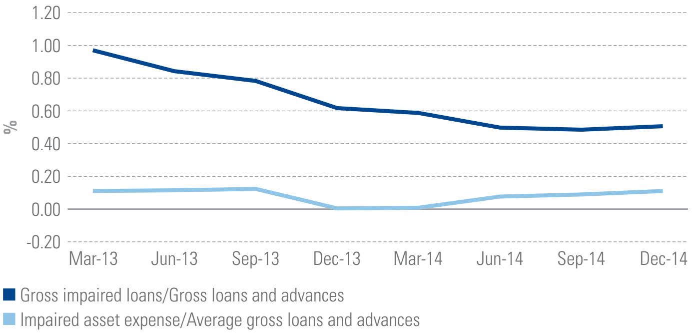
Net interest income

Intense competition has had little effect on interest margins for the banking sector in this quarter. All Survey participants increased both their interest income and interest expense over the quarter, due to growth in both total lending as well as customer deposits. However, most importantly, they were also all able to improve their net interest income over the quarter as the increase in interest income was larger than the increase in the interest expense, with only TSB as the exception as its increase in the interest income was not enough to offset the increase in the interest expense.

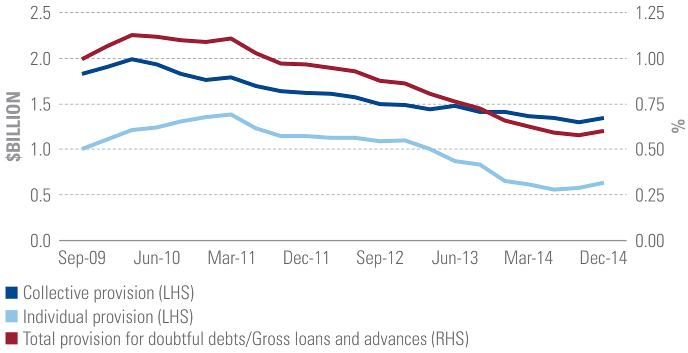
In terms of net interest margin (NIM), most movements were no greater than 5 bps, with the exceptions of Heartland, who increased by 7 bps, and TSB, whose reduced by 15 bps. As mentioned before, the increase in Heartland's interest earnings was due to acquisition of the Home Equity Release Mortgage business as well as increased contributions from their consumer and business lending. The overall effect on the total sector, was NIM expanding by 2 bps to 2.34%. Heartland, SBS Bank, and the Co-operative Bank continue to have the highest NIM, reflecting their decision to operate outside of the heavily competitive retail mortgage market, and as such are under less pressure to tighten margins. Heartland, in particular are becoming increasingly effective at this, and have clearly broken away from the rest of the sector with a NIM of 5.06%.

Excluding those three entities, the range in interest margins for the remaining sector participants has been getting tighter and tighter each quarter and it does not appear to be too much room for improvement given the intense competition environment in the retail mortgage market and the current low interest environment. CBA has the highest NIM out of all major banks at 2.40%.

4 MAJOR BANKS: GROSS IMPAIRED VS IMPAIRED ASSET EXPENSE



5 MOVEMENT IN PROVISIONING



Analysis of funding

Although in recent years we have seen favourable funding conditions, cost of funds (interest expense over average interest bearing liabilities) for the major banks has increased for the third consecutive quarter. However, as can be seen in figure 7, the rate of growth for the December quarter is not as steep at is was between March and September 2014. The latest RBNZ data shows term deposit rates dropping to 4.06%, which provides us an indication that the cost of funds might decrease in the next quarter.

During the December 2014 quarter, deposits increased by 3.5% over the September 2014 quarter with an annual increase rate to December 2014 of 7.1% for the Survey participants. Deposits continue to grow outstripping loan growth, which indicates that favourable funding conditions are likely to continue.

In March 2015, ANZ announced that it will be seeking to raise $500 million through the issue of Capital Notes which will be unsecured and subordinated with no fixed maturity and will pay investors a fixed interest rate of 7.20% per annum. For regulatory capital requirements the notes will be treated as Additional Tier 1 Capital and received a credit rating of BBB- from Standard & Poor's. Westpac also raised $500 million through the issue of a three-year floating rate medium-term note sold to institutional investors which is priced at a margin of 50 bps over the 90-day bank bill rate and it has a maturity date of 16 March 2018. The Westpac notes have an AA- credit rating from both Standard & Poor's and Fitch Ratings and Aa3 from Moody's.

Analysis of lending

Gross loans and advances have had a 1.50% increase over the quarter to reach $330.6 billion, which is the largest quarterly movement seen in gross loans and advances since the December 2012 quarter (see table 3). All entities grew their loan books, as confidence in the New Zealand economy continues. Kiwibank had the best improvement out of all the major banks, increasing from 0.66% to 2.20% for the December quarter. The year on year increase of loans for the sector was 4.98%.

It appears that the increase in efforts for marketing and advertising campaigns has paid off for SBS and TSB who had the best improvement in lending growth rates, TSB going from a modest growth of 0.20% during the September quarter to a 3.04% increase in the December quarter while SBS went from a decrease of 0.10% in the September quarter to an increase of 2.88% during the September quarter.

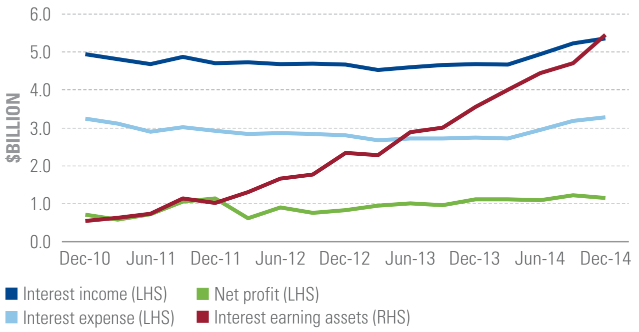
The sector leader in loan growth over the quarter continues to be Heartland, who has shown exceptional growth in their last three quarters, of 3.77%, 3.15%, and 4.50%. In the December quarter this growth was driven mainly by increases in the business, rural and consumer books.

The RBNZ LVR restrictions appear to continue to have an effect as the amount of high LVR lending has reduced by 2.65% in the quarter, and 8.23% over the past six months. The latest RBNZ data shows that total household lending year-on-year growth for the period of December 2013 to December 2014 was 4.6% whereas the increase from the 2012-2013 year was 5.9%. This means that the LVR restrictions have had some desired effect in reducing housing lending demand although latest data released by REINZ indicates that house sales and prices continue to rise particularly in the Auckland area. RBNZ consultation paper targeting residential property investors are looking to facilitate the introduction of a macro-prudential property investor policy should it become necessary, to protect the sector from a sharp housing market correction as the RBNZ says in its consultation paper that loans to property investors have higher default rates than loans to home owner-occupiers in housing market downturns. Agriculture lending has shown the most significant

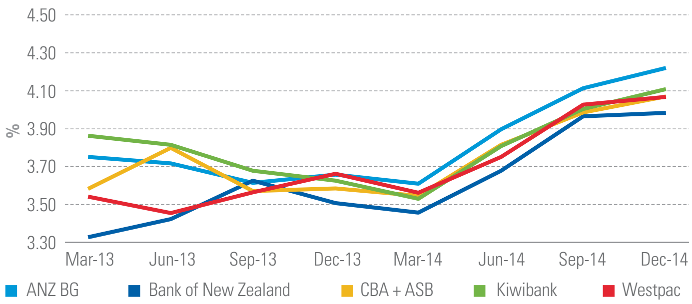
TABLE 3: ANALYSIS OF GROSS LOANS

Quarterly analysis	31-Dec-14 Quarter ended $Million	30-Sep-14 Quarter ended $Million	% Increase	Annual analysis	31-Dec-14 Quarter ended $Million	31-Dec-13 Quarter ended $Million	% Increase
ANZ Banking Group	108,018	106,385	1.53%	ANZ Banking Group	108,018	102,650	5.23%
Bank of New Zealand	65,569	64,817	1.16%	Bank of New Zealand	65,569	63,038	4.02%
Commonwealth Bank of Australia	66,066	65,290	1.19%	Commonwealth Bank of Australia	66,066	63,175	4.58%
Heartland Bank	2,159	2,066	4.50%	Heartland Bank	2,159	1,940	11.30%
Kiwibank Limited	15,111	14,786	2.20%	Kiwibank Limited	15,111	14,019	7.79%
Southland Building Society	2,351	2,286	2.88%	Southland Building Society	2,351	2,299	2.26%
The Co-operative Bank	1,532	1,489	2.93%	The Co-operative Bank	1,532	1,371	11.76%
TSB Bank Limited	3,235	3,139	3.04%	TSB Bank Limited	3,235	3,095	4.50%
Westpac Banking Corporation	66,561	65,469	1.67%	Westpac Banking Corporation	66,561	63,324	5.11%
Total	**330,602**	**325,727**	**1.50%**	**Total**	**330,602**	**314,912**	**4.98%**

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



7 MAJOR BANKS: COST OF FUNDS



improvement in year-on-year growth over the quarter, from 2.90% in September 2014 to 4.30% in December 2014. Business lending stays solid at 4.2%, from 4.1% in September 2014.

Fixed rate mortgages, especially those between one and two years are becoming increasingly prevalent. Since February 2014, one to two year fixed rate mortgage lending has increased from $32.9 billion to $54.0 billion in December 2014 (refer to figure 3); in contrast to floating loans which decreased from $76.1 million to $54.9 million over the same period.

Impaired asset expense

Asset quality is beginning to return to more normal levels, as the level of provision releases has cut back significantly. Only BNZ, the Co-operative Bank and Westpac reduced their impaired asset expense over the quarter.

This biggest impact on impaired asset expense for the quarter has been the troubled energy company, Solid Energy New Zealand (SENZ), who had significant borrowings with TSB Bank. TSB Bank had $53.9 million worth of SENZ Bonds which it wrote off during the December quarter.

After TSB, CBA had the second largest increase in impaired asset expense over the quarter. This was mostly due to a $29 million increase in the level of collective provisioning during the December 2014 quarter compared to only a $6 million increase in collective provisioning during the September 2014 quarter.

Looking at collective provisioning for all sector participants, the December 2014 quarter showed a slight increase; however, this is the largest quarterly increase in the level of collective provisioning since the March 2010 quarter, which is a reflection of the growth experienced in the lending books. Individual provisioning has followed a similar pattern, having the largest quarterly increase since September 2010. This can be seen in figure 5. In the next quarter we may see further increases, as it was noted in the 2014 FIPS annual publication Executives have commented that the release of provisioning may not continue in the future, and they expect to see provisions reach more normal levels as loan portfolios stabilise.

Figure 4 shows that Gross impaired loans/Gross loans and advances has remained fairly stagnant since June 2014, staying at around 0.50%; after five consecutive periods of relatively significant downward movement. Impaired asset expense to gross loans and advances is now 0.17%, after reaching a low of 0.01% in December 2013.

Operating expenses/Operating income

The average cost to income ratio for Survey participants continued with the downward trend observed over the last three quarters, being 40.43% for the December 2014 quarter which shows again a continued discipline to costs reduction, but also the continuing focus on increasing other revenue streams.

Sector participants saw a drop in operating expenses of $45.5 million over the quarter. BNZ contributed most to this, as their operating expenses reduced by $49 million. However, results across the sector are mixed, with four entities improving, four worsening, and one remaining unchanged over the quarter. SBS has the largest percentage increase in their operating expenses at 7.17%, and also have the largest annual percentage movement out of all sector participants at 24.10%. This is due to a significant investment in trying to establish a presence in the Auckland residential market, through developing mobile and online capability, and expanding their marketing and advertising efforts.

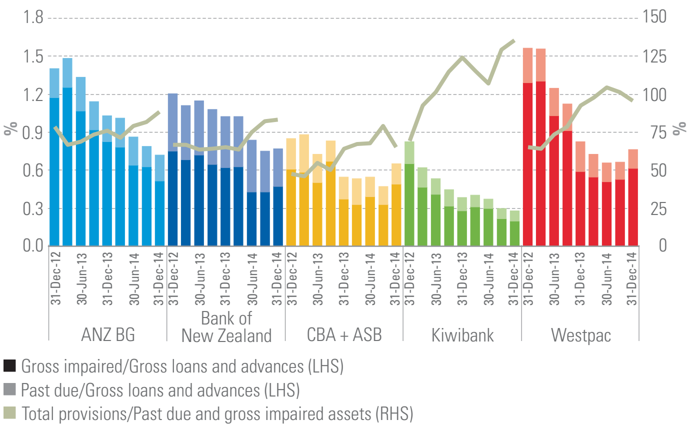
TABLE 4: MOVEMENT IN OVER 80% LVR LENDING (ON AND OFF BALANCE SHEET)

Quarterly analysis	Quarterly analysis				Six month analysis			
	31-Dec-14 $Million	30-Sep-14 $Million	Movement during the quarter $Million	% Change	31-Dec-14 $Million	30-Jun-14 $Million	Movement during the six month period $Million	% Change
ANZ Banking Group	9,477	9,712	-235	-2.42	9,477	10,940	-1,463	-13.37
Bank of New Zealand	3,594	3,746	-152	-4.06	3,594	3,935	-341	-8.67
Commonwealth Bank of Australia	8,919	9,296	-377	-4.06	8,919	9,577	-658	-6.87
Heartland Bank	20	24	-4	-14.97	20	32	-12	-37.02
Kiwibank Limited	2,054	2,078	-24	-1.15	2,054	2,191	-137	-6.25
Southland Building Society	363	359	3	0.86	363	367	-5	-1.27
The Co-operative Bank	161	157	4	2.66	161	183	-22	-11.97
TSB Bank Limited	388	445	-57	-12.79	388	442	-53	-12.03
Westpac Banking Corporation	8,224	8,285	-61	-0.74	8,224	8,509	-285	-3.35
Total	**33,200**	**34,103**	**-902**	**-2.65**	**33,200**	**36,176**	**-2,976**	**-8.23**

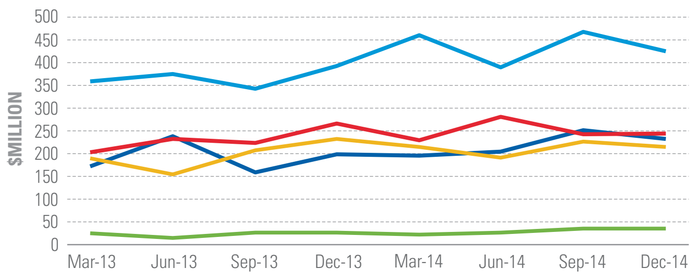
Retail banks – quarterly analysis

Major banks – quarterly analysis	Size & strength measures							
	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13	31-Mar-14	30-Jun-14	30-Sep-14	31-Dec-14
	Total assets[e] ($Million)							
ANZ Banking Group – New Zealand Banking Group[a]	125,149	129,169	126,399	128,109	129,529	132,422	135,074	135,290
Bank of New Zealand	72,622	75,930	75,127	75,481	76,740	75,845	79,522	79,658
Commonwealth Bank of Australia New Zealand Banking Group[a]	69,921	71,155	71,341	71,950	72,586	72,077	73,483	74,149
Heartland Bank[b]	2,445	2,477	2,386	2,462	2,423	2,368	2,431	2,543
Kiwibank Limited Banking Group	15,311	15,145	15,596	16,032	16,344	16,590	16,882	17,064
Southland Building Society	2,826	2,868	2,809	2,806	2,784	2,786	2,825	2,826
The Co-operative Bank Limited	1,516	1,521	1,554	1,595	1,616	1,664	1,704	1,770
TSB Bank Limited	5,429	5,472	5,559	5,684	5,682	5,655	5,736	5,908
Westpac Banking Corporation – New Zealand Division[a]	76,709	77,003	76,840	76,807	78,857	80,392	80,963	82,442
Total	**371,928**	**380,740**	**377,612**	**380,926**	**386,561**	**389,799**	**398,619**	**401,649**
	Increase in gross loans and advances (%)							
ANZ Banking Group – New Zealand Banking Group[a]	0.49	1.15	1.14	1.81	0.99	1.30	1.31	1.53
Bank of New Zealand	1.66	1.41	0.77	0.69	0.42	1.45	0.93	1.16
Commonwealth Bank of Australia New Zealand Banking Group[a]	1.46	1.86	1.47	0.92	0.49	0.96	1.87	1.19
Heartland Bank[b]	0.08	-0.63	-2.99	-2.96	-0.49	3.77	3.15	4.50
Kiwibank Limited Banking Group	1.33	1.42	1.82	3.73	2.87	1.85	0.66	2.20
Southland Building Society	-2.89	0.10	1.38	0.62	0.03	-0.53	-0.10	2.88
The Co-operative Bank Limited	0.49	0.57	1.94	3.83	3.02	2.58	2.74	2.93
TSB Bank Limited	1.87	3.22	2.71	1.31	0.29	0.91	0.20	3.04
Westpac Banking Corporation – New Zealand Division[a]	1.18	0.85	1.77	1.17	1.16	0.95	1.24	1.67
Average	**1.08**	**1.29**	**1.28**	**1.32**	**0.88**	**1.22**	**1.30**	**1.50**
	Capital adequacy (%)							
ANZ Banking Group – New Zealand Banking Group[a],[c]	11.70	11.40	12.20	11.20	12.10	12.10	12.70	11.80
Bank of New Zealand	12.75	13.06	12.61	12.06	12.13	11.82	12.04	12.28
Commonwealth Bank of Australia New Zealand Banking Group[a],[c]	10.90	11.20	10.70	11.20	11.20	12.00	11.10	12.70
Heartland Bank[b]	14.80	13.76	14.54	14.73	14.71	14.39	14.09	13.76
Kiwibank Limited Banking Group	12.00	12.60	11.70	11.50	11.60	13.00	13.20	13.30
Southland Building Society	14.34	14.33	13.41	13.69	13.69	15.64	16.02	16.07
The Co-operative Bank Limited	16.90	17.00	16.80	16.60	16.80	16.80	16.80	16.50
TSB Bank Limited	14.56	13.57	13.40	14.00	14.21	14.77	14.98	13.48
Westpac Banking Corporation – New Zealand Division[a],[c]	12.50	11.80	12.30	11.30	12.10	11.70	12.30	11.60
	Net profit ($Million)							
ANZ Banking Group – New Zealand Banking Group[a]	359	375	342	393	460	390	468	425
Bank of New Zealand	172	238	159	198	195	205	252	232
Commonwealth Bank of Australia New Zealand Banking Group[a]	190	154	208	232	214	191	227	214
Heartland Bank[b]	6	-10	9	9	9	10	10	10
Kiwibank Limited Banking Group	25	14	26	26	22	26	35	36
Southland Building Society	3	4	3	4	5	4	6	5
The Co-operative Bank Limited	1	1	2	2	2	2	2	3
TSB Bank Limited	12	15	8	14	13	16	12	-18
Westpac Banking Corporation – New Zealand Division[a]	203	232	223	266	230	281	242	244
Total	**971**	**1,023**	**979**	**1,144**	**1,150**	**1,125**	**1,254**	**1,151**

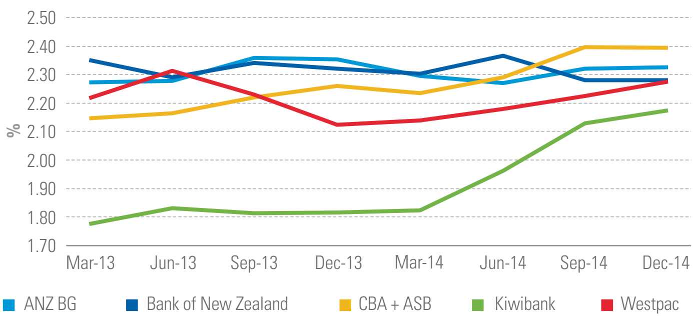
8 MAJOR BANKS: PAST DUE AND GROSS IMPAIRED ASSETS VS GROSS LOANS AND ADVANCES



9 MAJOR BANKS: NET PROFIT AFTER TAX



10 MAJOR BANKS: INTEREST MARGINS

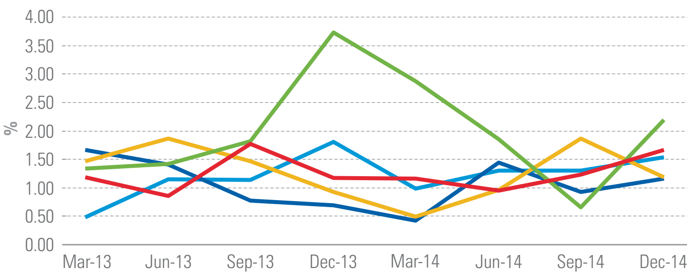


Footnotes

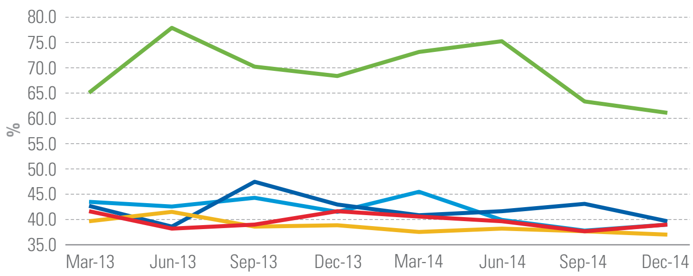
(a) The results for Australia and New Zealand Banking Group, Commonwealth Bank of Australia and Westpac Banking Corporation relate to the total New Zealand operations of these entities.
(b) Heartland published its first Disclosure Statement as a registered bank for December 2012. Financial statements 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 capital adequacy ratio's reported are for the overseas banking group.
(d) Operating income for Heartland includes net interest income, net operating lease income, other income and fee income.
(e) Total assets = Total assets - Intangible assets.

	Profitability measures							
	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13	31-Mar-14	30-Jun-14	30-Sep-14	31-Dec-14
Interest margin (%)								
ANZ Banking Group – New Zealand Banking Group[a]	2.27	2.28	2.36	2.35	2.30	2.27	2.32	2.33
Bank of New Zealand	2.35	2.29	2.34	2.32	2.30	2.37	2.28	2.28
Commonwealth Bank of Australia New Zealand Banking Group[a]	2.15	2.16	2.22	2.26	2.24	2.29	2.40	2.40
Heartland Bank[b]	4.21	4.27	4.53	4.61	4.45	4.94	4.99	5.06
Kiwibank Limited Banking Group	1.78	1.83	1.81	1.82	1.82	1.96	2.13	2.17
Southland Building Society	2.46	2.41	2.45	2.53	2.58	2.81	2.97	2.97
The Co-operative Bank Limited	2.46	2.74	2.77	2.78	2.78	2.85	2.95	2.90
TSB Bank Limited	1.98	1.97	1.98	2.01	1.99	2.17	2.30	2.15
Westpac Banking Corporation – New Zealand Division[a]	2.22	2.31	2.23	2.12	2.14	2.18	2.23	2.28
Average	**2.24**	**2.26**	**2.29**	**2.27**	**2.25**	**2.28**	**2.32**	**2.34**
Non-interest income/Total tangible assets (%)								
ANZ Banking Group – New Zealand Banking Group[a]	0.67	0.76	0.37	0.65	0.31	0.73	1.00	0.79
Bank of New Zealand	0.42	0.81	0.41	0.61	0.47	0.53	1.06	0.63
Commonwealth Bank of Australia New Zealand Banking Group[a]	0.62	0.68	0.70	0.64	0.59	0.64	0.58	0.63
Heartland Bank[b]	0.51	0.53	0.56	0.52	0.63	0.45	0.33	0.41
Kiwibank Limited Banking Group	1.02	1.16	1.17	1.16	1.24	1.09	1.22	1.25
Southland Building Society	0.63	0.72	0.74	0.74	0.71	0.77	0.93	0.96
The Co-operative Bank Limited	1.36	1.29	1.13	1.30	0.90	1.17	1.14	1.13
TSB Bank Limited	0.29	0.41	0.43	0.32	0.33	0.33	0.38	0.35
Westpac Banking Corporation – New Zealand Division[a]	0.71	0.82	0.75	0.80	0.69	0.73	0.78	0.73
Average	**0.63**	**0.78**	**0.56**	**0.69**	**0.52**	**0.68**	**0.88**	**0.73**
Impaired asset expense/Average gross loans (%)								
ANZ Banking Group – New Zealand Banking Group[a]	0.00	0.02	0.07	-0.07	-0.08	0.07	0.04	0.05
Bank of New Zealand	0.24	0.04	0.22	0.11	0.13	0.11	0.12	0.02
Commonwealth Bank of Australia New Zealand Banking Group[a]	0.13	0.26	0.15	-0.06	0.09	0.16	0.10	0.29
Heartland Bank[b]	0.51	3.81	0.33	0.33	0.31	0.46	0.36	0.52
Kiwibank Limited Banking Group	0.06	0.15	-0.06	0.03	0.03	-0.11	0.08	0.16
Southland Building Society	0.83	0.44	0.60	0.38	0.43	0.51	0.35	0.43
The Co-operative Bank Limited	0.19	0.19	0.04	0.14	0.07	0.07	0.08	0.07
TSB Bank Limited	0.03	0.03	1.36	0.08	0.05	0.11	0.85	6.06
Westpac Banking Corporation – New Zealand Division[a]	0.14	0.18	0.14	0.08	-0.06	0.01	0.13	0.12
Average	**0.12**	**0.14**	**0.14**	**0.01**	**0.01**	**0.08**	**0.10**	**0.17**
Operating expenses/Operating income (%)								
ANZ Banking Group – New Zealand Banking Group[a]	43.42	42.59	44.32	41.52	45.40	39.85	37.81	39.02
Bank of New Zealand	42.74	38.55	47.39	42.91	40.85	41.67	43.07	39.67
Commonwealth Bank of Australia New Zealand Banking Group[a]	39.57	41.51	38.58	38.78	37.52	38.15	37.66	37.04
Heartland Bank[b]	57.10	79.62	53.07	53.93	51.35	47.98	49.15	48.13
Kiwibank Limited Banking Group	65.09	77.88	70.18	68.38	73.17	75.20	63.31	61.11
Southland Building Society	58.42	65.96	67.35	64.55	61.20	63.33	62.83	66.27
The Co-operative Bank Limited	89.61	84.92	85.48	77.63	83.96	81.97	82.85	77.95
TSB Bank Limited	46.48	37.95	37.05	39.39	42.26	36.91	38.20	37.95
Westpac Banking Corporation – New Zealand Division[a]	41.60	38.19	39.03	41.57	40.54	39.64	37.70	38.97
Average	**43.69**	**42.91**	**44.24**	**42.98**	**43.69**	**41.95**	**40.61**	**40.43**

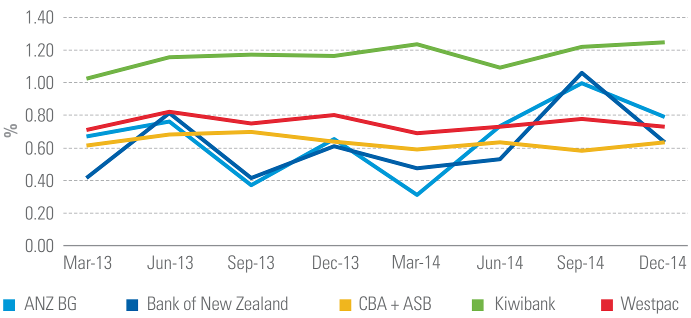
11 MAJOR BANKS: QUARTERLY INCREASE IN GROSS LOANS AND ADVANCES



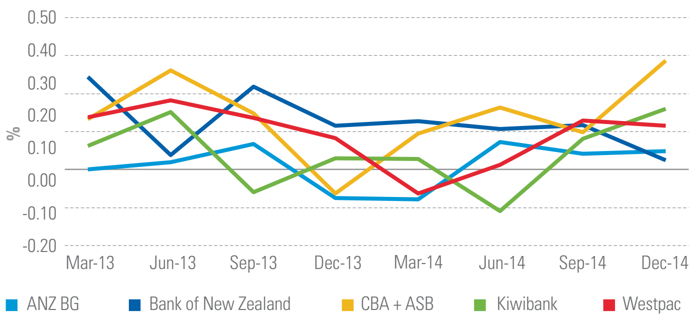
12 MAJOR BANKS: OPERATING EXPENSES VS OPERATING INCOME



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



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



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