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ASB's full year result reflects continued economic momentum

Improving economic conditions have contributed to ASB recording a 14% increase in Statutory Net Profit after Taxation (NPAT) to $806 million for the year ended 30 June 2014. For the prior year, the result was $705 million.

Cash NPAT was $776 million, an increase of 11% on the prior year. Cash NPAT is the preferred measure of financial performance as it presents ASB's underlying operating results and excludes items which introduce volatility and/or one-off distortions, and are considered not representative of ASB's on-going financial performance.[(1)]

Key financial points

- Cash NPAT of $776 million, an increase of 11% over the previous financial year
- Statutory NPAT of $806 million, an increase of 14%
- Net Interest Margin increased by 0.13% to 2.38%
- Loan impairment expense was $56 million, unchanged from the previous year
- Advances to customers up 5% to $60.664 billion

ASB's Chief Executive Barbara Chapman said that the Bank achieved a strong annual result against the background of a steadily improving economy and favourable funding conditions.

"Our strategic goals have helped us achieve sustainable, profitable growth over the past several years. Over the course of the financial year, all areas of the business have performed well with solid lending growth across all key portfolios of 5%, despite heightened price assertiveness in the home loan market."

"The improving New Zealand economy has undoubtedly played a role with rising confidence and solid lending growth, particularly among business and rural customers. Both deposit and lending volumes have been positive compared to the prior year. This broad momentum has resulted in business and rural lending rising by 8% against the previous financial year, significantly ahead of market."

Changes to the mix of assets and funding, combined with favourable funding conditions, resulted in a solid 13 bps improvement in net interest margin year-on-year, increasing to 238 bps.

Operating expenses rose by 4% against the previous year due to a combination of increased costs including those associated with the move to ASB's new North Wharf headquarters and on-going investment in IT infrastructure. At the same time, headcount remained flat over the course of the year. With operating income increasing 9%, the Bank's cost to income ratio reduced 200bps to 38.9%. "Expense growth was partly offset by ASB's strategic focus on driving productivity gains across the business, particularly around streamlining processes to make it as effortless as possible for our customers to bank with us," said Ms Chapman.

Loan impairment expenses remained static at $56 million against the prior year due to strengthening economic conditions and a robust housing market, particularly in Auckland and Christchurch.

"We have seen increased customer migration to our digital channels, driven by changing customer preferences and our strategic investments in this area. Our focus has remained on ensuring we are delivering the highest quality online and mobile experiences in the market," says Ms Chapman. "One example of this has been our drive to make it easier for customers to engage with their KiwiSaver by making balances visible in internet and mobile banking along with introducing the ability to make one-off payments into KiwiSaver accounts instantly."

ASB also launched a dedicated Mobile Business app in September 2013, offering a range of services to business customers including the ability to authorise payments securely from anywhere.

ASB's focus on enhancing its mobile services contributed to the Bank being named 'Bank of the Year' by international magazine The Banker in December 2013. In addition, the June 2014 Retail Market Monitor rolling 12 month average confirmed that the ASB Mobile Banking app was rated first among major banks in terms of satisfaction around ease of use and functionality.

"At ASB we acknowledge the importance of balancing profitability with our role as a good corporate citizen and of creating value for our people, customers and the communities in which we operate," says Ms Chapman. "With this in mind, in the 2014 financial year we contributed more than $12 million in sponsorships, donations, and investments to support the arts, diversity, sports, the environment and our communities."

"For our people, we have worked hard to build a world-class working environment that embraces diversity and inclusiveness and allows everyone to achieve their full potential. Our annual employee engagement survey confirmed that ASB is at the top of the 'best in class' category, placing ASB as one of the most highly engaged workforces in the finance industry worldwide. In addition, we have continued to embed our diversity strategy over the past 12 months, focusing on the key areas of gender, culture, sexual orientation and gender identity. Highlights of the past year included winning the Supreme Award in the White Camellia awards in recognition of ASB's commitment to gender equality and also our participation in the Rainbow Tick diversity and inclusiveness audit programme."

In addition, ASB's GetWise financial literacy programme celebrated another significant milestone in June 2014, with its 400,000th student attending a GetWise learning module, helping them on the path to improved financial literacy.

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(1) Items include hedging and IFRS volatility, the notional cost of capital charged by the Commonwealth Bank of Australia (the ultimate parent of ASB Bank Limited) and other material non-recurring items. These items are calculated consistently period on period and do not discriminate between positive and negative adjustments. Refer to the Consolidated Performance in Brief for a reconciliation of the statutory and cash net profit after taxation, and for further information on these items.

ASB Bank Limited
Consolidated Performance in Brief

For the year ended 30 June	2014	2013[6]	2012[6]
Income Statement ($ millions)			
Interest income	**3,625**	3,476	3,547
Interest expense	**2,065**	2,071	2,243
Net interest earnings	**1,560**	1,405	1,304
Other income	**412**	401	420
Total operating income	**1,972**	1,806	1,724
Impairment losses on advances	**56**	56	47
Total operating income after impairment losses	**1,916**	1,750	1,677
Total operating expenses	**767**	738	730
Net profit before taxation	**1,149**	1,012	947
Taxation	**343**	307	262
Net profit after taxation ("Statutory Profit")	**806**	705	685
Reconciliation of statutory profit to cash profit ($ millions)			
Net profit after taxation ("Statutory Profit")	**806**	705	685
Reconciling items:			
Hedging and IFRS volatility[1]	**(5)**	4	(37)
Disposal of available-for-sale investments	**-**	-	(16)
Notional inter-group charges[2]	**(59)**	(39)	(25)
Reporting structure differences[3]	**(11)**	(8)	-
Taxation on reconciling items and prior period adjustments	**45**	36	17
Cash net profit after taxation ("Cash Profit")	**776**	698	624

As at 30 June	2014	2013	2012
Balance Sheet ($ millions)			
Total assets	**68,380**	66,570	63,537
Advances to customers	**60,664**	57,726	53,002
Total liabilities	**63,214**	61,545	59,350
Customer deposits (includes term deposits, on demand and short term deposits, and deposits not bearing interest)	**44,295**	41,289	38,975
Performance			
Return on ordinary shareholder's equity	**17.4%**	17.0%	19.0%
Return on total average assets	**1.2%**	1.1%	1.1%
Net interest margin[4]	**2.38%**	2.25%	2.16%
Total operating expenses as a percentage of total operating income	**38.9%**	40.9%	42.3%
Capital ratios[5]			
Common equity tier one capital as a percentage of total risk-weighted exposures	**10.6%**	10.4%	N/A
Tier one capital as a percentage of total risk-weighted exposures	**11.7%**	11.8%	11.7%
Total capital as a percentage of total risk-weighted exposures	**12.7%**	11.9%	12.6%

(1) Hedging and IFRS volatility includes unrealised fair value gains or losses on economic hedges that do not qualify for hedge accounting and also includes unrealised fair value gains or losses on the ineffective portion of economic hedges that do qualify for hedge accounting under IFRS. Fair value gains or losses on all of these economic hedges are excluded from Cash Profit since the asymmetric recognition of the gains or losses does not affect the Bank's performance over the life of the hedge.
(2) This represents the recognition of a notional cost of capital from the ultimate parent and other allocated costs which are not included in Statutory Profit.
(3) Results of certain business units are excluded from Cash Profit for management reporting purposes, but included in Statutory Profit.
(4) Net interest margin is calculated as net interest earnings divided by average interest earning and discount bearing assets.
(5) Capital ratios as at 30 June 2014 and 30 June 2013 were prepared in accordance with the Basel III framework. Capital ratios as at 30 June 2012 were prepared under the Basel II framework.
(6) Certain comparatives have been restated to ensure consistency with the current period's presentation.