Wednesday 10 August 2016

Customer focus delivers solid annual result for ASB

ASB today reported statutory net profit after taxation (NPAT) of $913 million for the financial year ended 30 June 2016. This represents a 6% increase on the prior financial year.

Cash NPAT was $908 million, an increase of 5% on the prior financial year. Cash NPAT is the preferred measure of financial performance as it presents ASB's underlying operating results and excludes items that introduce volatility and/or one-off distortions, and are not considered representative of ASB's on-going financial performance.(1)

Key financial points

- Cash NPAT of $908 million, an increase of 5% over the previous financial year
- Statutory NPAT of $913 million, an increase of 6%
- Advances to customers up 10% to $72.1 billion
- Sustained momentum in funds management with income growth of 15%
- Loan impairment expense was $130 million, up 46%
- Cash net interest margin decreased by 6bps to 2.32%
- Cost to income ratio of 37.3%, an improvement of 110bps

ASB Chief Executive Barbara Chapman said the result was a product of sustained growth in key market segments and a focus on providing exceptional experiences for customers. "We have achieved this result against the backdrop of a highly competitive market and some significant headwinds in the form of global market volatility and fluctuating commodity prices. Despite this, we have remained focused on executing our strategy and pursuing initiatives to drive profitable growth across our business."

Customer advances are up 10% reflecting strong lending growth across all key portfolios including business, commercial, rural, personal and home lending. At the same time, deposits have grown 5%.

Cash net interest margin decreased by 6 basis points to 2.32% reflecting a highly competitive environment and the continued popularity of lower-margin fixed rate mortgages.(2)

ASB's loan impairment expense was $130 million, up 46% from the prior financial year as a result of increased provisions, particularly in the dairy sector. "We have taken a conservative position and have increased provisions in the dairy sector accordingly," Ms Chapman said. "That said, we remain confident in the asset quality of our rural book and see our farming customers responding well and managing their businesses in response to the conditions.

"A key pillar of our strategy is around leveraging technology to improve the way we serve our customers through offering simple, seamless and secure mobile and digital experiences. More than three quarters of our personal customers are active on our digital channels and are accessing an increasing range of banking services through their mobile devices. As a result, we have seen sales made through our digital channels more than double over the past two years.

"Our success in offering the best mobile experience has been acknowledged with ASB being named as first in mobile app banking satisfaction against our competitors," Ms Chapman said.(3)

"A prime example of the way we are focusing on our customers and building on our long history of innovation is the success of ASB Card Control. ASB Card Control gives customers the ability to manage their ASB Visa cards anywhere, any time through the ASB Mobile app, including the ability for customers to temporarily lock their card if they lose it, turn off ATM withdrawals, set spending limits and more. Since its launch last year, more than 167,000 customers have used Card Control and the service has safeguarded customers from more than $1 million of potential fraud.

"A focus on innovation and technology also drives efficiency and we continue to transform our business, streamline how we work and digitise processes. Even with continued significant investments in technology and specialist frontline capability, disciplined cost management and efficiency improvement saw a 110 basis points reduction in our cost to income ratio to 37.3%.

"Our achievements over the past financial year would not have been possible without the ambition, passion and commitment of our people nationwide. We have worked hard to maintain a high-performance, supportive culture where different backgrounds and perspectives are recognised and harnessed. The results of our Kenexa employee engagement survey this year confirmed once again that ASB has one of the most engaged workforces globally," Ms Chapman said.

"At ASB we maintain a strong belief in the importance of making a positive impact on the communities in which we operate," Ms Chapman said. "Over the course of the financial year, we contributed more than $12 million in donations, community investments, and sponsorships. Key successes have included our ongoing partnership with the All Blacks and the completion of the first combined ASB Classic Tennis tournament featuring both women's and men's fields. In addition, our ASB GetWise financial literacy programme for schools passed another milestone recently with 600,000 children having been registered to receive an ASB GetWise session."

ASB's Clever Kash digital moneybox also won a Gold Lion in June at the Cannes Lions International Festival of Creativity in the Financial Services category.

In addition, ASB was, in December 2015, named New Zealand's Bank of the Year for the third year in a row, and the eleventh time in fourteen years, by London-based magazine The Banker.

ENDS

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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.
(2) Fixed rate prepayment recoveries have been reclassified from other income to net interest earnings to align with market practice. This reclassification has no impact on net profit after taxation.
(3) Retail Market Monitor – June 2016

ASB Bank Limited
Consolidated Performance in Brief

For the year ended 30 June	2016	2015 [6]	2014 [6]
Income Statement ($ millions)			
Interest income	**4,048**	4,106	3,628
Interest expense	**2,286**	2,439	2,091
Net interest earnings	**1,762**	1,667	1,537
Other income	**464**	419	435
Total operating income	**2,226**	2,086	1,972
Impairment losses on advances	**130**	89	56
Total operating income after impairment losses	**2,096**	1,997	1,916
Total operating expenses	**826**	805	767
Net profit before taxation	**1,270**	1,192	1,149
Taxation	**357**	333	343
Net profit after taxation ("Statutory Profit")	**913**	859	806
Reconciliation of statutory profit to cash profit ($ millions)			
Net profit after taxation ("Statutory Profit")	**913**	859	806
Reconciling items:			
Hedging and IFRS volatility[1]	**11**	31	(5)
Notional inter-group charges[2]	**(8)**	(14)	(59)
Reporting structure differences[3]	**(9)**	(10)	(11)
Taxation on reconciling items and prior period adjustments	**1**	(2)	45
Cash net profit after taxation ("Cash Profit")	**908**	864	776

As at 30 June	2016	2015 [6]	2014 [6]
Balance Sheet ($ millions)			
Total assets	**81,606**	75,903	68,380
Advances to customers	**72,075**	65,383	60,664
Total liabilities	**74,794**	70,525	63,214
Deposits and other public borrowings (excludes repurchase agreements)	**54,702**	52,163	44,522
Performance[4]			
Return on ordinary shareholder's equity	**18.1%**	19.1%	17.6%
Return on total average assets	**1.2%**	1.2%	1.1%
Net interest margin	**2.32%**	2.38%	2.24%
Total operating expenses as a percentage of total operating income	**37.3%**	38.4%	40.5%
Capital ratios[5]			
Common equity tier one capital as a percentage of total risk-weighted exposures	**10.0%**	8.8%	10.6%
Tier one capital as a percentage of total risk-weighted exposures	**12.4%**	10.8%	11.7%
Total capital as a percentage of total risk-weighted exposures	**13.3%**	11.8%	12.7%

(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) These performance metrics are calculated on a Cash Profit basis.
(5) Capital ratios were prepared in accordance with the Basel III framework.
(6) Certain comparatives have been restated to ensure consistency with the current period's presentation.