Wednesday 12 August 2015

Customer focus drives ASB's solid annual result

ASB today reported a 7% increase in Statutory Net Profit after Taxation (NPAT) to $859 million for the year ended 30 June 2015. For the prior year, the result was $806 million.

Cash NPAT was $846 million, an increase of 9% 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 $846 million, an increase of 9% over the previous financial year
- Statutory NPAT of $859 million, an increase of 7%
- Net Interest Margin increased by 0.06% to 2.44% period-on-period
- Sustained momentum in funds management with income growth of 16%
- Loan impairment expense was $89 million, up 59% from the previous year
- Advances to customers up 8% to $65.4 billion
- ASB subsidiary Aegis passes $11 billion in Funds Under Administration

ASB's Chief Executive Barbara Chapman said the result reflected the Bank's focus on achieving sustainable, profitable growth through the execution of its long-term strategy. "This was an across the board performance with all areas of the business contributing to the result," Ms Chapman said. "Over the past year we have continued to focus on leveraging our investment in digital capabilities and enhancing customer experience."

"Operating income growth was 6%, however this was impacted by hedging volatility following the recent sharp reduction in wholesale interest rates. Excluding this volatility, underlying growth of 8% was influenced by strong business and rural lending growth of 14% on the previous financial year," said Ms Chapman. "The sustained growth of our Corporate, Commercial & Rural business has been a testament to the success of our business diversification strategy. We have continued to invest in building our frontline capability in key segments, adding additional specialists to serve our business and rural customers nationwide."

Net interest margin increased 0.06% to 2.44% year-on-year. This was largely due to favourable funding conditions, partly offset by a reduction in lending margins in a highly competitive environment and the continued customer preference for lower margin fixed-rate mortgages.

Operating expenses grew by 5% to $805 million driven by inflationary-related salary increases and continued investment in frontline capability. ASB's ongoing strategic investment in technology and innovation also contributed to a rise in costs. "Across our business, advancements in technology are changing customer expectations and evolving the competitive landscape," said Ms Chapman. "With this in mind, we have continued to focus our efforts on simplifying processes across all channels to deliver faster, better and more seamless customer experiences."

"One example of this is the recent launch of ASB Card Control which, for the first time, allows customers to manually manage a range of debit and credit card features, for example blocking or unblocking overseas or internet transactions, via the ASB mobile app," said Ms Chapman. "Features such as Card Control have further increased the popularity of mobile banking and we now have more than 20 million customer interactions taking place via our mobile app each month."

ASB's expense to income ratio of 38.6% was an improvement of 30 basis points, reflecting a sustained focus on productivity and cost management across the business.

Loan impairment expense increased 59% to $89 million, primarily due to growth across all lending portfolios, stabilising home loan arrears rates (compared with decreases in the prior year) and increased rural provisioning.

"Beyond our financial performance, ASB's people, culture and brand are true differentiators in a very competitive market," said Ms Chapman. "I'm particularly proud of the contribution we make as an organisation and as individuals to the communities in which we operate. In the 2015 financial year we contributed more than $12 million in sponsorships, donations, and investments to support the arts, diversity, sports, the environment and our communities."

"Highlights include our nationwide sponsorship of New Zealand Rugby and the All Blacks and our naming rights sponsorship of the new ASB Waterfront Theatre in Auckland which is currently under construction. ASB's GetWise financial literacy programme recently celebrated another significant milestone, with the completion of our 20,000th GetWise school-based session, helping Kiwi kids on the path to improved financial literacy. In addition, through our long-term partnership with St John, we have installed life-saving defibrillators in all ASB branches and held public CPR workshops in locations across New Zealand."

"We help our people succeed by nurturing an environment of inclusion where people from a diverse range of backgrounds can achieve their full potential. With this in mind, we were honoured to become the first bank in New Zealand to receive the Rainbow Tick diversity accreditation. In the past year we have also won the Randstad Award for New Zealand's Most Attractive Employer in the Banking & Financial Sector and won The Banker magazine's New Zealand Bank of the Year for the eighth time in the past decade."

"As a demonstration of our focus on our people and culture, our annual employee engagement survey again 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."

ENDS

Released by: **Christian May, ASB Corporate Communications**
Mobile: 021 305 398, christian.may@asb.co.nz

(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	2015	2014	2013[6]
Income Statement ($ millions)			
Interest income	**4,099**	3,625	3,476
Interest expense	**2,403**	2,065	2,071
Net interest earnings	**1,696**	1,560	1,405
Other income	**390**	412	401
Total operating income	**2,086**	1,972	1,806
Impairment losses on advances	**89**	56	56
Total operating income after impairment losses	**1,997**	1,916	1,750
Total operating expenses	**805**	767	738
Net profit before taxation	**1,192**	1,149	1,012
Taxation	**333**	343	307
Net profit after taxation ("Statutory Profit")	**859**	806	705
Reconciliation of statutory profit to cash profit ($ millions)			
Net profit after taxation ("Statutory Profit")	**859**	806	705
Reconciling items:			
Hedging and IFRS volatility[1]	**31**	(5)	4
Notional inter-group charges[2]	**(40)**	(59)	(39)
Reporting structure differences[3]	**(10)**	(11)	(8)
Taxation on reconciling items and prior period adjustments	**6**	45	36
Cash net profit after taxation ("Cash Profit")	**846**	776	698

As at 30 June	2015	2014	2013
Balance Sheet ($ millions)			
Total assets	**75,903**	68,380	66,570
Advances to customers	**65,383**	60,664	57,726
Total liabilities	**70,525**	63,214	61,545
Customer deposits (includes term deposits, on demand and short term deposits, and deposits not bearing interest)	**50,062**	44,295	41,289
Performance			
Return on ordinary shareholder's equity	**18.8%**	17.4%	17.0%
Return on total average assets	**1.2%**	1.2%	1.1%
Net interest margin[4]	**2.44%**	2.38%	2.25%
Total operating expenses as a percentage of total operating income	**38.6%**	38.9%	40.9%
Capital ratios[5]			
Common equity tier one capital as a percentage of total risk-weighted exposures	**8.8%**	10.6%	10.40%
Tier one capital as a percentage of total risk-weighted exposures	**10.8%**	11.7%	11.8%
Total capital as a percentage of total risk-weighted exposures	**11.8%**	12.7%	11.9%

(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 for all periods presented were prepared in accordance with the Basel III framework.
(6) Certain comparatives have been restated to ensure consistency with the current period's presentation.