Wednesday 7 August 2019

ASB invests in keeping Kiwis' finances safe, sound and secure

ASB today reported a statutory net profit after taxation (NPAT) of $1,274 million for the year ended 30 June 2019. This represents an 8% increase on the prior year. This included a one-off $46 million gain from the sale of Paymark Ltd.

Cash NPAT was $1,191 million, an increase of 4% on the prior year. Cash NPAT presents ASB's underlying operating results and excludes items that introduce volatility and/or one-off distortions which are not considered representative of ASB's on-going financial performance[1].

ASB Chief Executive Vittoria Shortt said the result was the product of a solid across the board performance. "While all parts of the business contributed to the result, growth in underlying profit was more subdued this year, reflecting a backdrop of slowing credit growth in the business and consumer finance sectors."

Safe, sound and secure

"We are continuing to make significant investments in order to keep our customers and their information safe," says Ms Shortt. "This focus on financial crimes prevention and cyber security has contributed to an increase in operating expenses of 4%.

"Our long-term financial performance is driven partly by our continued focus on investing in and driving efficiency. Our cost efficiency advantage positions us strongly and allows us to be more resilient and remain profitable in the event of an economic downturn.

"A resilient, secure and efficient banking sector is important for New Zealand's economy and society. Over the financial year we have further strengthened our balance sheet resilience, increasing our Common Equity Tier 1 (CET1) capital by $0.5bn (to $6.4bn), and lifting our CET1 ratio to 11.4% of Risk Weighted Exposures."

Investing in the wellbeing of New Zealand

"ASB has a strong heritage of supporting our communities. This began when our founders opened the first ASB branch in 1847, with a focus on helping New Zealand society, and has continually evolved to the significant support that ASB teams and people provide across all our communities today. We are fortunate to have a number of longstanding charitable

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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) 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.

partners, such as St John, which continues to provide vital services to the community as first responders and through the provision of first aid training to students and other groups.

“We have also continued to build new relationships with organisations like KidsCan. In June we announced a partnership that will see ASB and KidsCan working with 740 low decile schools to deliver essential items to students who would otherwise go without, ensuring they are fed, warm and healthy, so they can focus on their learning.

“Having the opportunity to contribute to the community is important to our people, and is often one of the reasons people choose to work at ASB. With this in mind, earlier this year we were pleased to launch the ASB Volunteer Hours Programme which is designed to give our people the opportunity to get directly involved in helping our communities. ASB employees are entitled to take 12 paid voluntary hours per year to support community groups. This will deliver approximately 60,000 hours of service to New Zealand annually.

“Promoting and championing a workplace where everyone can make an impact and where all our people have the opportunity to reach their full potential remains an important area of focus for ASB. We were extremely proud that ASB, through our Diversity and Inclusion network group ‘Unity’, was named the winner of the Community and Advocacy category at the annual New Zealand Rainbow Excellence Awards in May.

Investing in better customer outcomes

“I am proud of the commitment of our people to delivering good customer outcomes and experiences that make banking simpler, easier and safer,” says Ms Shortt. “We have listened to the feedback from some of our stakeholders around sales targets and incentives and have responded accordingly. This includes reviewing how we remunerate and incentivise our people including the removal of sales targets for frontline staff.

“The current low interest rate environment provides an ideal opportunity for home owners to pay down debt and a big focus for ASB has been on providing customers with the tools to help them achieve this. ASB Home Central helps our more than 230,000 home lending customers manage their home loan online and explore options to get mortgage free faster. With more than 930,000 visits over the financial year to adjust repayment options, many customers have saved tens of thousands of dollars over the course of their home loan,” says Ms Shortt. “As an acknowledgement of the range of tools the Bank has available for its customers as well as the expertise of our home lenders, ASB received Canstar's Bank of the Year – Home Loans award for the second year running. We were also recognised for our work in helping Kiwis into their first homes, winning the Canstar First Home Buyer Award for 2019.

“We have had a particular focus on working with our rural customers to help them make the most of the current low interest rate environment and historically high commodity prices. Encouragingly, we have seen many rural customers focus on paying down debt, and transitioning to more resilient and sustainable business settings.

“Our customers want their banking experience to be simple and seamless, with the knowledge they are using the most suitable products for their circumstances, as they change over time. Our investment in data and analytics has helped us to become more proactive in the way we engage with customers. Through investing in this capability, more than 217,000 customers took an action in FY19 that resulted in them being better off financially.”

Key performance elements

ASB's cash net interest margin (NIM) decreased by 3bps (to 221bps) on the prior year. The decline in NIM was predominantly driven by higher funding costs and a continued customer preference for fixed rate loans, partly offset by lower costs relating to customers breaking fixed rate loans.

ASB's impairment losses on financial assets (write-offs and funds set aside for bad debts) increased by 35% (to $108 million). "Overall, credit quality remains sound, notwithstanding a rise in impairment provisions that have been impacted by a change in accounting standards," says Ms Shortt.

On a cash basis, ASB's cost to income ratio for FY19 was 35.6%, an improvement of 40bps on the prior year. Operating income growth was 5% while operating expenses grew by 4%. "We have continued to invest significant resources in ensuring we are safe, sound and secure to help us protect the trust our customers and community have placed in us," says Ms Shortt. "At the same time, we are continuing to invest in our digital and innovation capabilities to reengineer processes, enhance our channels and make it easier and simpler for our customers to bank with us, however they choose to do so."

Key financial points

- Cash NPAT of $1,191 million, an increase of 4% on the prior year
- Statutory NPAT of $1,274 million, an increase of 8%
- Cash net interest margin decreased by 3bps to 2.21%
- Advances to customers up 6% to $88 billion
- Customer deposits up 6% to $66 billion
- Impairment losses on financial assets increased 35% to $108 million
- Continued momentum in funds management with 13% income growth
- Cost to income ratio (cash basis) of 35.6%, an improvement of 40bps
- Operating expenses increased 4%

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Consolidated Performance in Brief

For the year ended 30 June	2019	2018 (6)	2017 (6)
Income Statement ($ millions)			
Interest income	**4,352**	4,188	4,027
Interest expense	**2,208**	2,149	2,176
Net interest income	**2,144**	2,039	1,851
Other income	**677**	607	583
Total operating income	**2,821**	2,646	2,434
Impairment losses on financial assets	**108**	80	69
Total operating income after impairment losses	**2,713**	2,566	2,365
Total operating expenses	**967**	933	882
Net profit before tax	**1,746**	1,633	1,483
Tax expense	**472**	456	414
Net profit after tax ("Statutory Profit")	**1,274**	1,177	1,069
Reconciliation of statutory profit to cash profit ($ millions)			
Statutory Profit	**1,274**	1,177	1,069
Reconciling items:			
Hedging and IFRS volatility(1)	**(9)**	(8)	(26)
Notional inter-group charges(2)	**(36)**	(35)	(29)
Reporting structure differences(3)	**(53)**	(5)	(7)
Tax on reconciling items and prior period adjustments	**15**	14	18
Cash net profit after tax ("Cash Profit")	**1,191**	1,143	1,025
Performance(4)			
Return on average total equity	**15.2%**	15.0%	14.4%
Return on average total assets	**1.2%**	1.2%	1.2%
Net interest margin	**2.21%**	2.24%	2.17%
Total operating expenses as a percentage of total operating income	**35.6%**	36.0%	37.3%

As at 30 June	2019	2018 (6)	2017 (6)
Balance Sheet ($ millions)			
Total assets	**98,467**	95,413	88,628
Advances to customers	**87,695**	82,931	78,100
Total liabilities	**90,676**	87,541	81,226
Deposits and other borrowings (excludes repurchase agreements)	**66,216**	62,419	58,197
Capital ratios(5)			
Common equity tier one capital as a percentage of total risk-weighted exposures	**11.4%**	10.6%	10.2%
Tier one capital as a percentage of total risk-weighted exposures	**13.2%**	12.4%	12.3%
Total capital as a percentage of total risk-weighted exposures	**14.0%**	13.9%	13.8%

(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 performance of ASB Bank Limited 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) The results of certain business units and the gain on sale of Paymark Limited 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 calculated in accordance with the Basel III framework.

(6) Certain comparatives have been restated to ensure consistency with the current period's presentation.