Wednesday 15 February 2017

ASB posts solid first half profit

ASB today reported statutory net profit after taxation (NPAT) of $525 million for the six months ended 31 December 2016. This represents an 11% increase on the prior comparative period.

Cash NPAT was $507 million, an increase of 6% on the prior comparative period. 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 $507 million, an increase of 6% over the prior comparative period
- Statutory NPAT of $525 million, an increase of 11%
- Cash net interest margin decreased by 17bps to 2.21%
- Advances to customers up 11% to $76 billion
- Loan impairment expense was $49 million, up 20%
- Sustained momentum in funds management with income growth of 12%
- Cost to income ratio for six months of 35.5%, an improvement of 150bps
- Costs held flat for the second consecutive half following strong productivity gains

ASB Chief Executive Barbara Chapman said the result was the product of strong momentum across the business and, in particular, reflects diversified balance sheet asset growth in key customer portfolios, with total lending up 11% compared to the prior comparative period. "Despite some challenging market conditions, we've continued to see robust nationwide volume growth in our business, rural and retail lending portfolios. It has been particularly pleasing to see our people and teams right around the country deliver such a strong performance, with sustained growth in markets outside of Auckland."

Home loans increased by 10% against the prior comparative period while business, commercial and rural lending grew by 13%. Customer deposits also continued to grow (5%), despite increased competitor intensity and slowing market growth.

Operating income growth (on a cash basis) of 4% combined with tight control of operating expenses resulted in a cost to income ratio for six months of 35.5%, an improvement of 150bps over the prior comparative period. "We have continued to invest in building frontline capability in specialist areas," Ms Chapman says. "At the same time we have maintained a strategic focus on leveraging technology to manage costs, improve productivity and simplify our business. With our customers' preferences shifting to digital channels at an ever-increasing rate, our focus has remained on providing them with exceptional experiences, in whichever way they choose to access and manage their finances."

Loan Impairment Expense (LIE) grew 20% ($8m) from the prior comparative period following increased provisioning, reflecting strong lending growth and lower home loan provision releases.

Cash net interest margin (NIM) decreased 17 basis points to 2.21%, predominantly reflecting higher costs associated with wholesale funding and increased costs relating to customers breaking fixed rate loans. “As customers take advantage of the current low interest rate environment we are seeing a continued preference for lower margin fixed rate loans,” Ms Chapman says. “At the same time, banks now are facing a changing dynamic around the increasing volume and cost of international funding needed to meet local lending requirements. With levels of local deposits failing to keep pace with the amount of lending banks are doing, the increased use of offshore funding has increased funding costs, reducing our net interest margin.”

ASB finished 2016 with a number of significant external accolades. In December 2016, the Bank received the MBIE Diversity Leadership Award at the Deloitte Top 200 Business Awards. The award acknowledged ASB’s clear vision and strategy around building a range of initiatives to embrace diversity of thought and background. In the same month, ASB was named 'New Zealand Bank of the Year' by international magazine 'The Banker' for the fourth consecutive year.

In September 2016, ASB began distributing more than 50,000 ‘Clever Kash’ digital moneyboxes to customers who had joined the waiting list for the device. Clever Kash is designed to make saving fun for children and introduce good financial habits as society becomes increasingly cashless. Demand for the innovative device continues to grow.

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 period ended	**Unaudited 31-Dec-16 6 Months**	Unaudited 31-Dec-15 6 Months[5]	Audited 30-Jun-16 12 Months
Income Statement ($ millions)			
Interest income	**2,014**	2,078	4,048
Interest expense	**1,091**	1,201	2,286
Net interest earnings	**923**	877	1,762
Other income	**267**	234	464
Total operating income	**1,190**	1,111	2,226
Impairment losses on advances	**49**	41	130
Total operating income after impairment losses	**1,141**	1,070	2,096
Total operating expenses	**411**	411	826
Net profit before taxation	**730**	659	1,270
Taxation	**205**	185	357
Net profit after taxation ("Statutory Profit")	**525**	474	913
Reconciliation of statutory profit to cash profit ($ millions)			
Net profit after taxation ("Statutory Profit")	**525**	474	913
Reconciling items:			
Hedging and IFRS volatility[1]	**(15)**	3	11
Notional inter-group charges[2]	**(7)**	7	(8)
Reporting structure differences[3]	**(5)**	(6)	(9)
Taxation on reconciling items	**9**	(1)	1
Cash net profit after taxation ("Cash Profit")	**507**	477	908

As at	**31-Dec-16**	31-Dec-15[5]	30-Jun-16
Balance Sheet ($ millions)			
Total assets	**86,986**	77,523	81,606
Advances to customers	**76,061**	68,684	72,075
Total liabilities	**79,808**	71,712	74,794
Customer deposits (excludes repurchase agreements)	**56,369**	53,432	54,702
Performance[4]			
Return on ordinary shareholder's equity	**17.5%**	19.9%	18.1%
Return on total average assets	**1.2%**	1.2%	1.2%
Net interest margin	**2.21%**	2.38%	2.32%
Total operating expenses as a percentage of total operating income	**35.5%**	37.0%	37.3%
Capital ratios			
Common equity tier one capital as a percentage of total risk-weighted exposures	**10.0%**	9.3%	10.0%
Tier one capital as a percentage of total risk-weighted exposures	**12.3%**	11.3%	12.4%
Total capital as a percentage of total risk-weighted exposures	**13.8%**	12.2%	13.3%

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