Wednesday 09 August 2017

ASB delivers strong full year performance

ASB today reported statutory net profit after taxation (NPAT) of $1,069 million for the twelve months ended 30 June 2017. This represents a 17% increase on the prior comparative period.

Cash NPAT was $1,033 million, an increase of 13% 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 $1,033 million, an increase of 13% over the prior comparative period
- Statutory NPAT of $1,069 million, an increase of 17%
- Cash net interest margin decreased by 15bps to 2.18%
- Advances to customers up 8% to $78 billion
- Loan impairment expense was $69 million, down 47%
- Sustained momentum in funds management with income growth of 14%
- Cost to income ratio (cash basis) of 35.8%, an improvement of 140bps
- Costs (cash basis) increased marginally by 1%, following continued simplification and productivity gains

Sustained lending and deposit growth drives result

ASB Chief Executive Barbara Chapman said the strong annual result was the product of sustained lending and deposit growth across the business, generated against the backdrop of an uncertain global economy, volatile offshore funding costs and pressure on margins.

"Over the past year, we have remained focused on delivering sustainable, diversified balance sheet growth across our key customer portfolios. All our business units performed well and we continue to experience sustained momentum, despite some external headwinds and a rapidly evolving financial services market."

Home loans increased by 7% against the prior year while business, commercial and rural lending grew by 11%. This contributed to an increase in total customer lending of 8% on the previous financial year. At the same time, customer deposits grew by 6% in a highly competitive market for bank deposits.

ASB's cash net interest margin (NIM) remained under pressure, declining by 15bps. "This reduction was driven by a combination of increased funding costs and higher net costs relating to customers breaking fixed rate loans," Ms Chapman says.

[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.

Operating income growth
Operating income growth was 5% (on a cash basis). This, combined with a prolonged period of near flat expense growth, contributed to a cost to income ratio of 35.8%, an improvement of 140bps over the prior year.

"Thanks to our strategic focus on productivity, we have succeeded in containing costs, simplifying our processes and improving efficiency," Ms Chapman says. "Ultimately this allows us to invest in providing exceptional experiences to customers across our business, whether they choose to interact with us in person or digitally.

"With this in mind, we have continued our strong investment in technology and innovation and have introduced a range of practical new enhancements to our digital offerings. Just one example is our digital home loan re-fix functionality which means customers no longer require staff assistance to re-fix their home loan rate. Instead, they can access personalised pricing and complete their re-fix when and where it suits them."

Reduction in impairments
Loan Impairment Expense (LIE) reduced by 47% (-$61m), following decreased provisioning, primarily due to the continuing recovery of the dairy sector. "We have been supporting our rural customers through a challenging period and as we enter the next phase of the cycle, this has reduced the amount of provision required to set aside for bad and doubtful debts," Ms Chapman says.

170 years of serving customers and the community
"ASB was established in 1847 as a community bank," Ms Chapman says. "On this, our 170th anniversary, we remain committed to giving back to the communities where we operate.

"In addition to the more than 4,700 people we employ, the $380 million we paid in tax over the past year, and the almost $350 million we pay annually to New Zealand suppliers, ASB has supported New Zealand's economy and its communities through a range of initiatives.

"In the past year alone, we have celebrated 25 years of being a major sponsor of the Starship Foundation. In addition, our youth financial literacy programme ASB GetWise continues to go from strength-to-strength with more than 69% of all primary/intermediate schools in New Zealand having participated in the programme.

"As a nationwide organisation, we are also conscious of the impact we have on the environment. We have worked hard to achieve a 32% reduction in electricity consumption from 2008 levels against a target of 50% by 2025.

"ASB and its people are proud of the strong brand and reputation we have built over many years. A real highlight, in what is a milestone year for the Bank, was the announcement in April that ASB had been named among the top three corporate reputations in New Zealand in the AMR Corporate Reputation Index. This was the first time a bank has placed so highly in the history of the survey."

ENDS

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ASB Bank Limited
Consolidated Performance in Brief

For the year ended 30 June	2017	2016 [6]	2015 [6]
Income Statement ($ millions)			
Interest income	**4,027**	4,048	4,106
Interest expense	**2,176**	2,286	2,439
Net interest earnings	**1,851**	1,762	1,667
Other income	**535**	464	419
Total operating income	**2,386**	2,226	2,086
Impairment losses on advances	**69**	130	89
Total operating income after impairment losses	**2,317**	2,096	1,997
Total operating expenses	**834**	826	805
Net profit before taxation	**1,483**	1,270	1,192
Taxation	**414**	357	333
Net profit after taxation ("Statutory Profit")	**1,069**	913	859
Reconciliation of statutory profit to cash profit ($ millions)			
Net profit after taxation ("Statutory Profit")	**1,069**	913	859
Reconciling items:			
Hedging and IFRS volatility[1]	**(26)**	11	31
Notional inter-group charges[2]	**(17)**	-	(7)
Reporting structure differences[3]	**(7)**	(9)	(10)
Taxation on reconciling items and prior period adjustments	**14**	(1)	(4)
Cash net profit after taxation ("Cash Profit")	**1,033**	914	869

As at 30 June	2017	2016 [6]	2015 [6]
Balance Sheet ($ millions)			
Total assets	**88,628**	81,606	75,903
Advances to customers	**78,100**	72,075	65,383
Total liabilities	**81,226**	74,794	70,525
Deposits and other public borrowings (excludes repurchase agreements)	**58,197**	54,702	52,163
Performance[4]			
Return on ordinary shareholder's equity	**17.7%**	18.1%	19.2%
Return on total average assets	**1.2%**	1.2%	1.2%
Net interest margin	**2.18%**	2.33%	2.39%
Total operating expenses as a percentage of total operating income	**35.8%**	37.2%	38.3%
Capital ratios[5]			
Common equity tier one capital as a percentage of total risk-weighted exposures	**10.5%**	9.9%	8.7%
Tier one capital as a percentage of total risk-weighted exposures	**12.6%**	12.3%	10.8%
Total capital as a percentage of total risk-weighted exposures	**14.1%**	13.2%	11.7%

(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.