Wednesday 07 February 2018

ASB delivers strong half year performance

ASB today reported statutory net profit after taxation (NPAT) of $593 million for the six months ended 31 December 2017. This represents a 13% increase on the prior comparative period.

Cash NPAT was $575 million, an increase of 15% 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 $575 million, an increase of 15% over the prior comparative period
- Statutory NPAT of $593 million, an increase of 13%
- Cash net interest margin increased by 1bp to 2.20%
- Advances to customers up 6% to $80 billion
- Customer deposits up 8% to $61 billion
- Loan impairment expense was $26 million, down 47%
- Sustained momentum in funds management with income growth of 17%
- Cost to income ratio (cash basis) of 34.1%, an improvement of 160bps
- Costs (cash basis) increased by 3%, following higher regulatory compliance costs and higher technology expenses, partly offset by continued simplification and productivity gains

Solid growth, stabilising margin and lower impairment drive result

Incoming ASB Chief Executive Vittoria Shortt said the result was the product of a combination of balanced lending and deposit growth across key portfolios along with stabilising margins. The result was also influenced by lower impairment expense with the continued improvement in the dairy sector allowing for provision releases.

"This was a strong first half performance, driven by balanced, business-wide growth and a continued focus on cost management, despite some significant regulatory compliance costs, and higher technology expenses," says Ms Shortt. "At the same time, we are continuing to accelerate our digital transformation while leveraging our strengths in customer service and innovation."

Ms Shortt also paid tribute to her predecessor Barbara Chapman who departed in early February. "Barbara and the team have done an exceptional job in building a high-performing, diversified business during a period of unprecedented change and disruption for

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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.

the industry," says Ms Shortt. "It's my great privilege to be stepping into the Chief Executive role during such an exciting time for ASB as we continue to build on the momentum established over the past several years under Barbara's leadership."

Solid lending and deposit growth
Home loans increased by 5% against the prior year while business, commercial and rural lending grew by 8%. This contributed to an increase in total customer lending of 6% on the prior comparative period.

In addition, customer deposits grew by 8% in a competitive market for bank deposits. "We are seeing a continued trend around customers focusing on increasing savings and taking advantage of the current low interest rate environment to pay down debt," says Ms Shortt. "We are also making it easier for customers to achieve this by enhancing our Wealth product offering to provide easier access to a range of investment options, with funds under management increasing by 25%[1] over the period. In addition, ASB was once again recognised by Canstar, achieving 5-star ratings across all funds in the KiwiSaver Scheme, the only KiwiSaver provider to achieve this in 2017."

Stabilising margin
ASB's cash net interest margin (NIM) increased by 1bp over the prior comparative period. "We have continued to see NIM stabilising after a period of decline over recent years," says Ms Shortt. "This has primarily been driven by improved lending margins, partly offset by the impact of competition for term deposits."

Reduction in impairments
Loan impairment expense reduced by 47% (-$23m) over the prior comparative period, following the release of provisions, particularly in the dairy sector which continues to recover. Impairment expense within the home lending portfolio continues to remain subdued.

Cost to income ratio continues to improve
ASB's cost to income ratio for the six months to 31 December 2017 was 34.1%, an improvement of 160bps. Operating income growth was 8% (on a cash basis) while operating expenses grew by 3%, driven by regulatory compliance costs, technology and staff costs.

ASB in the community
"ASB's vision and values are at the heart of the way we do business and our corporate responsibility strategy translates these into tangible actions to make a positive impact on the communities in which we operate, on our environment and the New Zealand economy," says Ms Shortt. "Through our sponsorship of the 2017 Lions' Tour, and through a range of other fundraising efforts, ASB people helped raise more than $200,000 for Starship Children's Hospital over the six month period. And once again, our annual St John toy ambulance campaign helped raise more than $100,000 for St John."

In December 2017, ASB celebrated the opening of its new South Island regional centre in the heart of Christchurch's central city. The High Street and Cashel Street tenancy also marks the return of a permanent ASB branch in central Christchurch. "This new facility represents an exciting new chapter in ASB's history in Christchurch and there's no doubt our new home

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[1] Includes NZD7,222 million of balances managed by CFS Global Asset Management (30 June 2017: NZD5,776 million; 31 December 2016: NZD5,336 million).

will be a base from which we'll be delivering outstanding service to our customers long into the future," says Ms Shortt.

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ASB Bank Limited
Consolidated Performance in Brief

For the period ended	**Unaudited 31-Dec-17 6 Months**	Unaudited 31-Dec-16 6 Months[6]	Audited 30-Jun-17 12 Months[6]
Income Statement ($ millions)			
Interest income	**2,087**	2,014	4,027
Interest expense	**1,088**	1,091	2,176
Net interest earnings	**999**	923	1,851
Other income	**275**	267	535
Total operating income	**1,274**	1,190	2,386
Impairment losses on advances	**26**	49	69
Total operating income after impairment losses	**1,248**	1,141	2,317
Total operating expenses	**425**	411	834
Net profit before taxation	**823**	730	1,483
Taxation	**230**	205	414
Net profit after taxation ("Statutory Profit")	**593**	525	1,069
Reconciliation of statutory profit to cash profit ($ millions)			
Net profit after taxation ("Statutory Profit")	**593**	525	1,069
Reconciling items:			
Hedging and IFRS volatility[1]	**(4)**	(15)	(26)
Notional inter-group charges[2]	**(16)**	(14)	(29)
Reporting structure differences[3]	**(5)**	(5)	(7)
Taxation on reconciling items	**7**	11	18
Cash net profit after taxation ("Cash Profit")	**575**	502	1,025

As at	**31-Dec-17**	31-Dec-16[6]	30-Jun-17[6]
Balance Sheet ($ millions)			
Total assets	**91,374**	86,986	88,628
Advances to customers	**80,370**	76,061	78,100
Total liabilities	**83,700**	79,808	81,226
Deposits and other borrowings (excludes repurchase agreements)	**60,833**	56,369	58,197
Performance[4]			
Return on ordinary shareholder's equity	**18.5%**	17.5%	17.7%
Return on total average assets	**1.3%**	1.2%	1.2%
Net interest margin	**2.20%**	2.19%	2.17%
Total operating expenses as a percentage of total operating income	**34.1%**	35.7%	35.9%
Capital ratios[5]			
Common equity tier one capital as a percentage of total risk-weighted exposures	**10.6%**	9.7%	10.2%
Tier one capital as a percentage of total risk-weighted exposures	**12.6%**	12.0%	12.3%
Total capital as a percentage of total risk-weighted exposures	**14.1%**	13.5%	13.9%

(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) 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.