Wednesday 08 August 2018

Continued strength of the New Zealand economy underpins ASB's result

ASB today reported statutory net profit after taxation (NPAT) of $1,177 million for the twelve months ended 30 June 2018. This represents a 10% increase on the prior year.

Cash NPAT was $1,143 million, an increase of 12% 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].

According to ASB Chief Executive Vittoria Shortt, New Zealand's strong economic performance over the past financial year has underpinned ASB's financial result. "It's clear that New Zealand's sound economic fundamentals have contributed to a positive operating environment. Unemployment is at low levels, the quality of trade remains high and the housing market is resilient. These conditions have contributed to a 6% increase in lending, supported by a 7% increase in deposits."

Accelerating progress for New Zealand's economy, businesses and home owners

"ASB has continued to play a key role in supporting the New Zealand economy," says Ms Shortt. "Over the past financial year, we have paid more than $370 million to New Zealand suppliers, employed more than 4,800 New Zealanders and, as one of the country's largest taxpayers, contributed more than $440 million in corporate taxes.

"Our strong financial performance has allowed us to retain over two thirds of our profit in New Zealand over the past three years. This allows further strengthening of our balance sheet to support the growth of our business and retail customers, while continuing to invest in enhancing our customers' experience with ASB.

"This year we provided more than $8 billion of new lending to small business, commercial and rural customers, supporting the economy and helping more than 8,000 businesses to achieve their goals. At the same time, we have helped more than 5,000 New Zealanders into their first home with lending to first home buyers in excess of $2 billion."

Progressing New Zealanders' financial wellbeing

"Our financial advisors and insurance teams continue to help our customers protect and enhance their financial wellbeing by partnering with leading local and global asset managers and insurance providers to offer a broad range of financial solutions to best suit their needs. We achieved the largest growth in retail funds under management for the twelve months to

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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.

31 March 2018, as measured by FundSource, and we now have more than $14 billion in funds under management. As customers embrace our new digital capabilities, we have seen significant growth in new funds along with an increase in customers making active choices around their KiwiSaver investments. In addition, ASB was once again recognised by Canstar, for providing high quality wealth solutions for customers, achieving 5-star ratings across all funds in the ASB KiwiSaver Scheme."

Supporting New Zealand's communities

"Guided by our purpose of accelerating financial progress for all New Zealanders, ASB and our people are committed to making a tangible difference to the communities in which we operate" says Ms Shortt. "We have continued to contribute to the financial education of children across New Zealand through the ASB Getwise programme in schools nationwide. Since the programme's launch in 2010, more than 800,000 Kiwi kids have been introduced to the basics of financial literacy. At the same time, the ASB St John in Schools programme has recently marked the 400,000th pupil being taught critical emergency skills as part of a nationwide programme sponsored by the Bank.

"ASB is also conscious of the impact we can have on the environment. As the country transitions towards a net zero carbon economy and pushes towards 100% renewable energy generation, ASB will continue to play its part and we are on track to reduce electricity consumption to 50% below our 2008 levels by 2025.

"In addition, we are supporting our customers in this transition through initiatives such as ASB's rural environmental compliance loan which since inception, has provided more than $100 million in zero margin lending to farmers to assist them with cleaning up waterways and in doing so, achieve better environmental outcomes for the benefit of future generations."

Embracing innovation

"ASB is committed to making banking simple, seamless and easy for our more than 1.6 million customers," says Ms Shortt. "We are seeing positive results from our strategic investments in technology and innovation with nearly 60% of all products now being taken up by customers through digital self-service. In 2018, we launched a number of innovative customer solutions such as "Selfie ID", a mobile app pilot that allows new customers to open a bank account in approximately 15 minutes without having to visit a branch, using facial biometrics to confirm their identity. We also introduced enhanced functionality to enable customers to manage their term deposits digitally. We continue to see growth in the number of customers leveraging digital channels to re-fix their home loans and re-invest their term deposits, providing convenience and time saving benefits.

"At the same time, we have continued to invest in upgrading our branch network, opening modern new branches and regional centres in Whangarei, Hamilton and Christchurch featuring the latest new branch designs and customer features."

Key performance elements

ASB's cash net interest margin (NIM) has recovered after a prolonged period of contraction, increasing by 7bps on the prior year. "Margins continually fluctuate over the longer term and the recovery in NIM reflects lower costs associated with breaking fixed rate loans and improved lending margins," says Ms Shortt. "This was partly offset by lower deposit margins".

ASB's loan impairment expense increased by 16% ($11 million) on the prior year, primarily reflecting an increase in consumer finance provisioning following higher arrears rates and write-offs. "While arrears rates increased, they remain at low levels reflecting favourable macroeconomic conditions in New Zealand," says Ms Shortt. "We have continued to support our rural customers through a difficult period and are pleased to see an improvement flowing through to lower provision levels".

On a cash basis, ASB's cost to income ratio for the twelve months to 30 June 2018 was 34.6%, an improvement of 130bps. Operating income growth was 9% while operating expenses grew by 5%, driven by investment in technology and regulatory compliance costs. "Over the past year, we have hired more than 100 people and made significant investments in technology, including biometrics and facial ID, to deliver critical regulatory programmes such as Financial Crimes Compliance and Anti Money Laundering," says Ms Shortt. "In doing so, we are broadening and strengthening the ways we protect our customers, our business and the New Zealand economy against the growing threat of financial crime.

"Ultimately, our success comes from the more than 4,800 committed people who come to work at ASB every day to provide outstanding service for our customers. As one of the country's oldest financial institutions, we never take the trust and confidence that is placed in us for granted and with our purpose firmly in mind, our focus will remain on building financial progress for all New Zealanders."

Key financial points

- Cash NPAT of $1,143 million, an increase of 12% on the prior year
- Statutory NPAT of $1,177 million, an increase of 10%
- Cash net interest margin increased by 7bps to 2.24%
- Advances to customers up 6% to $83 billion
- Customer deposits up 7% to $62 billion
- Loan impairment expense increased 16% to $80 million
- Continued momentum in funds management with income growth of 18%
- Cost to income ratio (cash basis) of 34.6%, an improvement of 130bps
- Operating expenses (cash basis) increased by 5%

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Consolidated Performance in Brief

For the year ended 30 June	2018	2017 [6]	2016 [6]
Income Statement ($ millions)			
Interest income	**4,188**	4,027	4,048
Interest expense	**2,149**	2,176	2,286
Net interest earnings	**2,039**	1,851	1,762
Other income	**553**	535	464
Total operating income	**2,592**	2,386	2,226
Impairment losses on advances	**80**	69	130
Total operating income after impairment losses	**2,512**	2,317	2,096
Total operating expenses	**879**	834	826
Net profit before taxation	**1,633**	1,483	1,270
Taxation	**456**	414	357
Net profit after taxation ("Statutory Profit")	**1,177**	1,069	913
Reconciliation of statutory profit to cash profit ($ millions)			
Net profit after taxation ("Statutory Profit")	**1,177**	1,069	913
Reconciling items:			
Hedging and IFRS volatility[1]	**(8)**	(26)	11
Notional inter-group charges[2]	**(35)**	(29)	(12)
Reporting structure differences[3]	**(5)**	(7)	(9)
Taxation on reconciling items and prior period adjustments	**14**	18	2
Cash net profit after taxation ("Cash Profit")	**1,143**	1,025	905

As at 30 June	2018	2017 [6]	2016 [6]
Balance Sheet ($ millions)			
Total assets	**95,413**	88,628	81,606
Advances to customers	**82,931**	78,100	72,075
Total liabilities	**87,541**	81,226	74,794
Deposits and other borrowings (excludes repurchase agreements)	**62,419**	58,197	54,702
Performance[4]			
Return on total average equity	**15.0%**	14.4%	14.8%
Return on total average assets	**1.2%**	1.2%	1.1%
Net interest margin	**2.24%**	2.17%	2.31%
Total operating expenses as a percentage of total operating income	**34.6%**	35.9%	37.4%
Capital ratios[5]			
Common equity tier one capital as a percentage of total risk-weighted exposures	**10.6%**	10.2%	9.9%
Tier one capital as a percentage of total risk-weighted exposures	**12.4%**	12.3%	12.3%
Total capital as a percentage of total risk-weighted exposures	**13.9%**	13.8%	13.2%

(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) 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. Return on total average equity is now included as a performance metric replacing return on ordinary shareholder's equity. This change has been made to better align the metric with the return on equity calculation included in the Reserve Bank of New Zealand Bank Financial Strength Dashboard (which is based on total equity).
(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.