Wednesday 06 February 2019

ASB half year financial results - Investing in financial wellbeing a key priority

ASB today reported a statutory net profit after taxation (NPAT) of $630 million for the six months ended 31 December 2018. This represents a 6% increase on the prior comparative period.

Cash NPAT was $608 million, an increase of 6% on the prior comparative period. 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 reflected more moderate economic growth. "Our financial performance demonstrates our focus on sustainable, diversified growth across all our portfolios," says Ms Shortt. "New Zealand has a solid underlying economy with high terms of trade, low unemployment and a continued low interest rate environment. These conditions have contributed to a 6% increase in lending and an 8% increase in deposits. While the fundamentals of the economy remain sound, we have observed a cooling housing market, weaker business sentiment and softening immigration, combined with an uncertain global outlook."

Investing in the wellbeing of New Zealand

"Banks play an important role in people's lives and we recognise the trust placed in us to do the right thing, both by our customers and our community more broadly," says Ms Shortt. "To this end we have continued to invest in activities that create positive outcomes for the overall wellbeing of New Zealand.

"Financial crime has the potential to create detrimental outcomes for both New Zealand's economy and society. ASB is determined to play our part in combating it wherever we can. We have invested in a range of programmes to protect our customers, including enhancing our ability to validate the identities of all our customers which is a key method of preventing money laundering."

During the half-year, ASB screened more than 700 million transactions to combat money laundering and financial crime. Additionally, the Bank introduced the compulsory identification of cash depositors to prevent the laundering of financial crime proceeds. Over the same six-month period, ASB sent more than half a million messages via the ASB Mobile app to customers warning them about the latest scams and phishing attacks. The Bank has also alerted more than 4,000 individual customers to suspicious international card transactions.

[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.

“A core component of helping accelerate the financial progress of our customers is ensuring they are using the most suitable products for their circumstances as they change over time,” says Ms Shortt. “We have proactively had conversations with customers about the best options for them. So far, we have contacted more than 300,000 customers who have then benefitted financially.”

Doing the right thing for all our stakeholders

“The increasing expectations of our various stakeholders including customers, government, the community and regulators, is a responsibility we take extremely seriously,” says Ms Shortt. “In the past few months, we have had the benefit of independent reviews undertaken by the FMA, RBNZ and APRA. This has allowed us to take stock of where we are today and has informed our future roadmap.

“We are committed to listening and learning from our customers as well as working productively with our regulators to implement their recommendations, all of which we believe will result in a better banking experience for our customers.”

Accelerating financial progress through innovation

“Our digital and innovation strategies are fundamental to creating exceptional customer experiences,” says Ms Shortt. “As we continue to integrate into our customers’ digital lives, we are delivering a range of new tools to help our customers accelerate their financial progress.

“One way we can achieve this is by helping customers pay down debt. An example of how we are supporting them to do this is through ‘ASB Home Central’, which helps our more than 230,000 home lending customers manage their home loan online and explore options to get mortgage free faster. Customers have embraced the opportunity to try different repayment options and explore the impact of extra payments or different rates, with close to one million visits in the first half of this financial year, potentially saving some customers tens of thousands of dollars over the course of their home loan.

“At the same time, ASB is making it simpler for customers to track, grow and make smart decisions with their money through the launch of ASB’s new ‘Wealth Central’ online service. This brings together all of the customer’s savings and investments in one convenient site, making it easier for customers to track, save and invest their money.

“While technology is playing an ever-increasing role in people’s lives, our people will always play an important role in delivering unbeatable banking experiences for our customers. With this in mind, we have continued to invest in upgrading our branch network. Additionally, we recently opened a modern new regional centre in Wellington to compliment the new regional centres opened last year in Whangarei, Hamilton and Christchurch. These sites allow our specialist teams to meet customers in a modern and friendly environment. ”

Key performance elements

ASB’s cash net interest margin (NIM) increased marginally by 1bp on the prior comparative period. The slight expansion in NIM reflects a recovery in deposit margins and lower costs associated with breaking fixed rate loans, tempered by higher funding costs and continued customer preference for fixed term loans.

ASB's loan impairment expense (write-offs and funds set aside for bad debts) increased by 73% ($19 million) over a low prior comparative period. "Overall we have seen stable portfolio quality, supported by steady economic conditions, however we have seen a slight increase in provisioning for our rural portfolio," says Ms Shortt.

On a cash basis, ASB's cost to income ratio for the six months ended 31 December 2018 was 34.8%, an improvement of 70bps on the prior comparative period. Operating income growth was 7% while operating expenses grew by 5%. "Recognising that our customers' needs are continually changing, we are investing in initiatives to modernise our physical network and enhance the digital banking experience for our customers," says Ms Shortt.

Key financial points

- Cash NPAT of $608 million, an increase of 6% on the prior comparative period
- Statutory NPAT of $630 million, an increase of 6%
- Cash net interest margin increased by 1bp to 2.21%
- Advances to customers up 6% to $85 billion
- Customer deposits up 8% to $66 billion
- Loan impairment expense increased 73% to $45 million
- Continued momentum in funds management with income growth of 17%
- Cost to income ratio (cash basis) of 34.8%, an improvement of 70bps

ENDS

Released by: **Christian May, ASB Corporate Communications**
Mobile: 021 305 398, christian.may@asb.co.nz

ASB Consolidated Performance in Brief

For the period ended	**Unaudited 31-Dec-18 6 Months**	Unaudited 31-Dec-17 6 Months(6)	Audited 30-Jun-18 12 Months(6)
Income Statement ($ millions)			
Interest income	**2,186**	2,087	4,188
Interest expense	**1,119**	1,088	2,149
Net interest earnings	**1,067**	999	2,039
Other income	**326**	302	606
Total operating income	**1,393**	1,301	2,645
Impairment losses on financial assets	**45**	26	80
Total operating income after impairment losses	**1,348**	1,275	2,565
Total operating expenses	**473**	452	932
Net profit before taxation	**875**	823	1,633
Taxation	**245**	230	456
Net profit after taxation ("Statutory Profit")	**630**	593	1,177
Reconciliation of statutory profit to cash profit ($ millions)			
Net profit after taxation ("Statutory Profit")	**630**	593	1,177
Reconciling items:			
Hedging and IFRS volatility(1)	**(10)**	(4)	(8)
Notional inter-group charges(2)	**(18)**	(16)	(35)
Reporting structure differences(3)	**(3)**	(5)	(5)
Taxation on reconciling items	**9**	7	14
Cash net profit after taxation ("Cash Profit")	**608**	575	1,143

As at	**31-Dec-18**	31-Dec-17(6)	30-Jun-18(6)
Balance Sheet ($ millions)			
Total assets	**97,002**	91,374	95,413
Advances to customers	**85,167**	80,370	82,931
Total liabilities	**88,764**	83,700	87,541
Deposits and other borrowings (excludes repurchase agreements)	**65,677**	60,833	62,419
Performance(4)			
Return on average total equity	**15.0%**	15.1%	15.0%
Return on average total assets	**1.3%**	1.3%	1.2%
Net interest margin	**2.21%**	2.20%	2.24%
Total operating expenses as a percentage of total operating income	**34.8%**	35.5%	36.0%
Capital ratios(5)			
Common equity tier one capital as a percentage of total risk-weighted exposures	**11.5%**	10.6%	10.6%
Tier one capital as a percentage of total risk-weighted exposures	**13.3%**	12.6%	12.4%
Total capital as a percentage of total risk-weighted exposures	**14.8%**	14.1%	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 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.
(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.