Wednesday 12 February 2020

ASB half year result – Supporting Kiwis' financial wellbeing through innovation

ASB today reported a statutory net profit after taxation (NPAT) of $599 million for the six months ended 31 December 2019. This represents a 5% decrease on the prior comparative period. This included a one-off $28 million loss on the sale of Aegis, its funds administration business.

Cash NPAT was $614 million, flat 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].

In anticipation of the higher RBNZ capital requirements announced in December 2019, the Commonwealth Bank of Australia (CBA) invested $2.5bn of capital in the form of ordinary shares to substitute retained earnings in ASB. This provides for a stable form of CET1 capital.

ASB Chief Executive Vittoria Shortt says the result was consistent with a lower growth operating environment. "Against the backdrop of a stable economy, we're mindful of a cautious business sector and uncertain global outlook," says Ms Shortt. "A key feature of the past six months has been the low interest rate environment with rates dropping to historical lows, and we're conscious that, while low interest rates are good news for borrowers, for many of our customers with savings it creates a real challenge."

Helping our customers in the financial moments that matter most

"We continue to focus on investing in innovation so our customers, our communities and our people can build the financial future they want. We are providing our customers with more access to expert advice and digital tools, to help them make informed decisions for their financial wellbeing. Saving in particular can be a challenge for many people, so our popular Save-the-Change product will be available in our ASB Mobile app by the end of this month, making it easier for people to achieve small saving goals.

"Our heritage of innovation has always been driven by a simple principle - to solve real customer problems. This sits at the heart of ASB, as we embrace rapidly advancing technology to meet increasing and ever-changing expectations from our customers. We remain focused on ensuring our people are empowered to think differently and explore new ways to innovate and better serve our customers."

---

[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 key part of this approach is building strategic relationships with a range of partners, including new start-up organisations which helps us quickly introduce cutting edge innovation to our customers,” says Ms Shortt. “One highlight of this open approach has been the establishment of TradeWindow, which we have taken an equity stake in.

“TradeWindow is an innovative solution that reduces the time, cost and complexity surrounding international trade documentation through distributed ledger technology. With New Zealand being an export-led economy, digitising the trade process helps create a competitive advantage for Kiwi businesses operating in a global market, where traceability and country of origin are becoming increasingly vital as consumers pay more attention to where products are made.”

Building a team fit for New Zealand’s future

“Another area of focus has been our continued investment in our people and our capabilities in key areas. We have been hiring more people than ever before with specialist skills and experience, particularly in areas such as combatting financial and cyber-crime. Over the past 18 months, we have employed an extra 150 people in our financial crime teams. We are committed to keeping New Zealand safe and addressing the growing volume and sophistication of financial crime,” says Ms Shortt.

Over the past six months, ASB has screened more than 960 million transactions to combat money laundering and financial crime. The bank also declined fraudulent activity on over 8,500 customer cards. During the same period, the bank sent more than one million messages via the ASB Mobile app to customers warning them about the latest scams and phishing attacks.

Key performance elements

ASB’s cash net interest margin (NIM) decreased by 10bps (to 213bps) on the prior comparative period. The decline in NIM reflects lower interest rates impacting deposit margins.

ASB’s impairment losses on financial assets (write-offs and funds set aside for bad debts) decreased by 51% (to $22 million). “Credit quality remains sound. In terms of the rural sector, specifically improvements in commodity prices, combined with many rural customers focusing on paying down debt, has seen a marked reduction in rural impairments,” says Ms Shortt.

On a cash basis, ASB’s cost to income ratio for the six months ended 31 December 2019 was 36.7%, an increase of 220bps on the prior comparative period. Operating income growth was 1% while operating expenses grew by 7%. “Subdued income growth in a low interest rate environment, combined with our ongoing strategic investments in our people, digital and risk capabilities have impacted our cost-to-income ratio. Ultimately, we believe that these long-term investments will provide a better banking experience for our customers and a safer, more secure New Zealand,” concludes Ms Shortt.

Key financial points

- Cash NPAT of $614 million, flat on the prior comparative period
- Statutory NPAT of $599 million, a decrease of 5%
- Cash net interest margin decreased by 10bps to 2.13%
- Advances to customers up 5% to $89 billion
- Customer deposits up 4% to $68 billion
- Impairment losses on financial assets decreased 51% to $22 million
- Continued momentum in funds management with 12% income growth
- Cost to income ratio (cash basis) of 36.7%, an increase of 220bps
- Operating expenses increased 7% (cash basis)

ENDS

Released by: **Marise Hurley, ASB Corporate Communications**
Mobile: 021 306 311, marise.hurley@asb.co.nz

ASB Consolidated Performance in Brief

For the period ended	**Unaudited 31-Dec-19 6 Months**	Unaudited 31-Dec-18 6 Months[6]	Audited 30-Jun-19 12 Months[6]
Income Statement ($ millions)			
Interest income	**2,120**	2,186	4,352
Interest expense	**1,050**	1,119	2,208
Net interest income	**1,070**	1,067	2,144
Other income	**328**	326	677
Total operating income	**1,398**	1,393	2,821
Impairment losses on financial assets	**22**	45	108
Total operating income after impairment losses	**1,376**	1,348	2,713
Total operating expenses	**534**	473	967
Net profit before tax	**842**	875	1,746
Tax expense	**243**	245	472
Net profit after tax ("Statutory Profit")	**599**	630	1,274
Reconciliation of statutory profit to cash profit ($ millions)			
Statutory Profit	**599**	630	1,274
Reconciling items:			
Hedging and IFRS volatility[1]	**(2)**	(10)	(9)
Notional inter-group charges[2]	**(10)**	(9)	(19)
Reporting structure differences[3]	**23**	(3)	(53)
Tax on reconciling items	**4**	6	10
Cash net profit after tax ("Cash Profit")	**614**	614	1,203

As at	**31-Dec-19**	31-Dec-18[6]	30-Jun-19[6]
Balance Sheet ($ millions)			
Total assets	**100,547**	97,002	98,467
Advances to customers	**89,323**	85,167	87,695
Total liabilities	**92,522**	88,764	90,676
Deposits and other borrowings (excludes repurchase agreements)	**68,329**	65,677	66,216
Performance[4]			
Return on average total equity	**15.4%**	15.1%	15.4%
Return on average total assets	**1.2%**	1.3%	1.2%
Net interest margin	**2.13%**	2.23%	2.23%
Total operating expenses as a percentage of total operating income	**36.7%**	34.5%	35.4%
Capital ratios[5]			
Common equity tier one capital as a percentage of total risk-weighted exposures	**11.7%**	11.5%	11.4%
Tier one capital as a percentage of total risk-weighted exposures	**13.5%**	13.3%	13.2%
Total capital as a percentage of total risk-weighted exposures	**14.2%**	14.8%	14.0%

(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 and the loss on sale of Aegis Limited and Investment Custodial Services Limited 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.