



Wednesday 12 August 2020

Supporting New Zealand's recovery

"ASB has today announced a 20% decrease of its cash net profit on the prior year, which was expected due to the significant impacts of COVID-19 and the low interest rate environment," says ASB's CEO Vittoria Shortt as the Bank released its full year results to June 2020.

Cash net profit after tax (NPAT) was \$967 million. Cash NPAT represents 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].

"Our immediate and short-term focus has been on providing options to support customers with financial difficulty caused by COVID-19, while considering what support they may require in the longer term," says Ms Shortt.

ASB's impairment losses on financial assets increased to \$306 million. "This substantial increase in provisioning levels reflects our current view of the impact of COVID-19," says Ms Shortt.

An increase in liquid assets held and the low interest rate environment have continued to compress margins during FY20. ASB's cash net interest margin decreased by 12bps on the prior year to 2.11%.

On a cash basis, ASB's cost to income ratio was higher than the previous year at 39.6%. Operating income was lower by 1% while operating expenses increased by 11%. Consistent with previous years, we continue to invest in our people, risk and compliance capabilities, as well as technology to ensure ASB continues to be safe, sound and secure.

ASB also contributes to the New Zealand economy by employing over 5,300 staff and paying more than half a billion dollars in taxes, making us one of New Zealand's largest employers and taxpayers, while making over \$440 million in payments to New Zealand-based suppliers in the past 12 months.

Challenging times ahead

"The global uncertainty due to the COVID-19 pandemic is causing significant economic and social disruption. Trade disputes and heightened political tension may further disrupt global trade and the business environment.

"We are also conscious of the impact of the physical and economic effects of climate change and the effectiveness of current and planned responses remains uncertain.

^[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 tax, and for further information on these items.

“While New Zealand had some encouraging signs of business confidence rebuilding, and spending levels rebounding, the change of alert levels announced by the Government last night demonstrated there is no room for complacency and economic recovery is more likely to be bumpy.

“We are anticipating difficult times ahead for businesses and people in the industries most impacted by COVID-19, in particular tourism, international education and retail. For confidence to be maintained, it’s more important than ever to find new solutions to minimise unemployment and help businesses reset and take action,” adds Ms Shortt.

Playing our part in the ongoing recovery

Part of our job is to help New Zealand weather economic ups and downs. We were reminded again last night of the important role we play. Thanks to our strong levels of capital and liquidity, we are able to provide customers with certainty at a time they need it the most,” adds Ms Shortt.

“In total, through March to the end of June, we assisted over 31,000 personal and business customers by providing a range of financial support and other options tailored to suit their needs and circumstances. These have included principal relief, deferred payments, term extensions and reduced-cost overdraft facilities totalling more than \$11 billion.

“Pleasingly many of our customers are reverting to their previous payment arrangements as they haven’t been as impacted as they thought they might. However, the next 18 months are likely to be tough for some of our personal and business customers, particularly as different support packages such as the Wage Subsidy and loan repayment deferral schemes begin to end.

“We are doing all we can to support customers who find themselves in vulnerable situations. In June we started proactively contacting customers on relief packages to understand their personal circumstances and see how we might support them further. So far, we have contacted more than 12 thousand customers.

“We’ve created a new dedicated team of specialists who can tailor solutions to best meet the personal circumstances of those most impacted by COVID-19, particularly to help families stay in their homes. Our message is don’t go through this alone, talk to us and together we will find a level of support that works,” explains Ms Shortt.

Innovating to assist our customers

“We have looked for new ways to further support our customers. ASB became the first and only bank in New Zealand to offer Compassionate Care, a free home loan insurance benefit in case of death.

“The Bank has also adapted how we care for smaller businesses beyond offering financial help. Some recent examples are our [ASB Business Hub](#), which is a free resource for all New Zealand businesses and curates insights, tools and guidance in a one-stop hub. We also launched another of our free ASB tools ‘Vonto’, which is a mobile app that helps small business customers manage and forecast their cash flow; along with our Borrow the All Blacks campaign creating 100 advertising packages featuring players from the All Blacks, Black Ferns and Maori All Blacks to promote 100 small businesses across New Zealand.

“TradeWindow Prodoc rapidly responded with a cloud version of its digital trade administration platform and operated as an essential service supporting exporters across the primary industry and manufacturing sectors. We’re proud of the impact these initiatives are having in further supporting our customers in uncertain times,” says Ms Shortt.

Caring for our people, our community and the environment

“None of this would be possible without our people.

In March 2020 ASB became an accredited Living Wage employer, paying all employees the living wage as a minimum,” adds Ms Shortt. This also applies to those indirectly engaged with ASB in roles such as cleaners and security guards. The Living Wage is the hourly rate a worker needs to pay for life’s necessities and actively participate in the community.

“From the day we opened our doors 174 years ago, ASB made a commitment to support the people and community of New Zealand. Today, that commitment is as strong as ever, and our people love supporting our community partners in the work that they do.

“During the year, and in addition to enhancing our existing relationships with key community partners such as St John and KidsCan, we established a Community Council to help us learn more about the experience of people in vulnerable situations, who may find the financial system more difficult to navigate than others. With the support of the community-based organisations on our council, we can better understand and respond effectively to the needs of our customers.

“ASB has also focused on its environmental footprint. For example, the Bank achieved Toitū carbonzero certification from Toitū Envirocare. The certification validates ASB as a carbon neutral organisation for its 2019 operational emissions.

“ASB will continue to focus on supporting Kiwis to build the financial future they want, particularly during these challenging times,” concludes Ms Shortt.

Key financial points

- Cash NPAT of \$967 million, a decrease of 20% on the prior year
- Statutory NPAT of \$958 million, a decrease of 25%
- Cash net interest margin decreased by 12bps to 2.11%
- Advances to customers up 3% to \$90 billion
- Customer deposits up 12% to \$74 billion
- Impairment losses on financial assets increased \$198 million to \$306 million
- Funds management income increased 4% to \$143 million
- Cost to income ratio (cash basis) of 39.6%, an increase of 420bps
- Operating expenses increased 11% (cash basis)

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Released by: Marise Hurley, ASB Corporate Communications

Mobile: 021 306 311, marise.hurley@asb.co.nz

ASB Consolidated Performance in Brief

| For the year ended 30 June | 2020 | 2019 ⁽⁶⁾ | 2018 |
|---|--------------|---------------------|--------|
| Income Statement (\$ millions) | | | |
| Interest income | 4,067 | 4,352 | 4,188 |
| Interest expense | 1,925 | 2,208 | 2,149 |
| Net interest income | 2,142 | 2,144 | 2,039 |
| Other income | 607 | 677 | 607 |
| Total operating income | 2,749 | 2,821 | 2,646 |
| Impairment losses on financial assets | 306 | 108 | 80 |
| Total operating income after impairment losses | 2,443 | 2,713 | 2,566 |
| Total operating expenses | 1,104 | 967 | 933 |
| Net profit before tax | 1,339 | 1,746 | 1,633 |
| Tax expense | 381 | 472 | 456 |
| Net profit after tax ("Statutory Profit") | 958 | 1,274 | 1,177 |
| Reconciliation of statutory profit to cash profit (\$ millions) | | | |
| Statutory Profit | 958 | 1,274 | 1,177 |
| Reconciling items: | | | |
| Hedging and IFRS volatility ⁽¹⁾ | 4 | (9) | (8) |
| Notional inter-group charges ⁽²⁾ | (19) | (19) | (35) |
| Reporting structure differences ⁽³⁾ | 17 | (53) | (5) |
| Tax on reconciling items and prior period adjustments | 7 | 10 | 14 |
| Cash net profit after tax ("Cash Profit") | 967 | 1,203 | 1,143 |
| Performance⁽⁴⁾ | | | |
| Return on average total equity | 12.3% | 15.4% | 15.0% |
| Return on average total assets | 0.9% | 1.2% | 1.2% |
| Net interest margin | 2.11% | 2.23% | 2.24% |
| Total operating expenses as a percentage of total operating income | 39.6% | 35.4% | 36.0% |
| As at 30 June | | | |
| Balance Sheet (\$ millions) | | | |
| Total assets | 105,212 | 98,467 | 95,413 |
| Advances to customers | 90,184 | 87,695 | 82,931 |
| Total liabilities | 97,329 | 90,676 | 87,541 |
| Deposits and other borrowings (excludes repurchase agreements) | 74,388 | 66,216 | 62,419 |
| Capital ratios⁽⁵⁾ | | | |
| Common equity tier one capital as a percentage of total risk-weighted exposures | 11.5% | 11.4% | 10.6% |
| Tier one capital as a percentage of total risk-weighted exposures | 13.3% | 13.2% | 12.4% |
| Total capital as a percentage of total risk-weighted exposures | 14.0% | 14.0% | 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) The results of certain business units, the loss on sale of Aegis Limited in the current period and the gain on sale of Paymark Limited in the prior period 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 calculated in accordance with the Basel III framework.

(6) Certain comparatives have been restated to ensure consistency with the current period's presentation.