Wednesday 10 February 2016

Balance sheet growth drives ASB's first half result

ASB today reported statutory net profit after taxation (NPAT) of $474 million for the six months ended 31 December 2015. This represents a 7% increase on the prior comparative period.

Cash NPAT was $475 million, an increase of 8% 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 $475 million, an increase of 8% over the prior comparative period
- Statutory NPAT of $474 million, an increase of 7%
- Advances to customers up 10% to $68.7 billion
- Sustained momentum in funds management with income growth of 17%
- Loan impairment expense was $41 million, up 11%
- Cash net interest margin decreased by 6bps on the prior half to 2.27%

ASB Chief Executive Barbara Chapman said the result reflected strong balance sheet growth, market share gains in targeted growth areas and sustained momentum in funds management. "Our strategy has seen us continue to invest in building frontline capability in specialist areas such as our commercial and rural teams. At the same time, we have remained focused on maintaining our leadership position in technology and innovation. This has allowed us to deliver a solid first half performance in a highly competitive market."

Customer advances are up 10% reflecting the continuing strong growth of business, commercial, rural and personal lending and with home loan growth improving to be in line with market. At the same time, ASB's focus on customer deposits has resulted in strong deposit growth of 9%.

Cash net interest margin decreased by 13 basis points on the prior comparative period and 6 basis points on the prior half to 2.27%. Underlying net interest margin is down 3 basis points on the prior comparative period and up 2 basis points on the prior half when the fixed rate prepayment recoveries recorded in other income are included in net interest earnings with the associated expense. "The largest single contribution to the change in net interest margin is the trend of customers taking advantage of the current low interest rate environment," Ms Chapman said. "Against the background of a highly competitive market for both lending and deposit products, we have also seen a continued customer preference for lower margin fixed-rate mortgages.

"The success of our Wealth & Insurance business has contributed to the result with sustained momentum in funds management achieving income growth of 17%," Ms Chapman said. “In addition, around 40% of customers now have ASB Wealth & Insurance products as they recognise the benefits and convenience of holding these products with their main bank. This has allowed us to meet the needs of a broader range of customers, particularly in relation to insurance products.”

On a cash basis, operating income growth was 7% up on the prior comparative period with a strong improvement in the expense to income ratio of 100 basis points to 37.2%. Operating expenses increased by 4%, partly driven by ongoing investments in technology.

“The financial services industry is evolving rapidly as customers embrace digital technology to access and manage their finances,” Ms Chapman said. “Providing our customers the most seamless and innovative mobile and online experiences remains a core strategic focus and this has resulted in a steady stream of enhancements to our ASB Mobile banking platform. Customers are benefitting from a range of new mobile services such as our award-winning Card Control function, which has gained around 100,000 unique users since its launch in 2015. This in turn has accelerated the customer shift to mobile banking; in the last year alone, users of the ASB Mobile app have grown by around 37%.

“New Zealand’s rural sector continues to face headwinds, particularly in relation to volatile international commodity prices,” Ms Chapman said. “Despite this uncertainty, our rural book remains sound, reflecting good credit management. Our priority has remained on looking beyond the current cycle and supporting our customers in the sector as they manage their farms and businesses through this challenging period. That said, we have increased our level of provisioning for the rural portfolio to reflect the challenges the sector is currently facing.”

ASB’s loan impairment expense was $41 million, up 11% from the prior comparative period after recent lows. The increase was in line with expectations following strong lending growth and increased rural provisioning, partly offset by improvements in home loan arrears.

In September 2015, ASB introduced New Zealand to 'Clever Kash', a new cashless moneybox designed to make saving fun for children and introduce good financial habits as society becomes increasingly cashless. “We've been delighted with the overwhelming response to Clever Kash which has generated more than 30,000 expressions of interest from customers and we are looking forward to the commercial launch later this year,” Ms Chapman said.

ASB was named New Zealand’s Bank of the Year for the third year in a row, and the eleventh time in fourteen years, by London-based magazine The Banker in December 2015.

Another recent highlight saw the successful completion of the ASB Classic in January 2016, which united the women’s and men’s fields under one tournament name for the first time in 35 years thanks to an extended sponsorship relationship with Tennis Auckland.

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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.

ASB Bank Limited
Consolidated Performance in Brief

For the period ended	Unaudited 31-Dec-15 6 Months	Unaudited 31-Dec-14 6 Months[5]	Audited 30-Jun-15 12 Months[5]
Income Statement ($ millions)			
Interest income	**2,042**	2,033	4,099
Interest expense	**1,201**	1,200	2,439
Net interest earnings	**841**	833	1,660
Other income	**270**	219	426
Total operating income	**1,111**	1,052	2,086
Impairment losses on advances	**41**	37	89
Total operating income after impairment losses	**1,070**	1,015	1,997
Total operating expenses	**411**	398	805
Net profit before taxation	**659**	617	1,192
Taxation	**185**	173	333
Net profit after taxation ("Statutory Profit")	**474**	444	859
Reconciliation of statutory profit to cash profit ($ millions)			
Net profit after taxation ("Statutory Profit")	**474**	444	859
Reconciling items:			
Hedging and IFRS volatility[1]	**3**	6	31
Notional inter-group charges[2]	**3**	(9)	(14)
Reporting structure differences[3]	**(6)**	(5)	(10)
Taxation on reconciling items and prior period adjustments	**1**	2	(2)
Cash net profit after taxation ("Cash Profit")	**475**	438	864

As at	31-Dec-15	31-Dec-14	30-Jun-15
Balance Sheet ($ millions)			
Total assets	**77,523**	70,551	75,903
Advances to customers	**68,684**	62,649	65,383
Total liabilities	**71,712**	65,551	70,525
Customer deposits (includes term deposits, on demand and short term deposits, and deposits not bearing interest)	**51,077**	46,750	50,062
Performance[4]			
Return on ordinary shareholder's equity	**19.9%**	19.0%	19.1%
Return on total average assets	**1.2%**	1.3%	1.2%
Net interest margin	**2.27%**	2.40%	2.37%
Total operating expenses as a percentage of total operating income	**37.2%**	38.2%	38.4%
Capital ratios			
Common equity tier one capital as a percentage of total risk-weighted exposures	**9.3%**	9.9%	8.8%
Tier one capital as a percentage of total risk-weighted exposures	**11.3%**	11.0%	10.8%
Total capital as a percentage of total risk-weighted exposures	**12.2%**	12.0%	11.8%

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