Media Release
Wednesday 11 February 2015

Diversified growth underpins ASB's strong first half result

ASB today reported statutory net profit after taxation (NPAT) of $444 million for the six months ended 31 December 2014. This represents a 7% increase on the prior comparative period.

Cash NPAT was $429 million, an increase of 9% 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 which introduce volatility and/or one-off distortions, and are considered not representative of ASB's on-going financial performance.[(1)]

Key financial points

- Cash NPAT of $429 million, an increase of 9% over the December 2013 half
- Statutory NPAT of $444 million, an increase of 7%
- Solid growth in customer advances across all portfolios of 6% since December 2013
- Sustained momentum in funds management with income growth of 16%
- Continued focus on margin management resulting in strong margin performance, up 15bps period-on-period
- Loan impairment expense was $37 million, up 76% over the previous period

ASB Chief Executive Barbara Chapman says the result is the product of strong underlying growth across the Bank's operating divisions. "The story behind this result is around diversified growth across the business against the background of a very competitive pricing environment, particularly in the home loan market. Our performance builds on our financial strength, diversified business mix and ability to offer seamless, high-quality service to our customers, however they choose to engage with us."

ASB's continued focus on customer deposits has resulted in solid deposit growth of 7%. Customer advances across all portfolios grew by 6% since December 2013, with particularly strong growth in business and commercial lending.

Net interest margin (NIM) improved as a result of the continued focus on margin performance, up 15bps period on period. "The improvement in NIM was driven by favourable funding conditions, offsetting continuing pressure on lending margins," says Ms Chapman.

"Our Wealth & Insurance business has maintained strong momentum with growth in funds under management of 24%," says Ms Chapman. "At the same time, Aegis, our investment administration platform recently passed the milestone of $10 billion of funds under administration (FUA)."

Solid balance sheet growth, sustained momentum in funds management and continued focus on margin management has resulted in a 7% increase in operating income on the prior comparative period. This contributed to the Bank's cost to income ratio reducing by 150bps to 37.8%. Operating expenses increased by 3%, partly driven by ongoing investments in technology and frontline capability. "While headcount has remained steady, we have continued to invest in building capability in specialist areas such as our commercial and rural teams," says Ms Chapman. "In addition, a key pillar of our strategy includes investing in enhancing our digital channels as new technologies change customer expectations and redefine the banking market."

Loan impairment expense was $37 million, up 76% over the previous period. "This increase reflects the non-recurrence of a sharp decrease in arrears over the previous period with arrears having since stabilised," says Ms Chapman. "More broadly, favourable economic conditions, including relatively low interest rates and high employment continue to contribute favourably to impairments."

"A major recent highlight for ASB was receiving global recognition as New Zealand's Bank of the Year by international publication, *The Banker* in November 2014. This is the seventh time ASB has won the Bank of the Year Award in a decade, and is a reflection of the hard work, innovation and outstanding service that ASB people deliver every day," Ms Chapman says.

"Fostering an environment of inclusion and respect where everyone can contribute and achieve their full potential remains a strategic priority for ASB. With this in mind, we were delighted to have been awarded the Rainbow Tick in October 2014 and to be the first bank to receive this certification. This is an outstanding endorsement of ASB as a welcoming and inclusive workplace for the lesbian, gay, bisexual, transgender or intersex (LGBTI) community."

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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. All balances and growth percentages, unless otherwise stated, have been calculated on a statutory basis.

ASB Bank Limited
Consolidated Performance in Brief

For the period ended	Unaudited 31-Dec-14 6 Months	Audited 30-Jun-14 12 Months	Unaudited 31-Dec-13 6 Months
Income Statement ($ millions)			
Interest income	**2,033**	3,625	1,785
Interest expense	**1,183**	2,065	1,014
Net interest earnings	**850**	1,560	771
Other income	**202**	412	213
Total operating income	**1,052**	1,972	984
Impairment losses on advances	**37**	56	21
Total operating income after impairment losses	**1,015**	1,916	963
Total operating expenses	**398**	767	387
Net profit before taxation	**617**	1,149	576
Taxation	**173**	343	160
Net profit after taxation ("Statutory Profit")	**444**	806	416
Reconciliation of statutory profit to cash profit ($ millions)			
Net profit after taxation ("Statutory Profit")	**444**	806	416
Reconciling items:			
Hedging and IFRS volatility(1)	**6**	(5)	(2)
Notional inter-group charges(2)	**(22)**	(59)	(26)
Reporting structure differences(3)	**(5)**	(11)	(4)
Taxation on reconciling items and prior period adjustments	**6**	45	9
Cash net profit after taxation ("Cash Profit")	**429**	776	393

As at	31-Dec-14	30-Jun-14	31-Dec-13
Balance Sheet ($ millions)			
Total assets	**70,551**	68,380	67,522
Advances to customers	**62,649**	60,664	59,297
Total liabilities	**65,551**	63,214	62,153
Customer deposits (includes term deposits, on demand and short term deposits, and deposits not bearing interest)	**46,750**	44,295	43,684
Performance			
Return on ordinary shareholder's equity	**19.0%**	17.4%	17.5%
Return on total average assets	**1.3%**	1.2%	1.2%
Net interest margin(4)	**2.50%**	2.38%	2.35%
Total operating expenses as a percentage of total operating income	**37.8%**	38.9%	39.3%
Capital ratios			
Common equity tier one capital as a percentage of total risk-weighted exposures	**9.9%**	10.6%	11.1%
Tier one capital as a percentage of total risk-weighted exposures	**11.0%**	11.7%	12.4%
Total capital as a percentage of total risk-weighted exposures	**12.0%**	12.7%	12.5%

(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) Net interest margin is calculated as net interest earnings divided by average interest earning and discount bearing assets.