

ASX Announcement



Commonwealth
Bank

ASB 2021 Half Year Financial Results Media Release

Wednesday, 10 February 2021 SYDNEY: Commonwealth Bank of Australia (CBA) today attaches ASB 2021 Half Year Financial Results Media Release released to the NZX this morning.

The release of this announcement was authorised by Kristy Huxtable, Company Secretary.

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ASB half year result - supporting a strong and sustainable New Zealand

ASB today reported a cash net profit after taxation (NPAT)¹ of \$614 million for the six months ended 31 December 2020, a decrease of 1% on the prior comparative period.

The result reflects the continued resilience of the New Zealand economy in the face of the ongoing impacts of COVID-19. Strong home and business lending growth was offset by reduced margins due to the low interest rate environment and increased operating costs reflecting ASB's continued commitment to reinvest in its business.

In announcing the result today, ASB Chief Executive Vittoria Shortt says she is impressed with the way New Zealanders have risen to the COVID-19 challenge and that ASB is determined to continue playing its part in helping customers get through. "We've delivered significant financial support this half, but it's been equally important for us to show flexibility and work with our customers to find innovative solutions to their personal and business banking challenges."

Key performance elements

ASB's cash net interest margin (NIM) decreased by 6bps to 209bps on the prior comparative period. The decline in NIM reflects the low interest rate environment and initiatives to support customers most impacted by COVID-19.

Home loan lending remained strong, up 9% on the prior comparative period, including helping nearly 7,500 first home buyers take their first step on the property ladder in the six months to December 2020. ASB also demonstrated its commitment to the New Zealand business sector by increasing lending by 3% at a time when business lending across the wider market declined 4%.

ASB's impairment losses on financial assets (write-offs and funds set aside for bad debts) increased \$8 million to \$30 million, bringing our total provision to \$604 million as at 31 December 2020. Ms Shortt says, "We remain confident about New Zealand's ability to remain resilient to the challenges of COVID-19, but the past 12 months have taught us all to expect the unexpected. That is why we have made a conscious decision to continue to provision for the uncertainties surrounding the pandemic and its possible long-term effects."

¹ Cash NPAT reflects ASB's underlying operating results and excludes items that introduce volatility and/or one-off distortions which are not considered representative of the bank's ongoing financial performance. 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.



On a cash basis, ASB's cost to income ratio for the six months ended 31 December 2020 was 37.1%, an increase of 60bps on the prior comparative period. Operating income growth was 1%, while operating expenses increased by 3% as the bank continued to invest in technology and its people.

"In addition to significant technology investments, such as enhanced mobile app functionality and cybercrime prevention measures, we continued to stay focused on job security for our people as we evolved our operating model to better meet changing customer expectations. For example, no jobs have been lost as a result of the changes to our branch network and we end this half with 300 additional full-time equivalent roles."

Supporting a strong and sustainable New Zealand

"Banks play an important role in the financial wellbeing of New Zealanders and we know that the year ahead will be difficult for some. That is why ASB is making a commitment today to keep Kiwi families in their homes.

"There will be no forced sales of owner-occupied family homes in 2021 for ASB customers we are working with to resolve the challenges they are facing. Mortgagee sales are uncommon, and they are always the last resort, however, we are taking this step to give customers added peace of mind during what is a very worrying time for some.

"We are all aware of the house price pressure across New Zealand and we're certainly seeing that reflected in increased volumes of home loan applications. In November last year, ASB moved to support a more balanced and sustainable housing market and assist first home buyers by increasing our loan to value ratio for investors from 20% to 30%, and recently we moved again to increase it to 40%.

"ASB continued its support for business customers affected by the economic impacts of COVID-19 during this period, including introducing a merchant service fee rebate for many business customers ahead of the busy summer trading period and supporting the extension of the RBNZ's Business Finance Guarantee Scheme with an interest rate reduction."

Last week ASB announced an important commitment to use the low-cost funding available to it under the RBNZ's Funding for Lending Programme (FLP) to help New Zealand achieve its climate change goals. Ms Shortt says, "Banks are able to access this funding with no restrictions on its use. However, we believe this funding should work hard for New Zealanders and that channeling it towards productive lending that helps create a more sustainable future is the right thing to do."

The initial focus is on discounted lending to help business and corporate customers undertake projects resulting in measurable lowering of emissions. ASB is also poised to roll out discounted lending initiatives to help households reduce emissions, including incentivising the building of new energy efficient homes.

"ASB's purpose is accelerating the financial progress of all New Zealanders. By choosing to use our FLP funding in this way not only will the community benefit from discounted lending now, future generations of New Zealanders will also reap the rewards through a stronger and more sustainable economy.

"Our drive to better serve our customers has also led us to look beyond the financial to deliver significant non-financial support to help our customers navigate the challenges of COVID-19. This has included our Borrow the All Blacks and Borrow Eden Park initiatives, the introduction of new My Financial Wellbeing tools, our Donate the Change charitable campaign and the Better Banking workshops we are currently delivering across the country."



Key financial points

- Cash NPAT of \$614 million, a decrease of 1% on the prior year
- Statutory NPAT of \$625 million, an increase of 4%
- Cash net interest margin decreased by 6bps to 209bps
- Advances to customers up 6% to \$95 billion
- Customer deposits up 11% to \$76 billion
- Impairment losses on financial assets increased \$8 million to \$30 million
- Funds management income decreased 4% to \$73 million
- Cost to income ratio (cash basis) of 37.1%, an increase of 60bps
- Operating expenses increased 3% (cash basis)

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ASB Consolidated Performance in Brief

For the period ended	Unaudited 31-Dec-20 6 Months	Unaudited 31-Dec-19 6 Months ⁽⁶⁾	Audited 30-Jun-20 12 Months ⁽⁶⁾
Income Statement (\$ millions)			
Interest income	1,797	2,120	4,067
Interest expense	687	1,050	1,925
Net interest income	1,110	1,070	2,142
Other income	306	328	607
Total operating income	1,416	1,398	2,749
Impairment losses on financial assets	30	22	306
Total operating income after impairment losses	1,386	1,376	2,443
Total operating expenses	518	534	1,104
Net profit before tax	868	842	1,339
Tax expense	243	243	381
Net profit after tax ("Statutory Profit")	625	599	958
Reconciliation of statutory profit to cash profit (\$ millions)			
Statutory Profit	625	599	958
Reconciling items:			
Hedging and IFRS volatility ⁽¹⁾	(4)	(2)	4
Notional inter-group charges ⁽²⁾	(5)	(2)	(11)
Reporting structure differences ⁽³⁾	(6)	23	17
Tax on reconciling items	4	2	5
Cash net profit after tax ("Cash Profit")	614	620	973
As at	31-Dec-20	31-Dec-19⁽⁶⁾	30-Jun-20⁽⁶⁾
Balance Sheet (\$ millions)			
Total assets	109,231	100,547	105,212
Advances to customers	94,870	89,323	90,184
Total liabilities	100,734	92,522	97,329
Deposits and other borrowings (excludes repurchase agreements)	76,379	68,329	74,388
Performance⁽⁴⁾			
Return on average total equity	14.9%	15.6%	12.4%
Return on average total assets	1.1%	1.2%	1.0%
Net interest margin	2.09%	2.15%	2.12%
Total operating expenses as a percentage of total operating income	37.1%	36.5%	39.4%
Capital ratios⁽⁵⁾			
Common equity tier one capital as a percentage of total risk-weighted exposures	12.2%	11.7%	11.5%
Tier one capital as a percentage of total risk-weighted exposures	13.9%	13.5%	13.3%
Total capital as a percentage of total risk-weighted exposures	14.6%	14.2%	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.

