



Media release
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SOLID OPERATING RESULT IN CHALLENGING TIMES

Statement made by Gary Judd QC, Chairman, ASB Bank Limited

- **ASB half-year after tax operating profit solid at \$238m**
- **Focus on customer service as New Zealanders counter the slowing economy**
- **Commitment to supporting local communities reaffirmed**

ASB's focus on providing excellent service to its customers has assisted the Bank to deliver a solid after tax operating profit of \$238m for the six months ended 31 December 2008. This is a 10.9% drop on the same period in 2007 (\$267m), after including \$41m of accounting losses arising from the application of IFRS standard, NZ IAS 39 – Financial Instruments: Recognition and Measurement (\$1m gain in December '07).

The Bank's underlying businesses continued to perform well, with total assets increasing by 16.3% on the December 2007 half-year to \$65.3b and lending balances growing by 8.6% to \$52.5b. With robust competition placing intense downward pressure on margins, ASB's net interest margin declined to 1.5% (1.8% in December '07). These record low margins are an indication of the challenging economic environment for New Zealand banks, which has seen higher wholesale funding costs and ongoing demand for competitively priced retail deposits. Against this background, ASB Bank increased home loan balances by 6.3% over the prior comparative year, marginally increasing its market share to 23.4%.

Asset growth was offset by increased loan impairment charges across all asset classes. This recognises the very real effects, both for local business and New Zealanders, of the deteriorating economy we are all experiencing. Despite this, the overall quality of ASB's loan book is high, with total provisions of \$157m still only representing 0.24% of total assets (0.18% as at 30 June 2008).

ASB is one of only a very small number of banking groups in the world to maintain a AA Stable credit rating or better issued by independent rating agency, Standard & Poor's. This rating indicates a very strong capability to meet our financial commitments. Against this background, ASB's total deposits increased by 12.9% to \$57.1b (\$50.6b as at December '07), as New Zealand investors affirmed their support for the ASB brand during these difficult times. The ASB Cash Fund was launched in July 2008, followed by the ASB Term Fund in December - both of these tax effective PIE savings options are experiencing strong growth, with New Zealanders showing a clear preference for investing in bank products during these uncertain times.

With industry margins under pressure and New Zealanders' demand for new lending having stalled in the later months of the calendar year, ASB's operating result was boosted by strong Treasury trading income arising from the prudent management of short dated interest rate and foreign exchange risk exposures

Three new branches were opened during the six month period – Hornby, Christchurch in August, and Ronwood Avenue, Manukau and Terrace End, Palmerston North in November. This brought the total number of new branches to 12 for the 2008 calendar year, providing extra jobs for New Zealanders to service the financial needs of our personal customers and local business communities.

ASB is well placed to improve efficiency without compromising the delivery of world-class service to its customers during these difficult times. Notwithstanding the current challenging business environment, we are also committed to continuing our long history of supporting the local communities in which we operate. We have plans in place to extend the scope of our partnership with St John, while also providing much needed practical assistance to a wide range of local sporting, educational and cultural causes benefiting New Zealanders.

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For further information please contact:

Linley Wood, Head of Group Strategy and Communications, ASB on 021 221 2121
Debby Bell, Head of Corporate Communications, ASB on 0274 992 563