



**Media release
12 August 2009**

**STRENGTH FOR THE LONG TERM AS
ASB SHARES THE EFFECTS OF THE DOWNTURN**

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

- **ASB after tax operating profit 17.5 percent down at \$425m**
- **Support for depositors as interest margin drops 21 bps to 1.57 percent**
- **Growth in lending continues with total assets increasing 9.9 percent**
- **Community support tops \$10m**

ASB has demonstrated its long term commitment to supporting its customers, delivering a **reduced after tax operating profit of \$425m** for the 12 months ending 30 June 2009. This result is 17.5 percent down on the previous full year result (\$515m). Strong Treasury and Financial Markets income, driven by a very volatile market, is up 89 percent to \$153m, contributing significantly to this overall result.

While our profit may appear to be large, despite being significantly reduced, it should not be viewed in purely absolute terms or in isolation from other relevant industry measures. As a major New Zealand registered bank, ASB has a substantial asset base to support and a strong capital base to maintain. ASB's return on assets is 0.68 percent, and our return on equity is 14.9 percent. Both numbers are low to average compared to other major New Zealand companies.

The profit ASB makes represents the return due to our shareholders for investing in our business. In this respect, the common perception of an Australian shareholder bank reaping profits for its own benefit is far from the reality. In truth our underlying shareholders are the 777,000 Australians and New Zealanders who hold 80 percent of the shares in CBA, both directly and indirectly through pension, superannuation and other managed funds. They need to derive a reasonable return on their investments to help them to achieve their savings and retirement aspirations.

Like most other New Zealand banks, because savings from our local retail depositors are insufficient to fund our lending to New Zealand households and businesses, ASB borrows billions from the wholesale markets, both domestically and offshore. To ensure this source of funding remains available to us at as low margins as possible, ASB must continue to derive sufficient profitability and maintain a strong capital position. This is also essential if we are to retain our AA Stable credit rating from independent rating agency, Standard & Poor's.

This year, the higher cost of wholesale funding compared to previous years, together with ASB's determination to continue to offer competitively priced deposits to local savers, has created intense downward pressure on margins. As a result, ASB's **net interest margin** declined 21 basis points from 1.78 percent in June 2008 to 1.57 percent at year end.

While the Bank's underlying profit has declined, **total assets** have continued to increase over the year, being up 9.9% to \$65.2b. Lending balances grew by 4.4% to \$53.4b, confirming ASB's support of New Zealand households and businesses during the current challenging economic times. Home loan balances increased by 3.5% over the year to \$37.7b, with market share remaining steady at 23.3%. Rural, commercial and corporate lending was up 7.7 percent to \$13.5b.

Total deposits increased to \$56.7b, up 5.1 percent for the year. New Zealand's recovery from the global economic crisis will be assisted by people's willingness to save so our support of local depositors is crucial. ASB's success in attracting deposits from our customers is borne out by the 8 percent growth in retail deposits to \$30b, with market share steady at 21.2 percent.

ASB has this year been required to pay the government an \$18.3m fee in respect of the Retail Deposit Guarantee Scheme. With our retail deposit balances continuing to increase an even larger fee will be payable in the 2009/10 financial year, even though no claims have been made in relation to New Zealand registered bank deposits. The bulk of the fees for this guarantee are paid by the four largest New Zealand registered banks, even though they are amongst the least risky of the financial institutions in our country.

As expected, the deteriorating economy has seen ASB's lending growth partially offset by increased **loan impairment charges** across all asset classes. Loan impairment charges have adversely affected profits across the industry this year. With arrears increasing and a significant downgrade of credit risk ratings across all portfolios, ASB lifted its loan impairment charge by \$198m to \$238m, with total provisions on the balance sheet now standing at \$261m (\$109m in June 2008). While this is a significant increase compared to recent years, provisions still represent only 0.40 percent of total assets (0.18 percent in June 2008).

ASB is committed to supporting its customers, colleagues and communities during these difficult times.

For **customers**, the Bank has continued to invest in the long term, opening 13 new branches, launching two new cards - Visa Debit and Visa Platinum - and introducing PIE cash and term deposit funds, which have proved to be popular with our depositors.

We have established a specialised Financial Help Team, backed up by a Code of Commitments spelling out our commitments to those of our customers facing financial difficulty. In the business space, ASB's \$1b Job Creation Loan Fund announced back in February has seen 62 customers taking advantage of the low lending rate on offer, saving or creating 501 jobs for New Zealanders in the process.

Ongoing support for ASB's own **people** is being demonstrated by our commitment to utilise redundancy only as a last resort, with no redundancies to date as a result of the recession. We have introduced a number of initiatives to ensure we live up to this commitment, including formally confirming we will not send any local jobs offshore.

With respect to **communities**, while the causes we are involved in and invest in may shift, ASB is committed to maintaining its record 2008 level of support for the communities in which we operate. This will mean over \$10m per annum of support for New Zealand communities. Key relationships include working with St John to save lives in our local communities and ASB's involvement with the ASB Community Trust.

The ASB Community Trust was born out of the Auckland Savings Bank, the trustee bank founded in 1847 which then became ASB Bank Limited in 1988. ASB's value was retained for New Zealanders when the ASB Community Trust sold its shareholding in ASB Bank Limited to the Commonwealth Bank of Australia by way of two tranches yielding over \$800m. This created a fund available to the Trust to carry on its work within the community. Although there is no longer a shareholding relationship between ASB Bank and the Trust ASB has continued to support the ASB Community Trust. This year ASB's support of the fine work undertaken by the Trust has seen ASB make a further commitment of \$10m over the next five years.

ASB believes that **financial literacy and education** is a key responsibility for our banks. We relaunched our school banking programme at the beginning of the school year. One of the main drivers for this investment is to raise our young people's level of financial literacy. "Your Money Explained", which was launched in June 2009, can be accessed via the ASB website, and provides simple financial information, budgeting and help tools for New Zealanders. "Track My Spending" is another new financial help tool launched by ASB last month. It is available to ASB Fastnet Classic users free of charge, and allows our customers to code their spend into categories, helping them to understand exactly where their money goes.

New Zealand is indeed fortunate to have a sound and strong banking sector. Strong and profitable banks are the cornerstone of any economy so it is a very positive sign for the long term future of New Zealand that our banking industry remains in a sound, profitable position despite the short term negative growth in the economy. ASB is proud to be contributing to the soundness and strength of New Zealand's banking sector.

ASB has stuck to its core banking principles, with virtually 100 percent of its lending activity remaining within the country. This conservative approach to business has stood us in good stead, creating an underlying strength that, together with containment of operating expense growth, has assisted us to maintain our AA Stable credit rating from independent rating agency, Standard & Poor's, one of less than 20 banking groups in the world to be rated at this level.

The additional capital support of \$275m provided during the year by our parent, CBA, is also a reflection of our shareholder's confidence in ASB's ongoing strength, providing further comfort to New Zealanders that we are here for the long term.

ENDS

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ASB Bank Limited

Consolidated Performance in Brief

For the year ended 30 June	2009	2008	2007	2006	2005
INCOME STATEMENT (\$ MILLIONS)					
Interest Income	4,755	4,647	3,816	3,210	2,682
Interest Expense	3,775	3,646	2,926	2,406	1,906
Net Interest Earnings	980	1,001	890	804	776
Other Income	532	364	420	344	268
Total Operating Income	1,512	1,365	1,310	1,148	1,044
Impairment Losses on Advances	238	40	18	19	16
Total Operating Income after Impairment Losses	1,274	1,325	1,292	1,129	1,028
Total Operating Expenses	632	588	533	495	470
Net Profit before Taxation	642	737	759	634	558
Taxation	217	222	227	194	179
Net Profit after Taxation	425	515	532	440	379
BALANCE SHEET (\$ MILLIONS)					
Total Assets	65,230	59,350	52,893	44,568	38,796
Advances (includes Money Market Advances and Advances to Customers before Collective Provision for Impairment)	53,393	51,145	45,204	39,034	34,978
Collective Provision	178	87	84	79	123
Individually Assessed Provisions	83	22	7	1	9
Total Liabilities	62,072	56,151	49,773	41,879	36,527
Deposits (includes Money Market Deposits, Deposits from Customers and Amounts Due to Other Banks)	56,714	53,961	47,781	41,066	36,050
SHAREHOLDERS' EQUITY (\$ MILLIONS)					
Shareholders' Equity at End of Year	3,158	3,199	3,120	2,689	2,269
Dividends: Ordinary	180	610	825	860	43
Perpetual Preference	34	34	31	30	16
PERFORMANCE					
Return on Ordinary Shareholder's Equity	14.9%	18.4%	21.3%	21.3%	23.3%
Return on Total Average Assets	0.7%	0.9%	1.1%	1.1%	1.1%
Net Interest Margin as a Percentage of Total Average Assets	1.6%	1.8%	1.8%	1.9%	2.2%
Total Operating Expenses as a Percentage of Total Operating Income	41.8%	43.1%	40.7%	43.1%	45.0%
Growth in Total Assets	9.9%	12.2%	18.7%	14.9%	17.4%
CAPITAL RATIOS					
Shareholders' Equity as a Percentage of Total Assets	4.8%	5.4%	5.9%	6.0%	5.8%
BASEL II					
Tier One Capital as a Percentage of Total Risk Weighted Exposures	10.2%	9.4%	N/A	N/A	N/A
Total Capital as a Percentage of Total Risk Weighted Exposures	12.4%	11.8%	N/A	N/A	N/A
BASEL I					
Tier One Capital as a Percentage of Total Risk Weighted Exposures	9.2%	8.6%	9.0%	9.8%	9.6%
Total Capital as a Percentage of Total Risk Weighted Exposures	11.4%	11.0%	10.5%	10.6%	10.2%