Westpac Full Year 2022 Result

Westpac GROUP

MEDIA RELEASE

7 NOVEMBER 2022

Full Year 2022 compared to Full Year 2021[1]	Highlights
• Statutory net profit $5,694m, up 4% • Fully franked final dividend 64 cents per share • 2022 dividends per share of $1.25, up 6% • CET1 capital ratio 11.3% • Cash earnings $5,276m, down 1% • Cash EPS 148 cents, up 1% • NIM 1.87% down 17bps • Costs down 19% (7% ex-notable items)	• All banking divisions grew core earnings strongly in second half[2] • NIM up 5bps to 1.90% in 2H22 • Higher growth in mortgages and business lending • Credit quality improved, with stressed exposures to TCE falling from 1.36% to 1.07% over the year • Progress on strategic priorities

THE RESULT
PETER KING, CHIEF EXECUTIVE OFFICER

In 2022, we've delivered a solid financial result and made steady progress on our strategic priorities. We've built positive momentum and positioned the company for the future.

I'm pleased with our overall performance. We sharpened our focus on core banking, reduced costs, and improved service to customers. Westpac returned to growth in our key segments of Australian mortgages and business lending. In the second half, our banking divisions delivered strong growth in core earnings on the back of good cost and margin management[2].

Our balance sheet is in good shape across capital, liquidity and asset quality and we've determined a final, fully franked ordinary dividend of 64 cents per share.

After the work of the past two years, Westpac is now a simpler, stronger bank. We're continuing to get our costs down, we're simplifying our operations and our program of co-locating branches in similar locations is removing duplication. At the same time, we are investing in the right places, such as the launch of our digital mortgage and new personal finance management tools in the Westpac app.

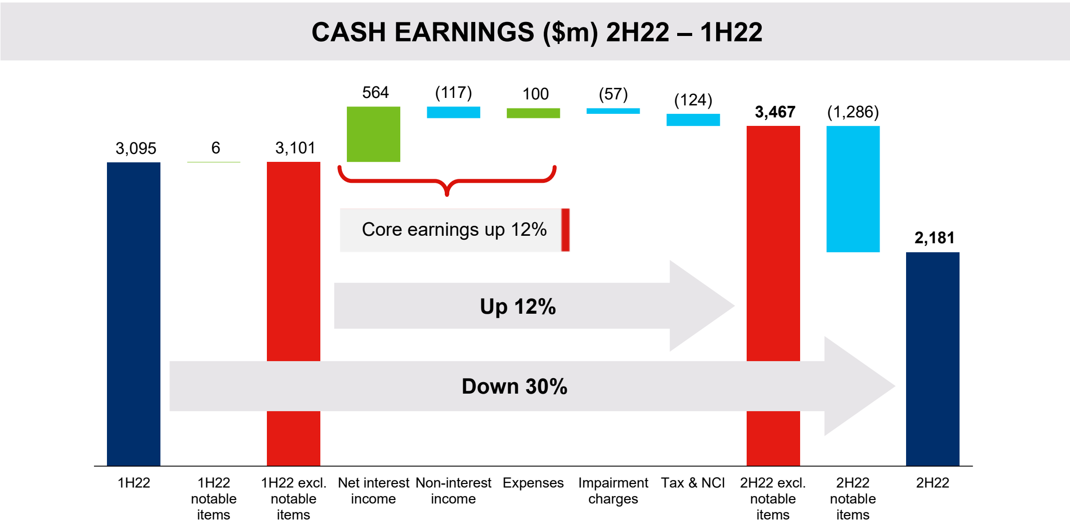
Our year-on-year results are solid and over the past six months in particular we have demonstrated momentum, with core earnings (ex-notable items) up 12% and our net interest income up 7%. Margins increased 5bps in the second half to 1.90% but they remain below historical levels.

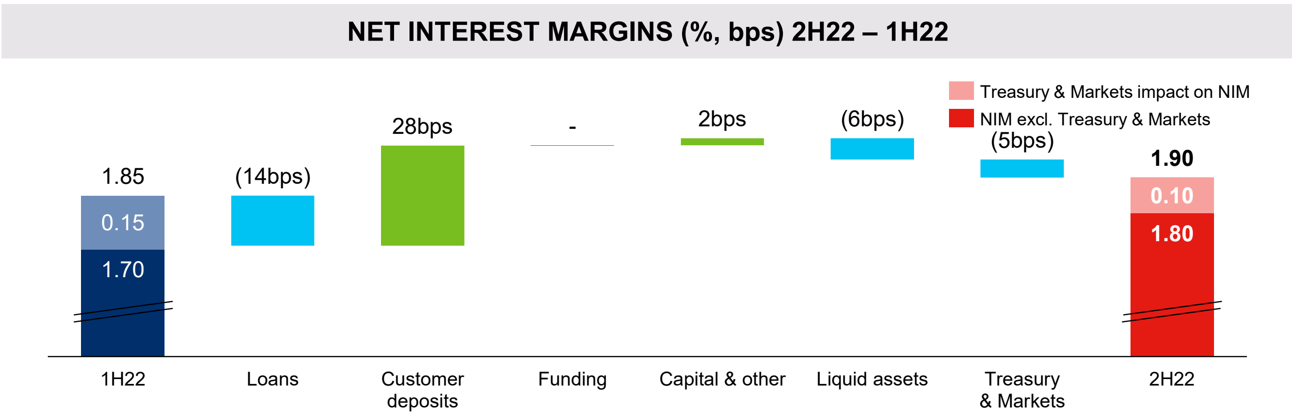
[1] Reported on a cash earnings basis unless otherwise stated. For a reconciliation of cash earnings to reported results, refer to Section 5, Note 7 of Westpac Group's 2022 Full Year Financial Results announcement. Cash earnings explanation provided in Section 1.3.

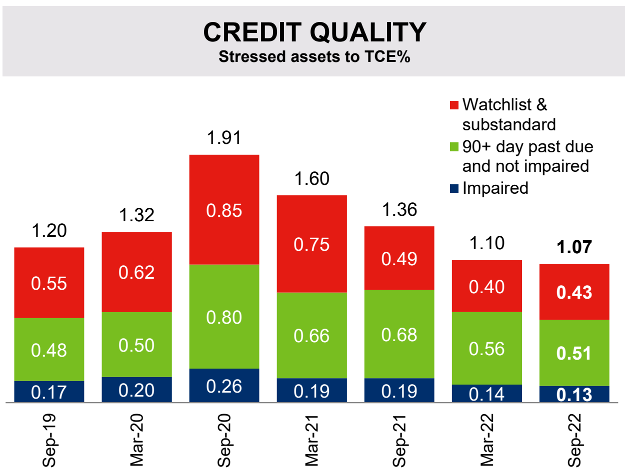
[2] Excluding notable items.

Most key credit metrics improved over the half, including a reduction in stressed assets and delinquencies. However, it's important to acknowledge the challenges ahead as customers navigate the tougher environment.

This year, we've continued the hard work on costs. Our expenses are down by 7%[2], driven by our simplification program and a reduction in full-time equivalent employees of 2,667. Given the impacts of higher inflation including wage increases from a tight labour market and continuing regulatory spend, we have revised our original FY24 cost target to $8.6bn[3].







[3] $8.6bn excludes Specialist Businesses, notable items, future acquisitions, and any significant rise in expenses from matters that are uncertain or not fully scoped. Assumes inflation of around 3% by the end of 2024.

DIVISIONAL PERFORMANCE

Division	FY22 cash earnings ($m)	FY22 core earnings ($m)	Commentary
Consumer	$3,291	$4,908	Cash earnings declined 11% from a lower NIM and higher impairment charges. Net loans increased $11.9bn, or 3%, predominantly in owner-occupied mortgages. Deposits increased $14.2bn or 5%. Expenses were down 4% from FY21. Over the second half, core earnings were 10% higher.
FY22 v FY21	(11%)	(4%)	
2H22 v 1H22	-	10%	
Business	$918	$1,460	Cash earnings ex-notable items were down 7% on FY21 due to a $568m change in impairment charges. Expenses were down 15% on FY21. Net loans were $6.5bn, or 8% higher with growth across most sectors. Deposits were up $4.7bn or 4%. Over the second half, core earnings were 90% higher, including a 29% increase in net interest income.
FY22 v FY21	(15%)	31%	
2H22 v 1H22	184%	90%	
Westpac Institutional Bank	$687	$1,068	Cash earnings were $1.2bn higher mainly due to the absence of notable items in FY22. Ex-notable items, cash earnings were 50% higher from a 16% reduction in expenses, a $185m increase (20%) in net interest income and lower impairment charges. Net loans increased 26% with growth across infrastructure, M&A, structured finance, property and renewable energy. Over the second half, core earnings were 17% higher.
FY22 v FY21	Large	Large	
2H22 v 1H22	25%	17%	
Westpac New Zealand (NZ$)	$1,165	$1,551	Ex-notable items (mostly the gain on sale of NZ Life Insurance), cash earnings were 2% lower from a decrease in impairment benefits, lower non-interest income and higher regulatory, risk and compliance spending. This was partly offset by a $126m (6%) increase in net interest income. Net loans increased 5% and deposits increased 3%. Over the second half, core earnings (ex-notable items) were 6% higher.
FY22 v FY21	15%	17%	
2H22 v 1H22	(17%)	(12%)	
Specialist Businesses	($723)	($725)	Specialist Businesses reported a cash earnings loss of $723m in FY22 compared to profit of $162m in FY21. Charges for notable items were the main driver for the reduction, including the $1.1bn loss on the sale of the Australian Life Insurance business. Ex-notable items, cash earnings were 28% lower due to the impact of businesses sold and lower life insurance revenues. Over the second half, core earnings (ex-notable items) were 7% higher.
FY22 v FY21	Large	Large	
2H22 v 1H22	Large	Large	

STRATEGIC PRIORITIES

Over the past two years we've made meaningful progress in transforming Westpac under our strategic priorities of Fix, Simplify and Perform.

Our Customer Outcomes and Risk Excellence (CORE) program is driving much of the improvement in our management of risk. With the design phase complete, our focus is now on implementing the changes to drive sustainable improvements. Progress included halving the number of outstanding high-rated issues since September 2020 and resolving seven significant regulatory matters and court actions. We've also progressed major customer remediation matters, closing a further 14 programs.

Westpac's strategy is to focus on banking in Australia and New Zealand and improving customer service. We've completed or announced the sale of nine businesses. We've continued to reduce products, closing more than 150. And we're removing duplication in our branch network through our program of co-locations.

As a result of our simplification, we've sharpened our focus on performance. Our mortgage book is growing in line with major bank system and time to approval has reduced. We have more work to do on investor mortgages but we're growing in business lending and results in the institutional bank have been strong, with loans up 26% year-on-year.

Our people are instrumental in our transformation. Our survey of workforce engagement has increased. Our line of business operating model has clarified accountability and made us more efficient. We now have a smaller head office with 93% of our people working in divisional or shared services teams.

OUTLOOK
PETER KING, CHIEF EXECUTIVE OFFICER

2022 has been a year of significant economic and geopolitical change. We are charting our way through a period of high inflation and rapid increases in interest rates. Russia's invasion of Ukraine has disrupted energy and food markets, leading to higher energy costs for consumers and businesses. Floods in parts of Australia are also adding to inflationary pressures.

We are not yet seeing increases in hardship or stressed assets. Many customers built up savings during the past two years and 68% remain ahead on their mortgage repayments. However, it is inevitable that the impact of higher rates will be felt, including when borrowers' low fixed-rate loans are rolled over.

As we approach the new year, there's increased economic uncertainty and volatility in financial markets. Although supply chain constraints are easing, skilled labour remains hard to find. The biggest challenge for the authorities is to contain the high inflation psychology that is now taking hold in the economy.

In Australia, consumer spending is resilient but as higher rates bite, we expect the heat to come out of the economy and inflation pressures to ease. Small business is one sector we are watching closely as consumption slows.

Housing prices have fallen in recent months and this will continue into 2023. Credit growth is expected to ease. GDP growth will slow and unemployment will rise. These will be necessary outcomes if we are to lower inflation.

The economy remains robust and Westpac is well positioned to handle the road ahead. Our own portfolio is in good shape going into 2023.

Video interviews with Mr King and Mr Rowland are available on Westpac Wire – www.westpacwire.com.au

For further information:

Hayden Cooper
Group Head of Media Relations
M. 0402 393 619

Andrew Bowden
Group Head of Investor Relations
M. 0438 284 863