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Start of Transcript

Andrew Bowden: Good morning everyone and welcome to Westpac's third quarter update call. This is Andrew Bowden and I'm Head of Investor Relations. I also have Peter King, our CEO and Gary Thursby, our CFO. David Stephen, our Chief Risk Officer, is also in the room. We released our Pillar 3 Report and a detailed slide pack earlier today and it would be helpful if you have that slide pack in front of you. We're not going to run through the presentation, but we'll make some opening remarks and plan to refer to a few of those slides. We'll then open up for questions. So, without any further ado, let me pass on to Peter.

Peter King: Well thanks Andrew and good morning everyone. These are certainly challenging times and I feel for those in Victoria and particularly those in Melbourne and our thoughts are definitely with you. Given the uncertain operating conditions, we've put more detail into our quarterly disclosures and we'll continue to provide more granular quarterlies while conditions remain uncertain. However, I would caution this doesn't signal a permanent return to quarterly updates.

Up front, I'd highlight three features from the quarter. The first is the headline cash earnings increase was large off the back of a big reduction in notable items, as well as lower bad debt charges. Looking behind the headline results, conditions remain very competitive, customers are cautious and lower interest rates are impacting margins and this saw core earnings, excluding notables, slightly lower this quarter.

Second, we've been very active contacting business and consumer customers impacted by COVID. Mortgages have been a particular focus in the last couple of months, we are at the three-month point and we've now contacted around 85% of those on relief packages. For mortgages, this has seen a 40% reduction in the value of relief packages.

Finally, we've maintained our prudent approach and added to impairment overlays, as well as including a new $7 billion risk weighted asset overlay this quarter. The $216 million increase in overlay provisions was mostly for mortgages, while the credit risk weighted asset overlay relates mostly to business.

With that, I'll just touch on a couple of slides and then hand to Gary who will take us through the detail in impairments and credit quality. If I turn to slide 2, this pulls together an overview of the quarter. As I said, headline earnings were up as we had less charges for remediation costs and litigation. From a business perspective, general insurance was a significant contributor, with income up strongly as claims fell following no major weather events this quarter. On the negative side, margins fell 8 basis points as higher liquidity or high liquid assets and lower interest rates really impacted the margin.

On asset quality, as we expected, it deteriorated with stressed assets rising to 1.76% of total committed exposures. This reflects the downgrade of business customers and recognising some of our mortgage customers in hardship assistance and that also had an impact on the 90-day mortgage delinquency rate. However, despite the stress, impairment charges reduced as we didn't need to increase the COVID collective provisions as much as we did in the first half.

I have been really pleased with our balance sheet strength, despite the increasing stress in the credit portfolio and recognising the $7 billion risk weighted asset overlay, our 10.8% CET1 ratio was little changed from March. Funding and liquidity also remain strong, with our LCR and NSFR ratios remaining comfortably above regulatory minimums and the deposit-to-loan ratio ended at 77%.

On dividends, the Board has decided not to pay a first half 2020 dividend. This was a difficult decision, but given the uncertainty, we felt it prudent to review dividends at the full year. We've effectively prioritised balance sheet strength given the uncertain outlook.

As I indicated at the half, we have a significant change program across the Group, having set up the Specialist Businesses, established the new line of business operating model and we're in the process of lifting our financial crime and risk management capability. On the Specialist Businesses, we've made good progress on our review and have had plenty of interest in the businesses. We'll give more detail at the full year results.

We also noted a couple of other items that we'll be reviewing in quarter four. On life insurance, there are increases in reinsurance costs for the industry and changing customer behaviours which will require us to review the valuation of that business. We'll also be taking a good look at capitalised software and goodwill balances, given the economic outlook.

Turning to some detailed financials on page 3, net interest income was lower with the margin at 2.05%, down 8 basis points. The three factors I'd call out are the big falls in interest rates impacting returns on capital and deposits, as well as deposit pricing not following interest rate reductions. We also boosted liquidity levels with average balances up $28 billion over the quarter and the third factor is competition in lending, but particularly mortgages.

On page 4, we've provided our normal disclosures on NIM and there's more detail there to help you. From a non-interest income perspective and excluding notables, non-interest income rose 12%. This reflected the improved general insurance performance I spoke about before, off the back of much lower claims. Partially offsetting the higher general insurance income were some of the trends we flagged at the half, including lower customer activity, some of the business fee waivers and a decline in contribution from wealth as margins remain under pressure in that business.

In a positive trend, markets income held up well over the quarter. On expenses, they did remain elevated as we continued to invest in risk and compliance and we also increased capacity to respond to the rise in customer enquiries, as well as package assistance. On the impairment charge, it was $826 million, which was lower than our first half quarterly average, with provisioning following the increase in stress in the portfolio and we've also added to overlays.

I'll hand now to Gary to take us through the impairment charges.

Gary Thursby: Thanks Peter and good morning everyone. Can I ask that you jump to slide 5 which looks at what happened to provisions over the quarter and the implications for our impairment charges. Similar to the first half, we have continued to update our models, draw on our experience and insights and we've applied judgment to arrive at our provision balance. This quarter, provisions have increased by a further $574 million to $6.3 billion. We've now lifted provisions by almost $2.5 billion since September last year and the ratio of total provisions to credit risk weighted assets has now increased to 170 basis points.

This quarter, the increase in provisions was driven by three components, which we've outlined in the table on the bottom left. The first of these reflects the performance of the portfolio and this added $260 million. This increase reflects higher mortgage delinquencies and the early downgrade of businesses in some of the high-risk sectors. As you may expect, it takes some time to work through the entire portfolio. We have reviewed WIB exposures and the largest businesses in the Business division and have continued to concentrate on the high-risk sectors.

The second factor this quarter is economics and that's had little impact on provisions. While the overall economic outlook has changed slightly, we are now working off a weaker base. Together these contributed to the $98 million rise. Importantly, reflecting continued uncertainty, we have maintained the weights on our economic scenarios with 40% still directed to the downside.

Finally, we have also maintained our overlays for high-risk business sectors for businesses where we have yet to review their rating. In addition to that, we have also applied an overlay for some of the customers on mortgage deferral packages. We believe it's appropriate to maintain our prudent approach given the uncertain outlook. These movements, along with the impact of write-offs and recoveries, led to the $826 million impairment charge for the quarter.

Moving now to slide 7, I wanted to spend some time discussing mortgage delinquencies, given the differences across the sector. Over the quarter, the ratio of 90+ day arrears has increased by 55 basis points. One factor which impacts this is our approach between using COVID packages and hardship assistance to support our customers. Under this approach, a number of customers entered hardship assistance rather than move to our relief packages. For customers, this means additional support and contact.

Hardship assistance was applied to those who requested assistance prior to the COVID-19 relief packages being available, for customers who were not up to date with all payments when they requested assistance and also for customers who went directly to our hardship assistance channel when they asked for support.

We continue to support and engage with all of the customers across both COVID packages and hardship assistance, however an outcome of our approach is that those customers on hardship assistance will continue to age through delinquency buckets and the chart on the bottom shows the contribution this made to the rise in our 90 +day arrears. For context, this approach added

$2.6 billion to hardship balances this quarter. It's important to note that customers in hardship also contribute to higher risk weighted assets, as distinct from customers on deferral.

Jumping again to slide 9 and capital, as Peter said, our CET1 ratio was unchanged over the quarter, with capital from earnings for the half being largely offset by increases in risk weighted assets. I'll talk through the risk weighted asset movements on the next slide, however I'd also say that for the rest of our balance sheet, our funding and liquidity position remains strong and we continue to benefit from strong deposit growth.

Finally, can you move to slide 10, which looks at risk weighted asset movements. RWA has increased by $6.7 billion over the quarter, primarily due to higher credit risk weighted assets. Market risk and interest rate risk in the banking book were also slightly higher. These increases were offset by lower lending, increases in the $A, which reduced our offshore balance sheet and lower mark-to-market credit risk.

Looking at the higher credit risk weighted assets, this was mostly due to a $7 billion overlay related to corporate, business, and specialised lending exposures where their review has yet to be completed. This reflects an estimate for potential future downgrades across these portfolios and as we continue to review individual exposures, this overlay is expected to be replaced by higher risk weighted assets from actual downgrades.

Where reviews have been completed, they've been been picked up in the $6.2 billion credit quality impact. The higher mortgage delinquencies are also in this bucket. This approach to reviews and overlays aligns with APRA's guidance. On the bottom right we've reproduced our credit RWA sensitivity. We've not changed the possible capital impact from our base case and downturn scenarios, which sit at 105 and 180 basis points respectively. We have, however, started eating into that increase, with a 30-basis-point movement this quarter.

In summing up, we've maintained our prudent approach outlined earlier this year, in particular we've significantly increased our provisions with our coverage ration rising to 170 basis points. We've maintained overlays in provisions on certain business segments and we've added an additional overlay of $200 million for mortgages. On risk weighted assets, we've worked hard supporting our customers and we've also applied a $7 billion overlay for reviews which are yet to be completed.

For COVID packages, we're well progressed on customer reviews and check-ins, with 40% of customers returning to payments and we've been prudent on the way we've managed the mortgage payment deferral process.

So, with that, we'll move on to Q&A.

Andrew Bowden: Thanks Gary. This is a joint media and analyst conference today, so we'll take a few questions from the analysts and then we'll take some from the media as well. I might take the first question from Andrew Lyons from Goldman Sachs please.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks Andrew and good morning. Just a question on your mortgage deferrals and the extent to which you've seen an improvement, I think you're talked to an expectation that your deferrals will fall by about 50% given the check-ins that you've done to date. That certainly seems significantly better than what peers have reported to date and I know that there are difficulties in comparing, but can you maybe just talk about those trends and perhaps why your trends seem to be so much better in relation to those customers returning to payment from deferral?

Peter King: Hi Andrew, it's Peter. It's hard for us to compare, so let's just talk about what we've done. We set ourselves the goal of contacting all customers at the three-month check-in point. You might recall that we set up a process which was opt-in, so the customer had to choose to request the package and then we were checking in at three months, so the mortgage team has done a pretty good job, I think, in getting the logistics organised and getting those check-ins done and we're about 85% through.

How I think about it is effectively we have customers telling us they're intending to start repayments again, so that's a really positive sign that we've got a lot of customers who have that intention. Of course we need to see the payments, so I think we are seeing a lot of those payments come through, but that's how we're thinking about it and of course we're also going to have new people asking for packages as this event goes on in terms of the duration.

Really we're giving you what we have from that process, as I said, it's a positive sign in a sense, but I don't think you can say it's definitive at this point and we'll continue to update you as we go along.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks and just a second question, just around your margin, you've noted some headwinds to margin in the quarter from two trends, firstly the liquidity build, which you did note at the first half result and secondly, around term deposit pricing. More recently some of the term deposit pricing seems to have become more positive, I'm just wondering if you have an expectation as to the impact of the pricing that you've seen to date and what that might mean for the fourth quarter NIM and then any commentary around the extent to which you'd expect further liquidity build versus what you've already put through in that third quarter?

Gary Thursby: Thanks Andrew, it's Gary here, I'll answer that. As you say, there's a lot of moving parts in margin and as we outlined at the first half, there will continue to be a lot of moving parts. As you've said, the largest items impacting margin in this quarter have been the elevated liquids and the 50-basis point reduction in cash rates, so the lower interest rates that happened during March. That had an immediate impact in the quarter and it flowed through. We did have a range of price changes that also occurred late in March and through April.

A number of the special prices we had at the onset of COVID have now been removed and changed. As you say, specifically, rates on term deposits have been coming down over recent months and we expect that this will support margin into the next period. However, continued elevated liquid assets and continued low rates will put pressure on margin into the next quarter.

Peter King: It's probably just worth highlighting that on liquidity I think we've done the major build. So it's not like we're looking to have further liquidity. It's a matter of optimising the balance sheet now.

Andrew Lyons: (Goldman Sachs, Analyst) Yes. Thanks, Gary. Thanks, Peter. Appreciate it.

Andrew Bowden: Let's take a question from Brendan Sproules, please, from Citi.

Brendan Sproules: (Citi, Analyst) Good morning, thanks for taking my question. I'm just asking on slide 5, with the additional provisions that you've taken, where you've had obviously delinquencies in mortgages, you've had downgrade of facilities in the business and the institutional bank, and you've also made an overlay for mortgage deferral packages, why have they not impacted your overall economic forecast, similar to what's happened in risk-weighted assets where you did recognise 30 basis points this period in an overall estimate of 105 in the base case?

Peter King: Well, Brendan, capital and risk weights are separate to provisioning. One is driven by the accounting standards, one is driven by the APRA rules, so they won't always line up. On the accounting standards, what we've really recognised is that while we have mortgages in relief packages, we're not always getting the normal risk reporting or risk sensitivity that we would get, say, in delinquencies. So what we've done is we've said, right, what may be some of the outcomes from those packages and estimated an accounting provision, and we think that's prudent. So that's how we've thought about provisioning.

In relation to the risk weights, a lot of the risk weights in mortgages are actually fairly dynamic. So they pick up the PD changes automatically. Where that's not happening, we are, therefore, putting overlays in and it's mostly been in the business book. So there will be a delay in getting up-to-date financial information because of the size of the customers involved. Where we haven't done the reviews - so if you think about segments, institutional bank, we've done a lot of the reviews because we know those customers pretty well and there's not as many of them.

As you go down the book, Commercial we've focused on high risk, so we've done a lot of those reviews, so the risk grades have changed. Then you'll get other parts of the portfolio which are a bit more higher volume, lower loans, where we're putting overlays in. So we've just thought about it in different buckets. We need to reflect the information we're using won't be the most up to date and, therefore, we've put overlays in.

Gary Thursby: The only other comment I'd make, Brendan, is if your question is in relation to the 100 basis points and the 180 basis point sensitivity that we've included, we still think that they are about the right numbers. But as we look at it, we've tested the sensitivity to different aspects of the portfolio, both consumers coming through mortgage risk weights, and businesses, and specifically the different sectors and regions being impacted.

We continue to think that's the right range of sensitivity to think about. But there are quite a lot of moving parts in there. But in aggregate, we think they're about the right numbers to think about.

Brendan Sproules: (Citi, Analyst) Just one other question, if I may. The overlay on the mortgage deferral packages, is that on the $50 billion of total packages that you've offered, or on the ones just where the three-month extension has been requested or you haven't had a chance to actually check in with them?

Gary Thursby: It was done looking at the aggregate $50 billion. Then within that aggregate, assessing those customers that we think will still have good sources of income and we expect it to return to payment, as opposed to those that looked like they had some pressure on their own income sources. So we did it on the aggregate, but we think it's still appropriate even with the proportion of customers returning to repayments.

Peter King: It's the aggregate at the end of June, Brendan.

Brendan Sproules: (Citi, Analyst) Okay, thank you.

Andrew Bowden: I'll take a question from Jon Mott from UBS, please.

Jon Mott: (UBS, Analyst) Yes, thank you. I've got a question about statutory profit, just a couple of comments that you had earlier on, Peter. What you talked about was, number one, you had a hit coming through with hedge volatility in this quarter, then you also talked about some reviews for life insurance and also potential capitalised software and goodwill. Now, we know that they're not on impact on a CET1 because they're already deducted, but they do hit statutory profit. From what we've heard from the other banks, the definition of earnings for the payment of the dividend looks like it's based on statutory profit, not cash profit.

Can you comment on potentially could this reduce your ability, or preclude your ability, to pay a dividend in the second half, given the hits coming through these non-cash items?

Peter King: So historically the test for dividends is you can pay out 100% of the previous 12 months profit without APRA approval. So that's the historical test. That's obviously been updated for this year to 50%. Now, what that means is, if you're away from that test, you've got to go and talk to APRA. So what I would expect is we'll be having discussions with APRA about all our plans in the second half and that will be the process to agree the dividend.

Jon Mott: (UBS, Analyst) So this doesn't automatically preclude you from paying a second-half dividend.

Peter King: No.

Jon Mott: (UBS, Analyst) Thank you.

Andrew Bowden: Okay, I'll take a question from Brian Johnson, please.

Brian Johnson: (Jefferies, Analyst) Thank you very much for all the disclosures. Just if we go through to slide 13, I was just wondering, Peter, could we get an explanation of that reference to AUSTRAC that's now talking about potential risks from financial crime activities such as money laundering or terrorism financing. Can we just find out specifically what you've identified?

Peter King: Look, Brian, it's referring to the release we made a few weeks ago - I can't remember the exact day - on the TTRs and the other matters that we had there. So there's nothing really to add, apart from what we've already got in the market.

Brian Johnson: (Jefferies, Analyst) Okay. So at this stage it's still hard to quantify basically what AUSTRAC are actually upset about? The case is still evolving, it's still getting bigger, is that correct?

Peter King: Well, it's the release that we made a couple of weeks ago on the TTRs - the SMRs, sorry, is the other one. So the bucket that is described there is a broad bucket of what AUSTRAC look after, but the specifics were in our release a couple of weeks ago.

Brian Johnson: (Jefferies, Analyst) Peter, I'm sorry, I can't recall seeing stuff about terrorism financing last time. If it was there, I apologise, but was that in the last announcement?

Peter King: Well, TTRs and SMRs are issues that need to be reported, whether or not they're specifics. It's 28 July release, Brian.

Brian Johnson: (Jefferies, Analyst) Okay. Peter, the second one is that if we go back to your 1H20 ECL provisioning, and today you've said that the weightings are unchanged, you did ascribe 5% to basically the upside scenario, on which basis the ECL provisioning would have been - you back-calculate - must have been about $2.9 billion, versus the base case of $4.5 billion, the downside of $7.9 billion. When we look at it today, you're increasing basically some of the provisioning. Can we just get a feel about the appropriateness of that 5% that you're ascribing to the upside scenario, and what would be the impact if you were to actually take that out?

Peter King: Well, we haven't given updated information on the scenarios at the quarter. You'll have to use the half. But I think it's more the debate that we'll be having is what's the weighting between the base and the downside, rather than the upside, Brian.

Brian Johnson: (Jefferies, Analyst) So the upside could well disappear from the calcs?

Peter King: Unlikely. I think around that level is the minimum you'd have it in. So it won't disappear to zero. It's more likely to be a debate about weighting between the base and the downside.

Brian Johnson: (Jefferies, Analyst) Thank you very much. Thanks, Peter, bye.

Andrew Bowden: I'll take a question for Richard Wiles, please, from Morgan Stanley.

Richard Wiles: (Morgan Stanley, Analyst) Good morning, gentlemen. On slide 4, you mention 5 basis points of margin impact from retention pricing, switching and competition. That looks a fair bit worse than it was in prior halves. Why is it so bad? Should we assume that it continues at the same pace in future periods?

Peter King: Well, the main change was the pricing that we did in the business book in terms of trend. So if you think about the response, when COVID came out we looked to provide some support to businesses. So we had the reductions in business pricing was the main change in trend. In terms of underlying trends in the mortgage book, we continue to see people looking for a better deal. So you've got some regular repricing of existing products, as well as a pretty active, competitive market. So that's the major change on the loan side, Richard.

Richard Wiles: (Morgan Stanley, Analyst) Okay, thank you. Can I ask you about the risk-weight density guidance? You've repeated the 105 to 180 basis point potential outcomes, as Gary mentioned in his remarks. Can you tell us with the base case, the 105, how much is mortgages and how much is corporate?

Gary Thursby: No, we can't. The way we looked at that, Richard, was just the various - there's a lot of assumptions in those numbers. We've just looked across the total portfolio, the sensitivity of different categories, including mortgages and businesses, and within businesses the sensitivity of various sectors. We think it's right then to just sum that up and look at an aggregate and look at the range around the aggregate.

Last time we highlighted that, that represented about 3 to 5 percentage point shift in risk-weighted asset concentration. So that's a combination of them all. As we're moving through the economic cycle, you can see that - it's early days and it's still evolving. So the final expected impact on different sectors and different categories of customers is yet to be seen. But we think the aggregate lines up with the way we've reviewed the sensitivity of the different aspects.

Richard Wiles: (Morgan Stanley, Analyst) Thank you.

Andrew Bowden: I'll take a question from Matthew Wilson, please.

Matthew Wilson: (Evans & Partners, Analyst) Hopefully you can hear me.

Gary Thursby: Yes.

Peter King: Yes, Matt.

Matthew Wilson: (Evans & Partners, Analyst) G'day. Firstly, just if I calculate based on what has been deferred, the level of interest income capitalised looks around $400 million, within the ballpark, would that be fair?

Peter King: Yes, that's about the right number. On mortgages you're talking about?

Matthew Wilson: (Evans & Partners, Analyst) On mortgages and business combined?

Peter King: Yes, it'd be a little bit higher.

Matthew Wilson: (Evans & Partners, Analyst) A little bit higher, okay, thank you. Then, secondly, your capital today is currently 10.8, you seem to be far more realistic with the calculation of credit risk-weighted assets than some of your peers. You settle AUSTRAC, you write down some further elements in the business you might be at 10.5. Then based on your risk-weighted inflation, if we do get a bad scenario, we're sort of down to 8.5.

Now, isn't it better to go into the cycle with more rather than less capital? I appreciate that APRA was happy for you to use that buffer but the market has got to fund the rebuild of the buffer. How do you balance that sort of conundrum from a capital perspective?

Peter King: Well I think there's a range - the first thing is there's a range of outcomes. There's your base and your downside. We don't know where we're going to be. So you can only really think about managing the place in a way that you make the right decisions. We've made a pretty hard decision with the dividend today. We recognised the impact on shareholders. But we think in the long-term interest of the Bank that was the right decision.

Then the other piece is how do we generate capital organically, so the Specialised Businesses, looking at businesses that can release capital internally is a big focus for us. So where we end up we're thinking about making sure that we have the best available information so whether that be risk weights or credit quality or packages, recognising that in the numbers and then making decisions as we go.

So Matt I get the question. I get the sensitivity. But we've just got to work on generating capital internally, making the right decisions. I'll just end with that I am prepared to use the buffer. If it is an outcome like you say then we should expect to use the buffer and remember the regulatory top of the capital conservation buffer is 8%. So we're still a strong Bank at that point and we'd still be a strong sector at that point.

Matthew Wilson: (Evans & Partners, Analyst) Okay, that's great. Thank you.

Andrew Bowden: I'll take a question from Macquarie for Victor German please.

Victor German: (Macquarie, Analyst) Thank you Andrew. I was just hoping to ask also a follow-up question on margins in Slide 4. One of the buckets that you've disclosed that sort of surprised me a little bit was impact on capital and other - 4 basis points in the quarter. It seems a little bit larger than I would have thought would come through given your hedge. Just interested whether you expect this to be fairly linear and you expect similar impacts in the next quarter or was it lumpy at all? Also you made a comment about shortened duration of capital hedge. If you can just sort of elaborate on that as well.

Peter King: Yes Victor. It won't be linear because it depends on the monthly hedges. So it's not perfectly linear. So I think the last half where probably we had a better outcome than what people thought. It's probably a bit higher this quarter than what people thought. So it's not a linear process. But it will get down to wherever the market is unfortunately. So lower rates will impact the margin materially as we go to the 25 basis point type term outcome.

Sorry I've missed your second question...

Victor German: (Macquarie, Analyst) The shortened duration of...

Peter King: Yes, I just think - the reason you hedge your capital is duration. Wherever you pass the one year regulatory capital calculation you've got to hold capital for it. We've just looked at the risk reward equation and decided we can come a bit shorter on the hedge.

Victor German: (Macquarie, Analyst) So does that mean your historic hedge obviously it rolls off kind of on the three year basis that you've hedged it but going forward you're just leaving it at one year? Is that how we should think about it?

Peter King: Yes. On average - just thinking about it - it may not exactly be one year. We'll be looking at where we want to go but it will be shorter.

Victor German: (Macquarie, Analyst) Right. Does that apply both capital and deposits is it?

Peter King: Yes, for both of them.

Victor German: (Macquarie, Analyst) Okay. Then just to close...

Peter King: Oh sorry, only capital. Sorry.

Victor German: (Macquarie, Analyst) Oh, just capital. Deposits are still hedged the same? For three years, okay.

Peter King: Yes.

Victor German: (Macquarie, Analyst) Just a point of clarification to an earlier question about dividend policy from APRA. Can you just maybe remind us how historically APRA approached capitalised software deduction from that statutory profits impact? Obviously it impacts your statutory profits but it's a capital deduction. Is that generally viewed as a...

Peter King: Basically the rule historically was you can pay out 100% of your stat profit over 12 months without seeking approval. If you weren't able to achieve that outcome and you wanted to pay a dividend higher than your stat profit you needed APRA approval. They would look at your capital planning.

Gary Thursby: All aspects of it.

Peter King: Including your forward forecast and everything as part of that approval process.

Victor German: (Macquarie, Analyst) Right, so they did look through the capitalised software write-offs...

Peter King: Well I can't say that because mechanically the test was stat profit which included write-downs of items that are already deducted from capital. So I can't say they looked through it. What they would do is look at the capital management plans of the entity and decide whether or not the dividend was appropriate in the whole context, not just stat profit less a number.

Victor German: (Macquarie, Analyst) Thank you.

Andrew Bowden: We'll take a question from Ed Henning from CLSA please.

Ed Henning: (CLSA, Analyst) Thanks for taking my questions. Just the first one on Slide 17 you run through your business support packages. Is there any difference between any outstanding packages than what you've provided so far?

Peter King: I'm missing that one Ed, sorry. What do you mean any difference?

Ed Henning: (CLSA, Analyst) So in mortgages you've said you've provided 135,000 packages but you're now down to outstanding of 78,000. Is there any difference in business?

Peter King: Yes, the business packages were six months whereas the mortgage packages were - from our perspective - opt-in by the customer at three months with a check-in to then roll for another three months. That's how we've thought about it. So they're quite different.

Ed Henning: (CLSA, Analyst) Okay, so you haven't gone and checked any businesses and some businesses haven't started repaying at this point?

Peter King: We are - at the margin there have been a few starting to repay. But we're just gearing up for the contact process right now. So the next couple of months will be very important for us to get updated information on the small business packages. So come full year results we would probably expect to give you a pretty detailed update on that.

Ed Henning: (CLSA, Analyst) Okay, that's great. Just the second one, circling back onto the mortgage deferrals and the increase in the provision there. You've had deferrals falling. You've talked about you've got actually some mortgages that have gone straight into hardship. If you look at your scenarios you've previously called house prices down 15% and now they're down 10%. Are you just saying for that small part of deferrals that are still there the probability of default has gone up substantially?

Peter King: I think we're just being prudent Ed. We don't know what - we can't predict the future but we want to be prudent on the way that we're recognising what's happening in the customer base and the portfolio and having a balance sheet that - and a provision base that is prudent.

So I think there's a degree of specificity in the question that we're not operating with that level of information at the moment.

Ed Henning: (CLSA, Analyst) Okay, no worries, thank you.

Andrew Bowden: We'll take a call from Andrew Triggs from JP Morgan please.

Andrew Triggs: (JP Morgan, Analyst) Thanks Andrew. Morning Peter. Look a question on NIM. Just interested in how long you expect some of the funding cost tailwinds to last for, specifically falling TD rates and growth in at-call accounts. Bendigo Bank yesterday suggested that while it would provide some stability for margins in the December half looking into next year that they expected those benefits to wane.

Peter King: I think that's a difficult question for us to answer because it sort of says where do you think deposit pricing is going to go in the future, Andrew. So that's unfortunately one you'll have to decide where will the industry set deposit prices across TDs and online.

Andrew Triggs: (JP Morgan, Analyst) For the quarter itself did you see continued growth in transaction account balances? Is that sort of positive? There's no call-out from a funding mix benefit during the quarter? Does that continue?

Gary Thursby: Deposits continue to grow. There is a lot of liquidity in the market so deposit growth continued despite some lowering of headline rates across the market.

Andrew Triggs: (JP Morgan, Analyst) Okay. Just a second question please just on repayment holidays. Just checking for those customers indicating that they will go back to making repayments, just checking is there any split between those going back to interest only versus full repayments for those that are on P&I?

Peter King: No, so basically with those repayments where they've indicated they'll go back to full repayment, if they've said they need - that's not appropriate - then they're the ones that we're looking at in hardship because it becomes a restructure of the loan.

Andrew Triggs: (JP Morgan, Analyst) Thanks Peter.

Andrew Bowden: We'll take a question from Brett Le Mesurier please from Shaw.

Brett Le Mesurier: (Shaw and Partners, Analyst) Thanks Andrew. Your loans outstanding have been declining of course. Do you expect that to continue into the fourth quarter? I'm looking at residential mortgages in the pillar 3 have declined from $448 billion to $484 billion over the past year and corporate loans have declined from $64 billion to $61 billion while peaking at $69 billion in March. Is the trend of down going to continue from June to September do you think?

Gary Thursby? I think if I start with the institutional and corporate balances we saw those elevated in March and then through April as businesses looked to secure the funding lines, they have since paid those down. We continue to see an outlook which is pretty flat in terms of demand for credit across business, corporate and into SME.

On the mortgage side we had some processing issues that we outlined at the half. We've resolved some of those and we've caught up some balance growth. Application levels on a relative basis - we're happy that we're rebuilding application levels in terms of our share of market applications. But I think general demand for housing in aggregate is still fairly soft and we expect that to continue through the rest of this year.

Brett Le Mesurier: (Shaw and Partners, Analyst) Just moving on to liquids - you indicated that you've reached a stable level. But when I look in your pillar 3 the on-balance sheet exposures for sovereigns fell from $120 billion at March down to $104 billion in June. So do we actually have a lower level of liquids now than we had in the third quarter and therefore might that relieve some of the headline pressure on NIM?

Peter King: No, I don't think so. It's a little bit complicated with the way that the money moves in and out of the different central banks. The other way to look at it is what's the LCR at the end of the period and at the end of the period they're pretty stable.

Brett Le Mesurier: (Shaw and Partners, Analyst) Okay, thanks. They're all the questions I have. Thank you.

Andrew Bowden: Thanks. I'll take a question from Azib Khan please, from Morgans.

Azib Khan: (Morgans, Analyst) Thanks Andrew. With the customers going into hardship you've basically classified them into three categories which is helpful. I've got a question about two of the categories. The first one, the requests received prior to COVID-19 relief package availability and the customers who went directly into hardship via customer assist teams. How much scope is there for these customers to still migrate to deferrals? Or are they almost entirely ineligible to go into deferral status?

Then I've got a second question related to this. So APRA is obviously providing lenders with an option to restructure loans up to 31 March next year in certain cases without those restructures being deemed to be non-performing. Is your understanding that that restructuring option will only apply to customers in deferral or will it also apply to customers in hardship?

Peter King: So just - the way to think about the relief packages versus hardship is relief packages you've basically self-certified that you needed help and you got the payment deferrals. If you go through the hardship assistance you're actually working with a banker to work out what the right thing is. So it's more like an individual outcome. That could include specific deferrals, it could involve different interest rates. It could involve some restructuring of the loan. I wouldn't get too hung up on it. It's more just is it an individual arrangement or part of the portfolio arrangement.

On your question on re-structuring, we'll have to come back to you, I think, because certainly what APRA has proposed is very good. It gives us time to recognise and restructure parts of the portfolio. The challenge with it is whether or not we'll know enough to get the restructuring right for the end of March but the intent is to do it so hopefully it applies to both hardship and packages but we'll need to confirm that with APRA.

Azib Khan: (Morgans, Analyst) Just a quick follow up on the response to my first question. So I think you just made it sound like it's still possible to be on a deferral if you're in hardship?

Peter King: Yes.

Azib Khan: (Morgans, Analyst) In that case, does the customer still show up in the 90 day arears stack?

Gary Thursby: Yes.

Peter King: Yes.

Azib Khan: (Morgans, Analyst) Is there no regulatory release available through the hardship channel at all?

Peter King: No, because you've come - you've applied an individual arrangement with the customer. So that's one of the things that we highlighted today, that we've got more people or more customers in hardship and that's pushing up the delinquency numbers for the mortgage portfolio.

Azib Khan: (Morgans, Analyst) Right, thanks.

Andrew Bowden: Can I take a question from James Frost from the Financial Review?

James Frost: (Financial Review, Journalist) Oh hi, Peter. I've got another question just about the hardship versus the deferrals. The number of deferrals that have fallen was quite sharp, I guess that's pleasing. I was curious whether any of those customers from 135,000 have been moved into hardship?

Peter King: Listen, there would have been a few. I don't have the number but basically, if someone said to us as part of the check in, they're not sure that they will resume repayments in three months' time, then we took them out of the package and put them into the hardship process. Actually, I think it's - yes, it's about 1000.

James Frost: (Financial Review, Journalist) Okay, thank you. That's helpful.

Andrew Bowden: Take a question from Peter Ryan from the ABC?

Peter Ryan: (ABC, Journalist) Yes, hi. Thanks for taking the questions, Peter. It was just also a question on the deferrals. When you were considering what to do with the deferrals or what people can pay, do you take into account whether or not people are receiving JobKeeper payments?

Peter King: Well it - what we're doing is, checking in with them and if they request the further three month deferral, we provide it to them. So it's not like we are looking at their circumstances at that point. They're effectively saying they need it so they're eligible.

There's a lot of people that say they'll commence repayments again but as you know, circumstances could change so they might come back and say they need help. So that's why I say we've given you what we know. It'll change because this is a dynamic event and we'll give you further updates as we go along.

Peter Ryan: (ABC, Journalist) Do you think though that the JobKeeper payments have helped you get those on the deferral deal down?

Peter King: Probably - the answer to that is probably, not because if people are saying they're comfortable to go back on repayments, they're confident about where they're at, I think. Not just JobKeeper.

Peter Ryan: (ABC, Journalist) Okay and just one more while I've got you there. What are your expectations for insolvencies in small to medium businesses among those who have been helped out on the loan deferrals?

Peter King: Well that's hard to estimate at the moment. That will certainly have a better line of sight on business as we go through these contact points in the next couple of months so I wouldn't want to predict something that we'll have a lot more information on over the next couple of months, Peter.

Peter Ryan: (ABC, Journalist) Okay, thanks, Peter.

Andrew Bowden: We'll take a call from Joyce Moullakis, please, at News Corp.

Joyce Moullakis: (News Corp, Journalist) I just had a query about your economic forecast. I'm just wondering if you can provide a little bit more colour on those in light of what the RBA said in terms of its expectations on GDP growth and where unemployment is likely to peak?

Peter King: Sorry, what's the question, Joyce?

Joyce Moullakis: (News Corp, Journalist) I just wonder, your forecast around GDP and unemployment seem a little bit more optimistic than perhaps the Reserve Bank said in August. I just wondered what opportunity there may be for you to change those going forward?

Peter King: Oh, well of course it's Bill Evans who is our chief economist and he decides on his forecast without our input. I think that the situation we're in is, it's very hard to forecast so when we think about what we use to run the bank, we are looking at a range of forecasts so I wouldn't want to compare and contrast too heavy because I think you've got to look at a range of forecasts at the moment.

Joyce Moullakis: (News Corp, Journalist) Okay and just one more from me, just on the deferrals. In light of New Zealand extending the period for mortgage deferrals and the second lockdown in Victoria, what are you expecting around the momentum of mortgage holders coming off the deferrals? Is that likely to taper off quite a bit now?

Peter King: In New Zealand, you mean?

Joyce Moullakis: (News Corp, Journalist) Across the book but in taking into account that New Zealand has extended the period.

Peter King: Oh, I think - well in Australia, I think we're 85% through the check ins, so we've got 15% to go but we still have a steady flow of people asking for help. So it was probably 1700-style numbers before the Victorian developments and it's probably up around 2,000 at the moment. So there will be ons and offs in Australia. In New Zealand, we'll have to just wait and see how long it stays in place.

Joyce Moullakis: (News Corp, Journalist) All right.

Andrew Bowden: Okay, I'll take a question from Richard Gluyas, please.

Richard Gluyas: (Australian, Journalist) With the first dot point there under AUSTRAC and other financial crime matters, you say strong progress made in addressing relevant issues. I'm just wondering, is it correct to say then that Westpac and AUSTRAC have narrowed their differences on issues in the statement of claim but the statement of claim itself could be broadened now?

Peter King: No, I think they're two processes, Richard. So one is obviously we haven't hit the mark in terms of our financial crime systems and we recognise that. We've admitted a lot of those issues through the court process but that's ongoing and the reviews from AUSTRAC are ongoing.

As we spoke about before, there was the TTR and SMR release so that's the court process but we're not waiting for that to be finalised before we look to lift our capability in financial crime more broadly. So that really just signals it's a focus for us. We're getting on it with. We're recruiting people, we're investing in technology and getting the control - the management control capability in that are up.

Richard Gluyas: (Australian, Journalist) Just one follow up. You probably saw that Christian Porter said something about Westpac running a PR campaign now that we are in remediation discussions with AUSTRAC. Would you agree with that?

Peter King: No, we've taken this matter very seriously, Richard. We are deeply sorry for our failures and we recognise the harm that it's created. As I said before, we've admitted our failures as part of the process in the court. Our preference remains to settle. The court ultimately decides on the fine and we understand that given the size of this, we will have to pay a material fine. So that's how I think about it.

Richard Gluyas: (Australian, Journalist) Okay, thanks.

Andrew Bowden: We'll take a question from Clancy Yeates, please.

Clancy Yeates: (Sydney Morning Herald, Journalist) Just a question on your house price forecast there. You're saying a 10% fall this year and then a 1% gain next year. Can you just explain why that is and I see they're - those are from June. Does it take into account Victoria's lockdown, or are they a little bit dated?

Peter King: Yes, I think - when I step back and look at the fundamentals here, it's always supply and demand that drives prices. We know there's going to be some people that are going to need help. So whether that be in mortgages or small business but then the Bank's in a really good shape to manage this through over time.

So I think that's the macro thing that's recognised in those forecasts. So the alternate would be in other scenarios if you've got a banking system that's not in great shape, then they look to realise security pretty quickly and that drives the price down materially.

I just think we're going to work this through over a longer time horizon because the banking system has got good liquidity and pretty good capital levels.

Clancy Yeates: (Sydney Morning Herald, Journalist) So you're saying you won't be in a hurry to foreclose on people. You'll give people lots of time to work it through?

Peter King: Time will be important here to work this through so that's right.

Clancy Yeates: (Sydney Morning Herald, Journalist) Thanks.

Andrew Bowden: I'll take a question from Paulina Duran.

Paulina Duran: (Reuters, Journalist) Hi, good morning and thank you for the time. My question, it's not very controversial. It's about the deposit - the trend on deposits. I'm curious how sticky you consider those deposits to be, just as that challenging economic outlook develops. Obviously in the context of the term funding facility. Just if you can talk a little bit about that, that would be great.

Peter King: Well I think just generally the deposit market, there's quite a lot of liquidity in the system that - we see a lot of people wanting to save at the moment so that will see deposits go up. In our case, the loan to deposit ratio was at 77% or the deposit to loan ratio was at 77%. So I think there's - it's decent conditions for the deposit market to continue to grow.

Paulina Duran: (Reuters, Journalist) Does that mean that you then will have to issue less debt? Even if your maturities are a bit higher on FY21?

Peter King: I think just generally with the term facility available from the Reserve Bank, if there's not demand for lending, then we won't be as active in wholesale debt markets. So that's the way I think about it.

Paulina Duran: (Reuters, Journalist) Right. Okay. Thank you.

Andrew Bowden: Okay, I'll take a question from Nathan Zaia from Morningstar, please.

Nathan Zaia: (Morningstar, Journalist) Morning gents, I just had two quick follow ups. I know you mentioned the processing times for mortgages had improved. Can you quantify with application volumes or the number of loans that have been approved, the time to approval?

Gary Thursby: I don't have the detailed numbers in terms of numbers approved but we have been able to catch up a lot of the backlog that we had during April and May. In June it was a significant catch up on those volumes and we continue to focus on how we can further improve that processing time and support our customers. It's a really important customer experience.

Nathan Zaia: (Morningstar, Journalist) Just a second one, I know there's still a lot of uncertainty but I don't know if you're able to provide a little bit more detail about how you're thinking about what a final dividend might be in terms of will it be based on a pay out of the last 12 months' earnings or just the last six months? So the second half of fiscal '20?

Peter King: Well Nathan, what we'll think about is at the full year, looking at the whole business, our view of the future and we'll make that decision at that point. So it's too early to be pinning it down to specific metrics or what not. We'll look at the business in its holistic situation at the end of the year.

Nathan Zaia: (Morningstar, Journalist) Okay. No worries. Thanks.

Andrew Bowden: Thanks. We'll just take a final question from James Glynn from *The Wall Street Journal*.

James Glynn: (The Wall Street Journal, Journalist) Oh hi, all. Phil Lowe at the Reserve Bank hasn't - has - well last Friday left the prospect of negative interest rates on the table even though he still said that it's extraordinarily unlikely. I was just wondering, how a major bank would respond to a move to negative interest rates? Would it improve the situation or would it just add a layer of complexity that might be counterproductive?

Peter King: Well it's probably just may be worth reflecting on what that - what negative rates means and to me, it means the Reserve Bank rate would probably be negative and the wholesale rates are negative. How that translates into different markets will be very different but the major piece will be the - the signal is savers should get less and borrowing costs should come down.

So that's what the signal says and that will impact different markets in very different ways. From an internal perspective, our markets and wholesale businesses will need to have technology systems that can handle negative rates and that's what we're working through.

Then I'll leave it to you to decide how the different markets might price negative wholesale rates because it's - that's a territory I can't talk about in terms of future interest rate moves on consumer or business products.

James Glynn: (The Wall Street Journal, Journalist) Okay so net, it sounds like you would consider it a positive move?

Peter King: No, I can't go there because it will depend on how each market responds.

James Glynn: (The Wall Street Journal, Journalist) Right, thanks.

Andrew Bowden: All right, well thank you everyone - very much, everybody and good morning.

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