Westpac Banking Corporation 1Q22 Update

Thursday, 3rd February 2022

Peter King, CEO

Michael Rowland, CFO

Andrew Bowden, Head of Investor Relations

Andrew Bowden:

Good morning, and welcome to Westpac's first quarter 2022 conference call. My name is Andrew Bowden, and I'm Head of Westpac's Investor Relations. Joining me are our CEO, Peter King, and our CFO, Michael Rowland.

We've lodged four documents with the ASX this morning.

1. A release explaining the results for the first quarter '22;
2. a slide pack with additional detail on the result, along with some information on asset quality and capital;
3. Our normal Pillar 3 Report for the December quarter; and
4. an announcement on changes to our organisational structure.

If you haven't already, I'd encourage you to have copies of these releases handy. They've been lodged with the ASX and they're also available on our website.

I'll now hand over to Peter and Michael to make some opening remarks and then we'll invite some questions. Thank you.

Peter King

Thank you Andrew and good morning everyone, and thanks for joining us. Conditions have certainly remained fluid since our full-year results last November. Given the buyback and COVID developments over the summer we decided to hold a call and provide some detail on our performance and the key trends we're seeing. Importantly, we don't expect to continue quarterly earnings calls going forward.

If I turn to the first quarter, I'm pleased with the progress we're making on our strategic and transformation agenda. In particular, our CORE (Customer and Risk Excellence) program has moved from its design phase to the implementation phase, and that will drive further improvement in our risk management.

The exit of non-core businesses is going to plan, and we're now focussed on super and platforms as the next businesses to exit.

We're also making progress on our cost reset program.

It's been a solid start to the year with our first quarter highlights including:

- Cash earnings up to 74%, where excluding notable items cash earnings rose 1%.
- The balance sheet is strong with capital well above APRA's benchmark.
- Funding and liquidity is in good shape, while
- Asset quality again improved. In fact, business stress is now lower than where it was at the start of COVID.

We also grew our loan portfolio in the priority areas of mortgages and business in Australia and New Zealand and made good progress on costs, which were down 7% this quarter.

While we started well, particularly in treasury, margins remained under pressure from low interest rates, competition, continued flow of mortgages into fixed rates, and the need to significantly lift liquid assets.

Just as a reminder, there is a major reshape of the Bank's balance sheet going on. The committed liquidity facility runs down to zero this year, and we responded by increasing liquid assets by $29 billion this quarter.

Given these NIM trends, delivering our cost reset is critical, so today we also announced the next phase of organisational changes that build on our lines of business model and assist deliver head office efficiencies.

As a reminder, we first implemented our lines of business operating model in 2020 and it has created businesses responsible for our major customer offerings, such as mortgages. The model has established end to end accountability, helped speed up decision making and shift decision making closer to the customer.

Today's changes take this model a step further by moving more support functions such as finance and IT closer to the business and delivers a leaner and more focussed head office.

As part of the change, we're also combining our risk, financial crime, and compliance activities back under the Chief Risk Officer. You will have seen that we have appointed Ryan Zanin as the Group's Chief Risk Officer.

Ryan is a seasoned risk executive, beginning his career in Canada before taking on larger risk roles in GE, Wells Fargo, and most recently at Fannie Mae.

David Stephen and Les Vance who lead our risk and financial crime and compliance functions now will be leaving the Bank during the course of this year.

Among other changes, Scott Collary will take on the role of Group Executive, Customer Services and Technology. Scott will look after all those service activities linked to customers.

Carolyn McCann takes on the role as Group Executive, Corporate Services, principally all our corporate activities such as property, corporate affairs, and sustainability along with shared services for HR and finance.

With those comments I'll hand to Michael to touch on the quarter.

Michael Rowland:

Thanks Peter, and good morning. This quarter core earnings were $1.58 billion, well up on the quarterly average of the last half. Excluding notable items, cash earnings were up 1% from lower costs and a stronger treasury and markets' performance.

These gains enabled us to absorb the loss of earnings from the sale of our general insurance and LMI businesses, along with a turnaround in impairment charges.

We grew mortgages and business lending by $5 billion, with a strong contribution from institutional banking. New Zealand also grew, but the appreciation of the Australian dollar reduced this impact on the Group's results.

You may also recall that we completed the sale of our wholesale dealer book in December, and that reduced business lending by around $1 billion.

We are pleased with the growth in mortgages in the owner-occupied segment, following improvements we've made in operational and credit processes.

Margins were down eight basis points over the quarter of which six basis points was due to the increase in liquid assets. We've largely completed the increase in holdings of high-quality liquid assets for the rundown of the CLF with only a small additional impact expected in the second quarter.

The margin, excluding treasury and markets, was 167 basis points for December, down around 13 basis points from the September '21 margin. Excluding liquids, the margin decline was due to the continuing industry and dynamic of low interest rates, steepening wholesale yield curves, customer demand for lower margin fixed rate lending, and stiff competition. These pressures are expected to continue over 2022.

Cost reduction was a feature of the result as we've begun to deliver on the plans, we set out last year. Headcount, a combination of staff and third-party contractors, declined by over 1,100 in the quarter. Most of the savings were from the simplification of our functions, reductions from selling businesses, and automation. We've more gains to come from completing our fix priority and from the organisational changes announced today.

Importantly, we've improved efficiency while investing in our franchise. We've increased banker numbers without pulling back on our program to materially lift our risk management capability.

Credit quality continues to be in good shape and while some customers are having difficulty, the numbers are small. Stressed assets are now back to pre-COVID levels and delinquencies in both mortgages and unsecured credit have continued to decline.

In usual circumstances these trends would have led to a credit impairment benefit, but we felt given current uncertainties it was prudent to use our judgement to increase overlays and put more weight to the downside economic scenario. These judgements added $551 million to provisions, more than offsetting underlying declines.

Total provisions were still $241 million lower, but that was entirely due to the write-off of almost $300 million in impaired assets.

The CET1 ratio was a strong 12.2% and even after the expected impact of the buyback our CET1 ratio will be comfortably above 11%.

Funding and liquidity have also been strong. The customer deposit to loan ratio is now up over 83%, while our liquidity ratios are well above minimums and buffers.

While we've much to do in the year ahead, we've made a solid start and have put in place a number of measures to continue that trend particularly on costs. With that, let me hand back to Andrew for questions.

Andrew Bowden:

Thank-you Michael.

As a reminder this is a quarter so we're not going to provide the level of detail that we would at the half, and we want to keep this short so I'm going to request that we keep it to one question please. Can I take my first question Jarrod Martin?

Jarrod Martin: (Credit Suisse, Analyst)

Good morning, Andrew, can you hear me?

Andrew Bowden: Yes.

Jarrod Martin: Good morning, Peter, good morning, Michael. Look, I acknowledge that you don't want to provide further detail, but I think I want to demand some. If we go to slide 5, the key number is the 10 basis points of margin declined for loans, deposits and capital. Michael, in your opening comments you said that the pressures are likely to continue throughout FY22, does that mean that rate of 10 basis points per quarter decline from a product perspective is going to continue each quarter throughout FY22, and then any further colour on the components of that decline between the switching, the mortgage front book, back book competition and deposits is going to be greatly appreciated.

Peter King: Well Jarrod, I might just kick off quickly. So, we've also given you the month's exit margin there of four basis points below the 171 for the quarter and broadly that 4 is half liquidity impact and half business impacts.

So there is a big rebasing of the margin happening because of this liquids build for us and the industry as the CLF comes down.

But really, the big driver is mortgages and all the growth that we had was in the fixed portfolio again which is lower spread and also being impacted by the fact that the swap rates are moving up pretty quickly as the yield curve moves.

So we're now seeing flow moderation in the proportion going into fixed rate. So it averaged around mid 40% in the first quarter of this year compared to 53% last half and most recently, it's in the mid-30s, to give you a sense.

So as fixed rates have moved up, they're up about probably 70 to 100 basis points in the two- and three-year terms, we are seeing customers not choosing fixed rates as much as what they were. So it's really in that fixed rate piece.

We have had continued competition in variable but a lot of the growth coming through in the fixed book.

So that gives you a bit of a sense I think of the main driver and the liquidity there and then treasury as I said had a very good quarter. They managed the movements in the markets very well and added value in the quarter.

Jarrod Martin: (Credit Suisse, Analyst) Thank you.

Andrew Bowden: I'll take a question from Brendan Sproules please.

Brendan Sproules: (Citi, Analyst)

Good morning gents. Look, I've just got a question on - just a follow-on question from what you were just talking about, the fixed rate. I mean, as we go through for the next three quarters, how do you expect that to evolve? Obviously, you've repriced fixed rates, you've got less demand, the yield curve moves are probably not going to be as violent as we saw in the first quarter.

So we expect as we get through to the second half of the year that some of those fixed rates pressures will moderate?

Peter King: Well, I think we're - as I said in the flow, we're already starting to see the flow moderate as - based on what's happened historically. But Brendan, to really answer that question, I've got to forecast where fixed rates are going to go in the future. So that's probably best left to you folk about that because I can't comment on future price moves.

But I think the key point I'd just say is we have seen a move back to variable in a proportion of flow.

Brendan Sproules: (Citi, Analyst) Thank you.

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

Victor German: (Macquarie Group, Analyst)

Thank you Andrew. I was hoping to also ask a question on margins. Nine basis point improvement in markets income - in treasury income. How do you think we should look at that? Is that just a really strong quarter or is just a reflection of the previous quarter being particularly weak and this is a more sustainable level? Where do you think sort of that treasury component should be going forward?

If I could just sort of try my luck. A lot of focus these days on potentially higher interest rates. Could you maybe just remind us what's your sensitivity to a 25-basis point interest rate increase? Just purely the rate component? Thank you.

Michael Rowland: So I'll touch with the first question. So treasury and markets, as we said at the full year, we were disappointed with our full year markets performance and the Institutional Bank has done a lot to rebuild that team and they had a good quarter. So we're very happy with the turnaround in that business so we see that as a sustainable trend going forward.

Treasury also had a really good quarter on the back of volatility in the markets, and on some funding we did. So while that was an excellent quarter, we wouldn't necessarily expect that to be continued but certainly, some of that will continue through the rest of the year. But the fundamental is the treasury result was a very pleasing uptick from last half.

On the high interest…

Peter King: I might just add to that Victor. The fact that the bank re-entered wholesale funding markets meant that treasury was getting the LIBOR bills positions coming in again. So that was also to risk manage. So that's something that is back in the mix if you like. And they did that well.

On the - just on the interest rate sensitivity, I haven't got it handy but it will go down because of the big shift in the mortgage book between variable and fixed in the short term and then probably expand out if we see normal movements back to variable rates. But we can give you that detail at the half.

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

Brian Johnson: (Jefferies, Analyst)

Good morning and thank you for the opportunity to ask a question. Peter, as a mere stockbroking analyst, I don't get access to the Chairs like a lot of the institutions but management at Westpac are very keen to talk about the $8 billion cost target which is great and you've made certainly better than expected progress during the quarter but your Chair seems to be talking about a cost to income ratio target.

The revenues in this result - the NIM - looks bad. Pete, can you just reconcile this for us? Is there is a cost to income ratio target? Or a cost target? Can you just marry the two together please?

Peter King: Yes. No, we've got a cost target, Brian. $8 billion. I think that's pretty clear in what the Chairman's letter says in the annual report and consistent with my letter.

The cost to income ratio will be pushed around by the revenue of the Bank and low interest rates and the competition in the market and the move to fix are seeing a change in margins.

As I said up front - we've got a big reshaping of the Bank's balance sheet going on with us buying a significant amount of liquid assets to unwind the CLF. It was - you know the CLF was $37 billion last year so if everything stayed the same, we'd be buying $37 billion and we did $29 billion this quarter plus a bit last quarter.

That's a rebasing of margins because you've got a lot of lower yielding assets on your balance sheet. But we have a costs target, Brian.

Brian Johnson: (Jefferies, Analyst) Thank you.

Andrew Bowden: I'll take a question from Richard Wiles please.

Richard Wiles: (Morgan Stanley, Analyst)

Good morning. I just wanted to ask a little bit more about the costs. In the waterfall chart, you've got the $61 million decline in the fixed costs which you've said are non-recurring. That's a pretty small move in the quarter given that those fixed costs were over $1 billion in 2021. You've said there'll be zero by 2024. How much do you think those costs should come down this year?

Michael Rowland: So Richard, as we indicated, that the fixed program is a three-year program and we expect to continue to invest in 2022 a similar amount to 2021. So that's a three-year position. We don't expect that to change too much over 2022 is the quick answer to your question.

Richard Wiles: (Morgan Stanley, Analyst) So you've still got close to $1 billion of non-recurring fixed costs expected to be in the total costs base this year?

Michael Rowland: As I said, we're committed to completing our fix agenda and that means we'll continue to invest what we need to invest. As we indicated at the full year, a lot of the focus initially is on our BAU costs base which we outlined and that's where you'll see, that's where you'll see most of the reduction in the quarter.

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

Andrew Bowden: I'll take a question from Andrew Triggs please.

Andrew Triggs: (JPMorgan, Analyst)

Thanks Andrew. Morning everyone. Just a question to follow up on that expense waterfall chart. The $120 million reduction in ongoing costs and investments. Just interested how much that is investment spend? I.e. what was investment spend annualising for the first quarter? Will it rise into the second half and what overall investment spend do you expect for the full year?

Michael Rowland: So the quick answer is that most of it is as ongoing BAU costs. There's a little bit of investment spend which is a function of seasonality. I wouldn't extrapolate that. Our investment profile will be similar this year to the way it was in 2021.

Andrew Triggs: (JPMorgan, Analyst) Thank you.

Andrew Bowden: I'll take a question from Jonathan Mott please.

Jonathan Mott: (Barrenjoey, Analyst) Hi. I've got a question about the lending business. If we look at the credit stats, we're seeing housing lending slow pretty quickly compared to where you were both absolute and relative to the system over this quarter and there's also a period where you've been leading the market up with your fixed rate pricing.

A bit of feedback we're also getting from the brokers is that their flow into fixed rate doesn't appear to have slowed as fast as the numbers that you've indicated just before. So do you think part of this pullback for your lending volume is a reflection of being less competitive on fixed rate pricing?

Peter King: Jonathan, I think I got the question, your line just cut in and out. Certainly when you move fixed rates and there's a couple of times where we have moved this half, then brokers look for better rates and we haven't been the sharpest in fixed rates across the market in this upward phase of fixed rates, so that probably has impacted a little bit of flow.

I think we're doing well in owner occupied and not as well in investor and that's an area that we think we've got improvement. A lot of the benefits of our investment in processes have gone into the consumer segment where we're doing well but there's a bit more to do in business.

Jonathan Mott: (Barrenjoey, Analyst) So if we think of it this way, the looking at an impact of competition, you've seen 10 basis points or almost 5% of your margin disappear in the quarter yet the annual growth of your balance sheet, excluding - well it's underlying lending growth is 3% or 4% so the hit to your margin in the quarter has offset a year of lending growth. Is that a way we should think about that?

Peter King: Yes, they've been pretty big moves. I mean, the fixed rate spread compared the variable rate spread is materially different - significantly different - and with the switch, both. We've got existing customers switching into fixed and a lot of the new flow coming in into fixed does - has had a big impact on revenue.

You might argue that's cyclical. Normally a lot of this'll roll back into variable when people roll off but that'll depend on the interest rate relativity at that point in the future.

Jonathan Mott: (Barrenjoey, Analyst) Thank you.

Andrew Bowden: We'll take a question of Azib Khan, please.

Azib Khan: (Morgans, Analyst)

Thanks, Andrew. Peter, in the last half, we saw your investor home lending, interest home lending and business lending portfolios growing below system and that was bang on your margin. Are these portfolios continuing to grow below system? If so, when should we expect them to return to growing in line with system?

Peter King: Yes, so in - just one point on the quarter, as Michael said, we had the sale of auto finance go through. So that was $1 billion out in December. So just need to factor that in to your thinking when you're looking at the results but we're seeing good - very good growth in the Institutional Bank. So there's been a lot of M&A activity and Anthony and the team have done a good job to help customers with that activity.

The Commercial Bank, the top end of the Business Bank, there's been good demand. SME is the area I think where we can do better and that's what we highlighted but in aggregate, if you adjust for the auto finance transaction, we're around market but a lot of the growth has been at the top end in WIB and in commercial.

Azib Khan: (Morgans, Analyst) Investor home lending and interest-only home lending, Peter? How are they growing relative to system?

Peter King: It's investor, it would be below. Owner-occupied, we're pretty good. Interest-only has been contracting again so we've probably been in a different cycle to the other banks. So - but it's probably done the heavy lifting on interest-only now.

Azib Khan: (Morgans, Analyst) Thank you.

Andrew Bowden: Okay, I'll take a question from Ed Henning, please.

Ed Henning: (CLSA, Analyst)

Thank you for taking my question. Your capital pro forma's now 11.65%, APRA's now set its guidelines. You called out you're above 11%. Firstly, is that what you're targeting at the moment or what is your target for capital?

Then thinking about the buy back, if you do have to do some of the $3.5 billion on market, is there scope to increase that, please?

Michael Rowland: Yes, so obviously we're pleased with our capital position, it's quite strong. Our organic capital generation is good. You're right, we just need to see the outcome of the buyback which I encourage everyone to read the booklet. But we will be above where we expect to but we are working through just where the APRA's final capital rules will end up and we'll provide more of a detail on that at the half yar.

Peter King: We're committed to the $3.5 billion. The $3.5 billion is the number we announced. That's the plan. Any future decision, we'll consider at that time.

Ed Henning: (CLSA, Analyst) Okay and you're going to come out with a capital target at the half year once you continue to go through APRA's guidelines?

Peter King: Yes, so we did say - we said we'd give you an update at the half year and we'll come up with our operating range at that time.

Ed Henning: (CLSA, Analyst) Okay, thank you.

Andrew Bowden: I'm going take a couple more questions from the analysts but I would like to invite journos, if they would like to ask a question, please press star one. Thanks. I'll take a question from Nathan Zaia, please.

Nathan Zaia: (Morningstar, Analyst)

Hi, could I just - one more question on the mortgage volumes. So you were lagging the market for some time and did seem to turn that around, probably driven by price but can I just confirm it didn't result in any deterioration in your turnaround times and approval times as you did get that rush in application volumes?

Peter King: Nathan, certainly in the middle of last year and during parts that were impacted by COVID, we did have longer times but they've come back in now and particularly for simpler deals, they can be done fairly quickly but we're probably at a point now where demand in the market's come off a little bit and service levels are pretty solid.

Nathan Zaia: (Morningstar, Analyst) So you'd say you were competitive on service? Happy with where you're at?

Peter King: Well certainly our improvements have gone into the first party so we're feeling good about that and they're being rolled out to the third party right now. The third party will get the benefit of that over the course of this - our first half.

Nathan Zaia: (Morningstar, Analyst) Okay, thanks.

Andrew Bowden: I'll take a question from Andrew Lyons, please?

Andrew Lyons: (Goldman Sachs, Analyst)

Yes. Thanks and good morning, Andrew. Peter, you've noted that you've increased your overlays, reflecting the current COVID outbreak. I was just wondering if you could make some comments on how your front line is seeing the impact of this outbreak on activity levels? How you see the current outbreak impacting the remainder of the year from a volume perspective across mortgages, business banking and institutional?

Peter King: Yes, for the Bank, the - we certainly saw, like we've seen in the broader stats for Australia, that the two weeks after Christmas and New Year is when we had a lot of people reporting they were either isolating or had COVID. So we had a peak period around there. It did see about 15% of branches were impacted, in many cases closed and it's down around 6%.

So it's been the operational aspects that have been - in the branches that have been most challenged. I think the other parts of the Bank have done pretty well.

In terms of activity, we've seen credit card activity come back in the last bit of January. So that's back up. It's probably a bit early to tell on mortgages because you have that seasonal impact of a run not doing a lot over Christmas.

But again - and then if I look at hardship calls, actually nowhere near what we feared. They've been much, much lower. Now that means there are people that are impacted but in the scale of the Bank, you can see in all the big credit metrics.

Whether it's business stressed, as I said, the business stressed ratio is now down below where we - before COVID. The mortgage stress, mortgage 90-day rate improved. Unsecured credit in Australia, again, is down below where we started in COVID.

So for the macro measures are pretty good but we still do have customers that are impacted. You know, the CBDs still haven't - are pretty - they're nearly like deserts when you walk around them at the moment.

Nathan Zaia: (Morningstar, Analyst) Thank you.

Andrew Bowden: Okay, I'll take a question from Peter Ryan from ABC, please.

Peter Ryan: (ABC, Journalist)

Yes, g'day, Peter. I just wanted to get a bit of colour, just about the situation with competition in mortgages. I know you don't comment on interest rates but what are you seeing in terms of people looking at just commentary from the Reserve Bank about the potential for rising interest rates and that move into the certainty of fixed for a period and what that actually means for margins and how you manage that?

Peter King: Yes, well Peter, I think we've touched on that. So it's mortgages are very competitive and one of the biggest shifts actually has been the proportion of fixed rate in our mortgage book has moved from the 15% to 20% mark, up to 40%.

So we've had a material re-shaping of the mortgage book and that was really the peak - sorry, the low point in fixed rates was really middle of last year. They've moved up from that point.

Just on interest rates - I'm not going to jump into the commentary on when the cash rate will move but we're seeing fixed rates have moved up consistently over the last six months and really, I think if the Reserve Bank decides to lift interest rates, then that means the economy is going to be doing well because the unemployment's down, there's wages growth and a bit of inflation.

So that is, I think, the bigger picture if I step back and think about the debate. The risk is that it overshoots but that risk is there and I think from what the Reserve Bank Governor said yesterday, he's watching that closely. But that's probably the risk, that it overshoots.

But a raise in interest rates means a better economy and we've assessed mortgages with buffers and floors on the expectation that rates won't stay this low forever.

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

Andrew Bowden: We'll take a question from Ayesha de Kretser, please, from the AFR.

Ayesha de Kretser: (AFR, Journalist)

Hi, Peter. You mentioned provisioning and you talked a bit about how you're not seeing bad credit yet. Can you just let us know, how pessimistic are you - or in what you've added there compared to what you were in 2020? Is it worse or better in terms of the number?

Peter King: The overall provisioning level's down on 2020 so there's a - I just - there is actually a slide in the discussion pack that shows that. So in that sense, we've got a more optimistic outlook is probably the way to answer that question but it's still uncertain.

You know, we're not through this COVID outbreak. It's had twists and turns that we haven't foreseen so we've just remained prudent and the outcome's been our coverage of the loan balances for collective provisions is relatively unchanged, is what the outcome is. But certainly, more positive than what we were in 2020.

Ayesha de Kretser: (AFR, Journalist) Perfect, thank you.

Andrew Bowden: Take a question from Clancy Yeates, please.

Clancy Yeates: (The Sydney Morning Herald, Journalist)

Hi, Peter. You said again today that you wanted to reduce the size of head office functions by 20% and 1,100 jobs had already gone in the last quarter. I know you've spoken about this before but can you say how many jobs do you expect in total will be affected by that 20% reduction?

Peter King: Well Clancy, in terms of the reductions, I think we've said 1,100 in the quarter. Probably similar but this is - I just remind you, this is a three-year plan with three big focus areas.

The first is to resolve our risk management issues and that'll drive less notable items. The second is the exit of the non-core businesses and then the third is also reducing our BAU cost base. But as an example, because COVID hasn't had as big an impact on our loan portfolio, we haven't needed as many people in our hardship teams. So that's part of it.

The initial focus has been on contractors into the Bank and that was 900 of the 1,100 reduction in head count this period. So we're making progress. It's been a good quarter but it's a three-year plan.

Clancy Yeates: (The Sydney Morning Herald, Journalist) Okay.

Andrew Bowden: I'll take a question from James Eyers, please.

James Eyers: (AFR, Journalist)

Hi there, Peter. This is just a follow up to your answer to Peter Ryan's question when you were just talking about the Governor's comments at the RBA yesterday.

Look, you know, it's generally understood, I suppose, at the ultra-low rate, ultra-low cash rate has been a NIM headwind for a decent period of time now. Just - I wondered, can you just sort of talk a little bit about the mechanics of how the rise in cash rate, when it does occur, flows through?

You answered Victor's question just by talking about customers switching to fixed to variable, is that the main thing we need to look at? Are there any other mechanics that flow through as the cash rate rises?

Peter King: Well it's the - margins have lots and lots of moving bits. The most direct impact of - so the cash rate really is the start of the yield curve and we have many points of exposure across the yield curve but where it most directly impacts is how we invest our capital, which is average - at the three-year swap point. So that's already moved as an example.

So what was a headwind for us in terms of lower returns on capital will become a tailwind. So that's one that feeds directly through and then you have just the spread between loans and deposits. The spread between loans and wholesale costs. So the mix between deposits and wholesales another driver and then competition in lending.

So it's a hard one to say that rate has - directly impacts the margin in this way because there's many different factors. So we've got to manage all of them as - if we - if the market's right and cash rate goes up, then the yield curve changes and we've just got to manage all those points.

Andrew Bowden: Okay, I might take a question from Joyce Moullakis, please.

Joyce Moullakis: (The Australian, Journalist)

Yes, hi, Peter. Thanks for taking the question. I just had a query around the changes to the risk function. Obviously it wasn't long ago that you were making Financial Crime a separate report into the CEO with Les Vance and now you're sort of unwinding a lot of those changes.

Obviously you've got the three phases in your transformation plan but are you - you're obviously sufficiently comfortable with the risk function and the changes that have been implemented to make the announcements you have today. Can you talk me through it, please?

Peter King: Yes, Joyce, we're moving into the - what I would describe as the second phase of our core program and in fact, our financial crime program. So a lot of effort's gone into both, but there's still more work to do.

The second phase is about implementation, particularly in our line divisions. So a lot of the improvements in policies, frameworks. A lot of the response to what the issues were raised in AUSTRAC have been dealt with but that's what I would describe as phase one.

Phase two, we've got to pull it all together in our operating businesses. So the teams have done a good job but it's much more about phase two is the first line teams picking up the risk and managing it.

Don't read these changes as we're done, in fact, it's the other way. It's just that I want to bring the risk classes back together because when you're implementing in a division, you need to look at all things consistently and at the same time so you get your execution right.

Joyce Moullakis: (The Australian, Journalist) Okay, thank you.

Andrew Bowden: We're going to take two more questions. Next one from Nabila Ahmed.

Nabila Ahmed: (Bloomberg, Journalist)

Peter, thanks for taking my question. You've spoken about CBDs being like deserts. I was just wondering if you could please talk about your plans for bringing staff back to the office and how Omicron is affecting that.

Separately, if I may, what affects are you seeing from the macroprudential measures to cool the housing market and do you expect further moves along those lines?

Peter King: Yes, so I think CBDs - so I should say, our approach is going to be a hybrid approach. So we expect people will spend time in the corporate buildings but also working flexibly from where they choose to work. So that's where we've landed on our approach for working at Westpac.

We are targeting 1 March for more people to come back into our head offices but I'm also aware that people are managing the risk of COVID in different ways so that will be a gradual process, I think, over time.

We're just going to have to find ways, I think, so work to have more people - more activity in the central business districts to bring people back but I do - if you do go for a walk around, there's not a lot of people around at the moment.

On macroprudential, I think I'd describe the market as slowing a little bit. So if we looked at the latest housing price data, certainly the bigger states of New South Wales and Victoria have seen moderation in price growth. Queensland and South Australia are still going pretty strong, interestingly.

But I think the market's actually starting to slow down a little bit and I'm sure the regulator will look at all aspects. They tend to focus on higher risk lending such as higher Debt to Income lending but we'll wait and see. I think it all depends on what happens in the market.

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

Richard Gluyas: (The Australian, Journalist)

Good morning. I was just wondering, in terms of the margin situation, how much of that - how much of the crunch would be attributable to Westpac as opposed to industry factors? Could you put it in some kind of an overall historical perspective as well? How does this current crunch compare to previous crunches?

Peter King: Well I think for Westpac, our business portfolio is the most skewed to mortgages. So our portfolio mix means that we're probably more impacted when the mortgage spreads come in. So that's one of the biggest things.

Fixed rates have been the biggest driver of the change, Richard. We chose to grow in the last couple of years at the point when competition's really increasing but we thought that was the right decision because we needed to get the franchise moving again.

So it was a bit of our portfolio mix, our decision to get growing again and then some of the industry dynamics and customer dynamics about fixed versus variable. But that's why we're also very focussed on the cost re-set because we could see that margins were going to come under pressure with competition and therefore the cost re-set was our response.

Richard Gluyas: (The Australian, Journalist) Do you have some kind of historical perspective?

Peter King: Well, I mean interest rates have never been lower. That's one of the challenges. We've never had the level of support in terms of the cash ratel, the liquidity provision that we've seen recently. So I can't point you to a point in history because it's been unique this last couple of years.

Richard Gluyas: (The Australian, Journalist) Okay.

Andrew Bowden: Thank you all. Really appreciate your time this morning and good morning. Thank you.

End of Transcript