

Westpac Banking Corporation

Fixed Income Investor Presentation March 2022

WESTPAC BANKING CORPORATION
ABN 33 007 457 141

Fix. Simplify. Perform.

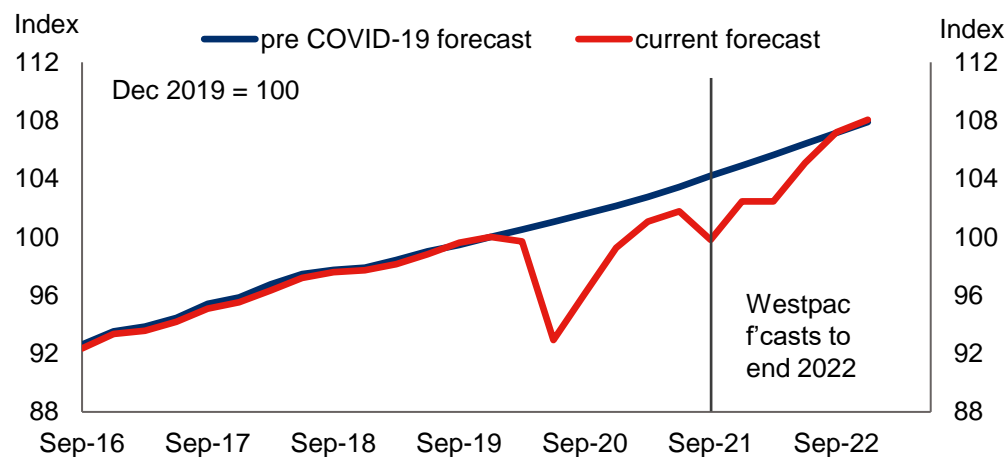
 **estpac** GROUP

Australian and New Zealand economic forecasts.

Key economic indicators (%) at February 2022		2019	2020	2021E	2022F
World	GDP¹	2.8	-3.3	5.4	4.4
Australia	GDP²	2.1	-0.8	3.2	5.5
	Unemployment – end period	5.2	6.8	4.7	3.8
	CPI headline – year end	1.8	0.9	3.5	3.3
	Interest rates – cash rate	0.75	0.10	0.10	0.50
New Zealand	GDP²	2.3	0.5	1.2	7.5
	Unemployment – end period	4.1	4.9	3.2	3.0
	Consumer prices	1.9	1.4	5.9	3.1
	Interest rates – official cash rate	1.00	0.25	0.75	2.25

Sources: IMF, RBA, Statistics NZ, Westpac Economics

Australia's GDP profile (index)



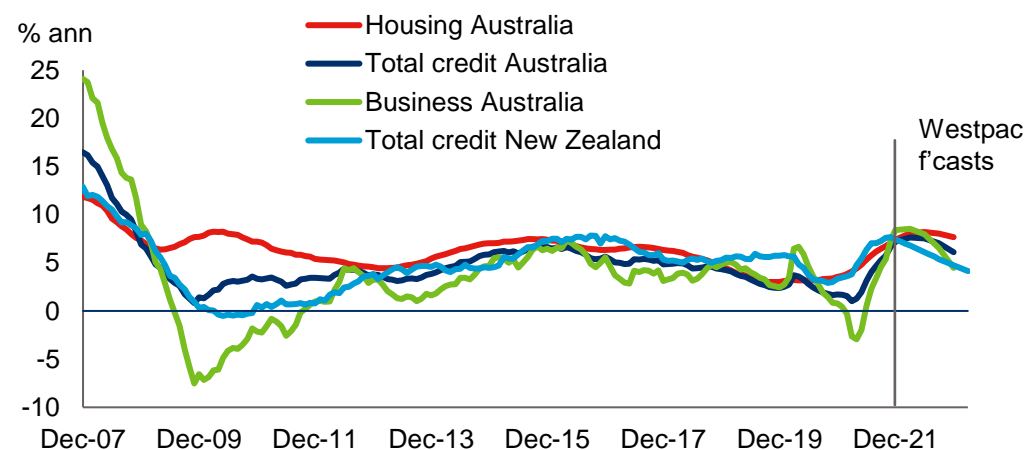
Sources: ABS, Westpac Economics.

1 Year average growth rates. 2 Through the year growth rates.

Key economic indicators (%) at February 2022		2019	2020	2021	2022F
Australia	Credit growth				
	Total – year end	2.4	1.7	7.2	6.1
	Housing – year end	3.0	3.5	7.4	7.6
	Business – year end	2.4	0.8	8.4	4.5
New Zealand	Credit growth				
	Total – year end	5.7	3.4	7.4	4.8
	Housing – year end	7.0	8.3	10.5	5.7
	Business – year end	4.5	-2.6	3.5	3.4

Sources: RBA, Statistics NZ, Westpac Economics

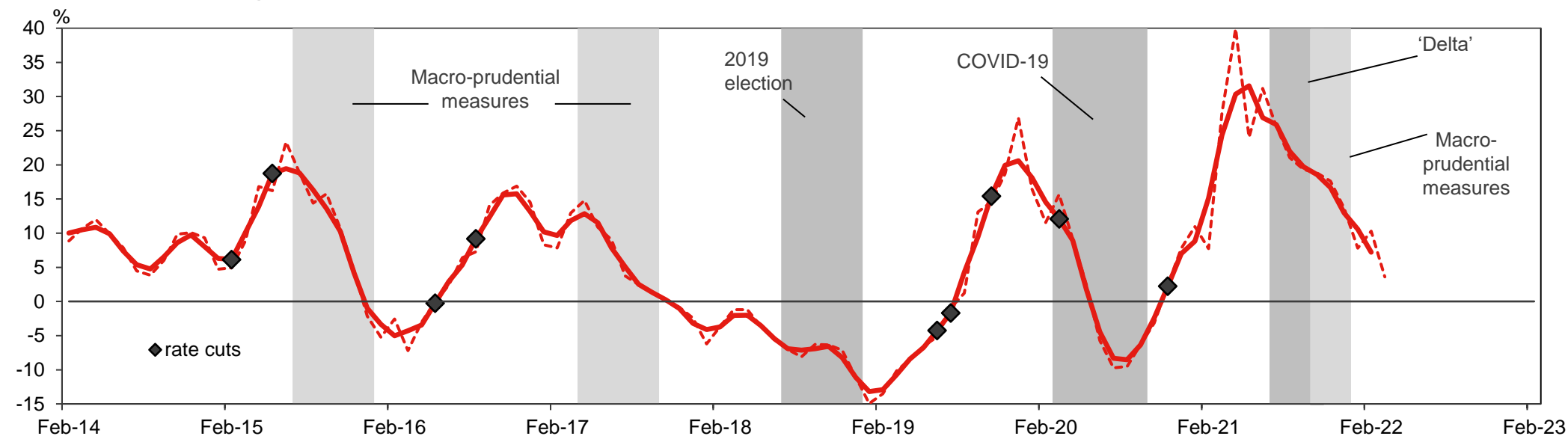
Private sector credit growth (% ann)



Sources: RBA, Westpac Economics

Australian housing market.

Australian dwelling prices (% 3 month annualised)



Sources: CoreLogic, Westpac Economics.

Dwelling prices

Capital city	Pop'n	% change over period		
		Last 3 mths (to Feb-22)	Last 12 mths (Feb-22)	Last 5 years (to Feb-22)
Sydney	4.8m	Up 0.8%	Up 22.4%	Up 25.1%
Melbourne	4.5m	Up 0.2%	Up 14.9%	Up 20.3%
Brisbane	2.3m	Up 7.2%	Up 29.7%	Up 40.5%
Perth	1.9m	Up 1.3%	Up 8.6%	Up 11.3%

Sources: CoreLogic, Westpac Economics.

Westpac Economics dwelling price forecasts (%)

Capital city	Pop'n	avg*	2020	2021	2022f	2023f
Sydney	4.8m	7.8	2.7	25	0	-9
Melbourne	4.5m	5.8	-1.3	15	0	-9
Brisbane	2.3m	5.0	3.6	27	8	-4
Perth	1.9m	1.3	7.3	13	2	-6
Australia	25m	5.9	1.8	21	2	-7

* average last 10yrs

Sources: CoreLogic, Westpac Economics.

1Q22 Summary.

All figures are for 1Q22 or at 31 December 2021 unless otherwise noted.



Earnings increased

- Reported profit \$1,815m, up 80% on 2H21 quarter average
- Cash earnings excluding notable items¹ \$1,580m, up 1% on 2H21 quarter average
 - Expenses down 7%, excluding notable items
 - Net interest margin 1.91%, down 8bps from 2H21



Capital remains strong

- CET1 capital ratio 12.2% compared to 12.3% at Sep-21
 - Payment of 2021 final dividend (-50bps), higher RWA (-21bps)
 - Organic capital generation, divestments and other movements (+59bps)



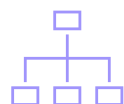
Credit quality improved

- Total provision balances \$4,766m down \$241m, despite increased weighting to economic downside scenario and higher overlay of \$551m
- Stressed assets to TCE 1.15%, 21bps lower than Sep-21
- Mortgage 90+ day delinquencies – Australia 0.95% (down 12bps), New Zealand 0.30% (unchanged)



Funding and liquidity

- Deposit to loan ratio improved to 83.6% (Sep-21: 81.6%)
- Funding and liquidity metrics remain strong with LCR at 142% and NSFR at 127%
- Resumed wholesale funding issuance, raised \$12bn in term markets in 1Q22



Simplification

- Simplification initiatives well progressed in 1Q22
 - Headcount² down by over 1,100
 - Wholesale auto dealer portfolio sold
 - Announced new organisational structure to simplify head office with efficiencies expected in FY22
- Expect announcements on specialist businesses in FY22

¹ Notable items are detailed on page 14. ² Headcount includes full-time equivalent employees (FTE) and third-party contractors.

Unaudited 1Q22 results includes notable items.

Performance comparison is 1Q22 compared to 2H21 quarterly average unless otherwise stated.

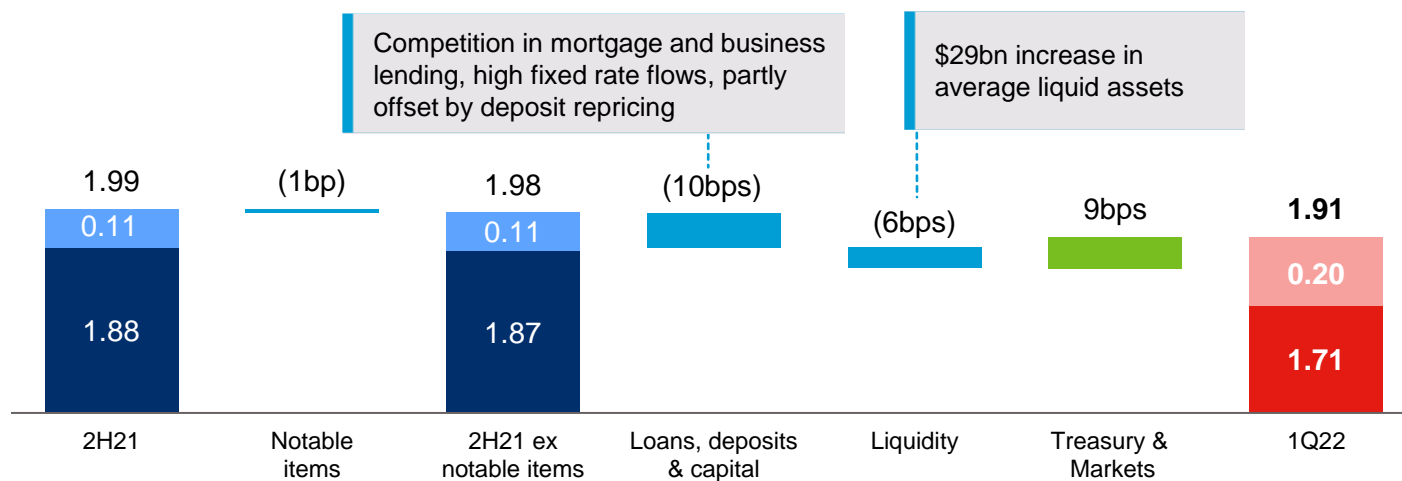
(\$m)	2H21 Qtr Avg	1Q22	Change	
Net interest income	4,123	4,182	1%	<ul style="list-style-type: none"> Average interest earning assets of \$868bn, up \$43bn (or 5%), mostly liquid assets up \$29bn and gross loans up \$11bn Net interest margin 1.91%, down 8bps
Non-interest income	997	929	(7%)	<ul style="list-style-type: none"> Non-interest income down 7%, or \$68m (\$58m from businesses sold in 2H21)
Expenses	(3,651)	(2,697)	(26%)	<ul style="list-style-type: none"> Headcount¹ down by more than 1,100 since Sep-21 Lower investment spend and third-party costs
Core earnings	1,469	2,414	64%	<ul style="list-style-type: none"> Core earnings excluding notable items up 10%
Impairment (charges)/benefit	109	(118)	Large	
Tax and non-controlling interests	(670)	(712)	6%	<ul style="list-style-type: none"> Credit quality sound, stressed assets and delinquencies improving Remaining prudent in light of current uncertainty <ul style="list-style-type: none"> Provision overlay up \$371m Increased weighting of downside economic scenario to 45% from 40%
Cash earnings	908	1,584	74%	
Net profit	1,008	1,815	80%	<ul style="list-style-type: none"> 1Q22 cash earnings adjustments of \$231m, primarily from fair value gains on economic hedges. For further details refer to page 15

2H21 quarterly average may not add up due to rounding.

¹ Headcount includes full-time equivalent employees and third-party contractors.

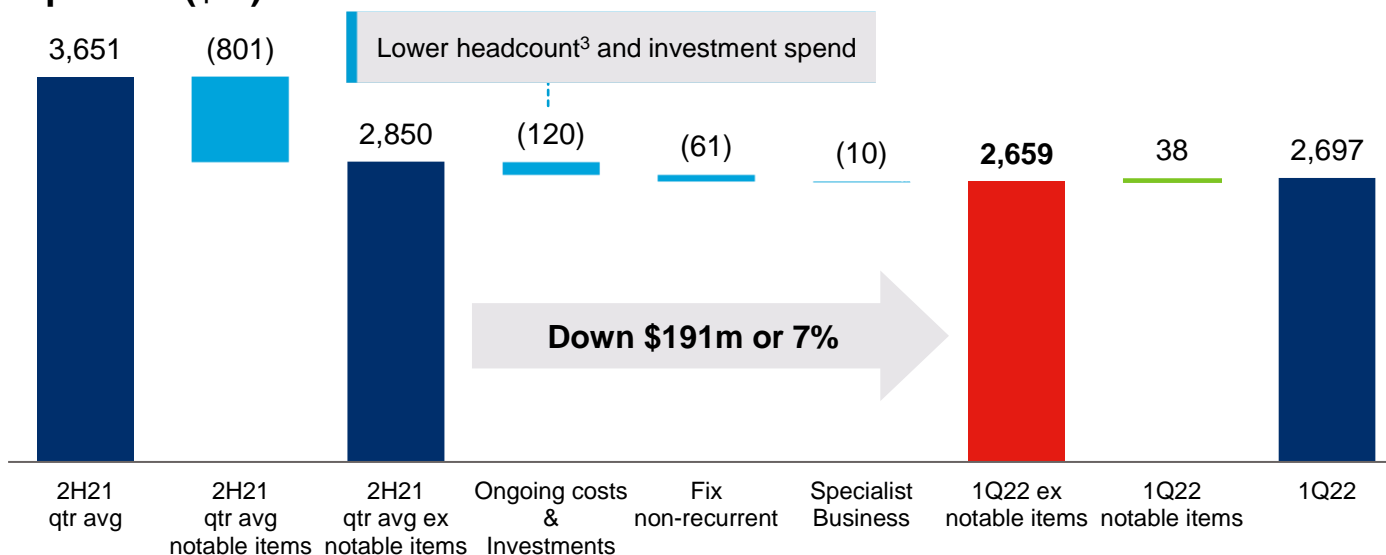
Margins and expenses.

Net interest margin (NIM) (% and bps)



- NIM ex Treasury & Markets for Dec-21 month 1.67%. Expect NIM to decline further in FY22
- Increased liquid assets to support reduction in CLF¹ – HQLA² build expected to be largely completed by Mar-22 (CLF \$37bn at Sep-21)

Expenses (\$m)



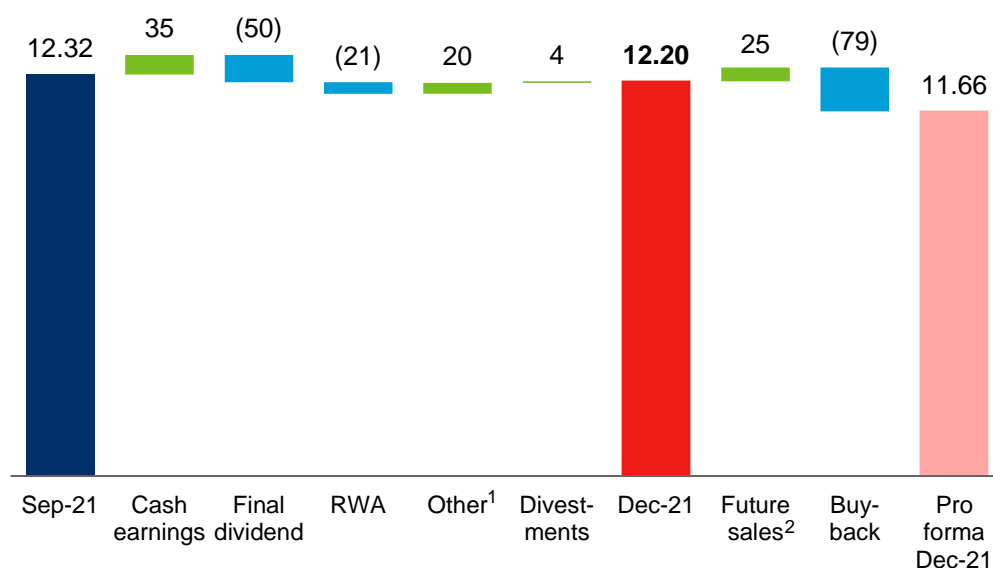
- Expenses expected to decline further through FY22 including from headcount reductions, primarily in head office
- Targeting \$8bn expense base in FY24

1 Committed liquidity facility. 2 High quality liquid assets. 3 Headcount includes full-time equivalent employees and third-party contractors.

Capital well above unquestionably strong requirement.

Key capital ratios.

CET1 ratio (% and bps)



Share buy-back

- A\$3.5 billion off-market share buy-back finalised on 14 February 2022
- Approximately 167.5 million Westpac shares bought back, representing 4.6% of issued capital
- Common equity tier 1 capital ratio reduces by 79 basis points

%	Mar-21	Sep-21	Dec-21
Level 2 capital ratios			
CET1 capital ratio	12.3	12.3	12.2
Additional Tier 1 capital ratio	2.2	2.3	2.2
Tier 1 capital ratio	14.5	14.6	14.4
Tier 2 capital ratio	3.9	4.2	4.8
Total regulatory capital ratio	18.4	18.9	19.2
Risk weighted assets (RWA) (\$bn)	429	437	442
Leverage ratio	6.3	6.0	5.8
CET1 capital ratio (pro forma)³	n/a	11.8	11.7
Level 1 capital ratios			
CET1 capital ratio	12.6	12.6	12.4
Tier 1 capital ratio	14.8	14.9	14.6
Total regulatory capital ratio	18.8	19.2	19.5
Internationally comparable ratios⁴			
Leverage ratio	6.9	6.6	6.3
CET1 capital ratio	18.1	18.2	18.0

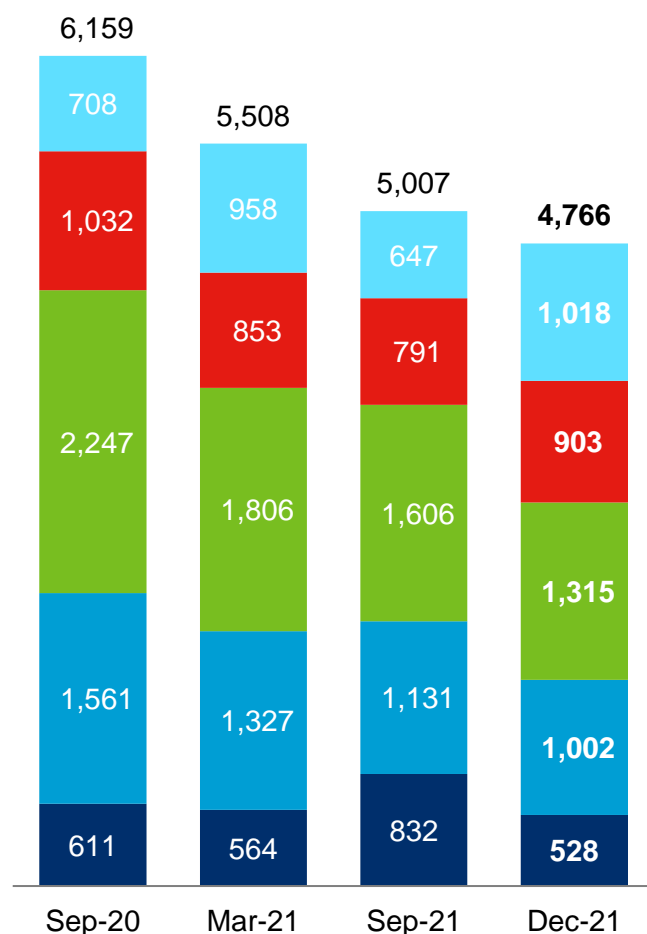
1 Lower capital deductions for movements in deferred tax assets, fair value gains on economic hedges and regulatory expected loss deduction. 2 Businesses where sales have been announced but yet not completed. 3 Based on \$3.5bn share buyback and expected proceeds from announced divestments. 4 Internationally comparable methodology aligns with the APRA study titled 'International Capital Comparison Study' dated 13 July 2015.

Expected credit loss provisions.

Prudence maintained.

Expected credit loss provisions¹ (\$m)

■ Overlay ■ Stage 1 CAP ■ Stage 2 CAP
■ Stage 3 CAP ■ Stage 3 IAP



Economic forecasts for base case economic scenario in provision models²

	As at September 2021		As at December 2021 ³	
	2022	2023	2022	2023
GDP growth	7.4%	2.7%	6.4%	2.7%
Unemployment	4.0%	4.0%	3.7%	4.0%
Residential property prices	5.0%	-5.0%	8.0%	-5.0%

Provisions and coverage

	Sep-21	Dec-21
Loan provision to gross loans (bps)	70	66
Impaired asset provisions to impaired assets (%)	54	49
Collective provisions to credit RWA (bps)	117	118

Commentary

- Total provisions lower from IAP write-offs and improving credit quality metrics
 - \$275m of Forum Finance provision written off
- Increase in CAP of \$63m due to COVID-19 uncertainty:
 - Higher overlay⁴ (\$371m)
 - Increased weighting to 45% for downside economic scenario (\$180m)
 - Partly offset by decline in Stage 2 and Stage 3 CAP due to improved credit quality metrics

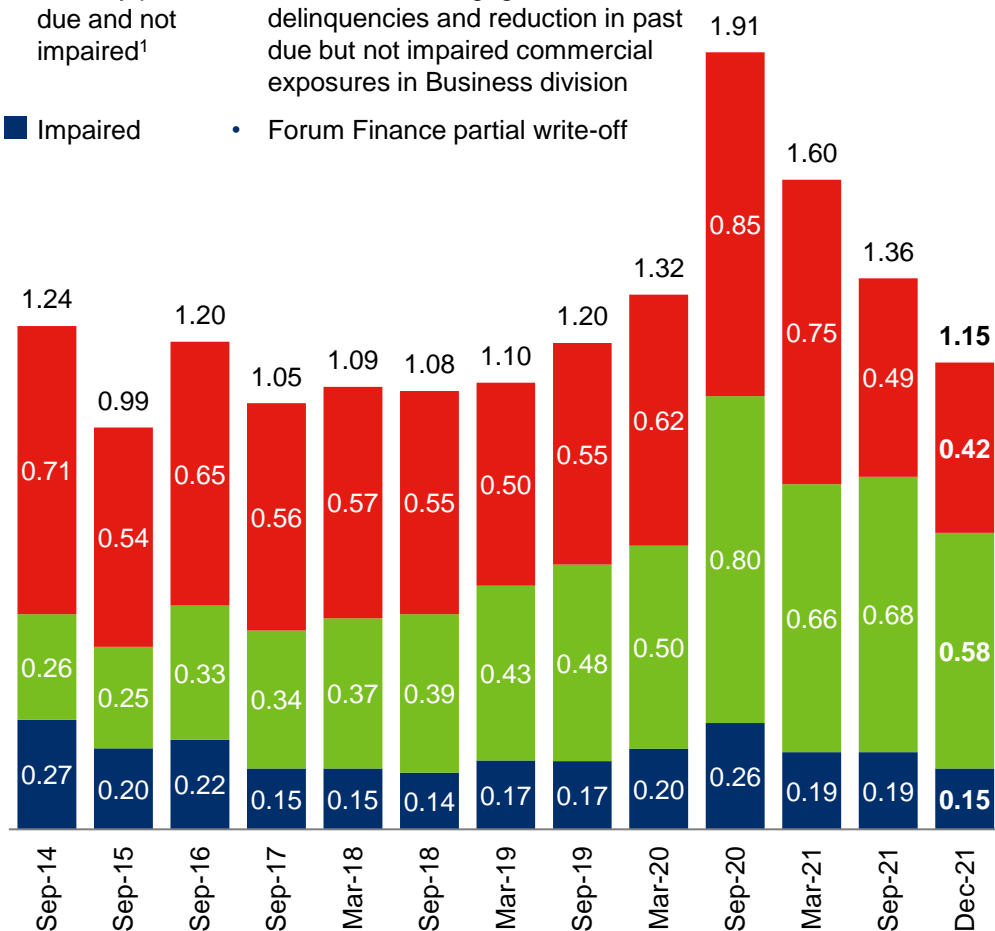
¹ CAP is collectively assessed provisions. IAP is individually assessed provisions. ² GDP and Residential property price growth is annual growth to December each year. Unemployment rate forecast is at December each year. ³ Economic forecast at 7 December 2021. ⁴ Overlay raised to address further uncertainty and risks arising from COVID-19, such as supply chain disruption, labour shortages, inflation and asset price risks.

Credit quality metrics improved.

Stressed exposures down 21bps in 1Q22.

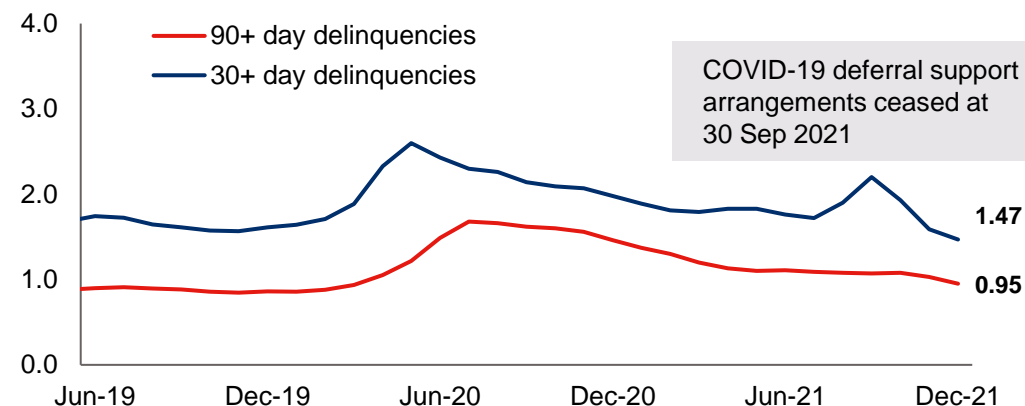
Stressed exposures as a % of TCE

- Watchlist and substandard
- 90+ day past due and not impaired¹
- Impaired
- Ratings upgrades and repayments in WIB
- Decrease in mortgage delinquencies and reduction in past due but not impaired commercial exposures in Business division
- Forum Finance partial write-off

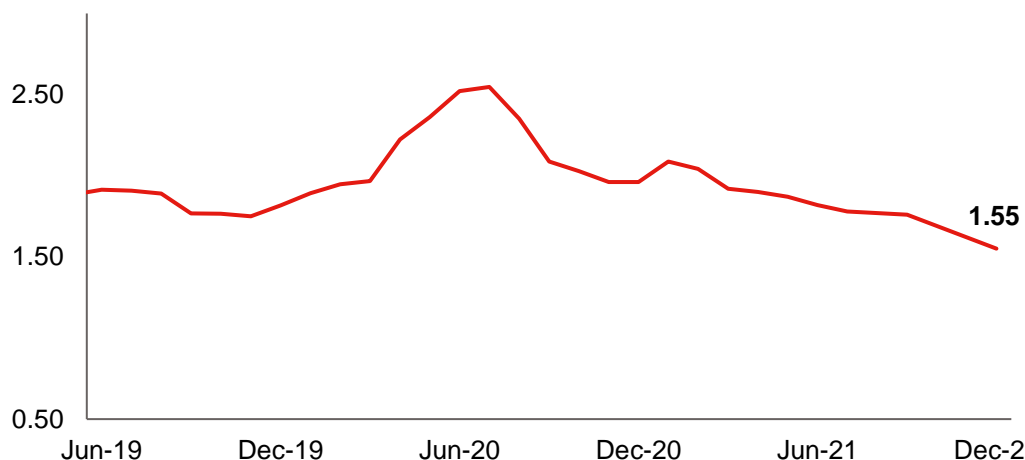


¹ Facilities 90 days or more past due date not impaired. These facilities, while in default, are not treated as impaired for accounting purposes.

Australian mortgage 90+ day delinquencies (%)

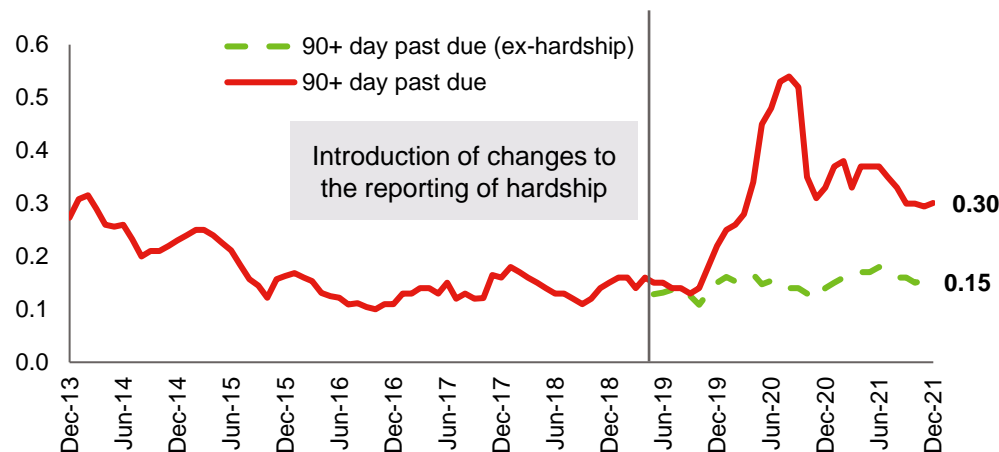


Australian consumer finance 90+ day delinquencies (%)

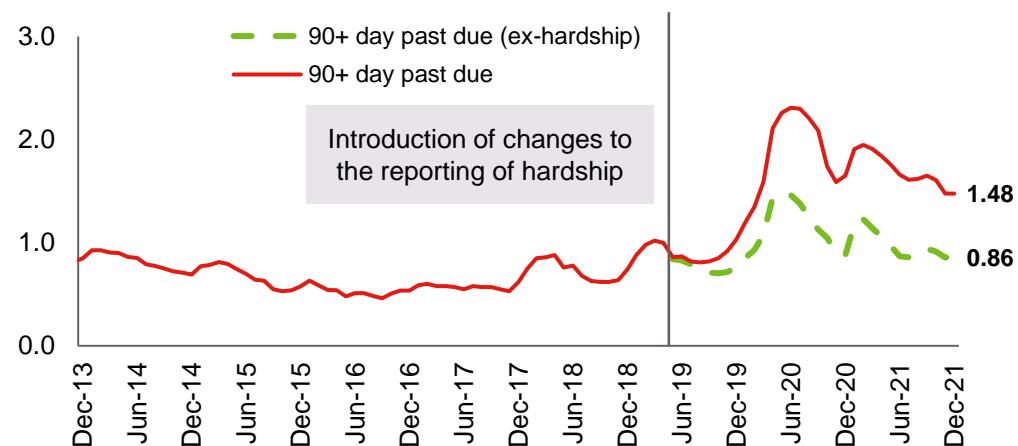


New Zealand credit quality stable.

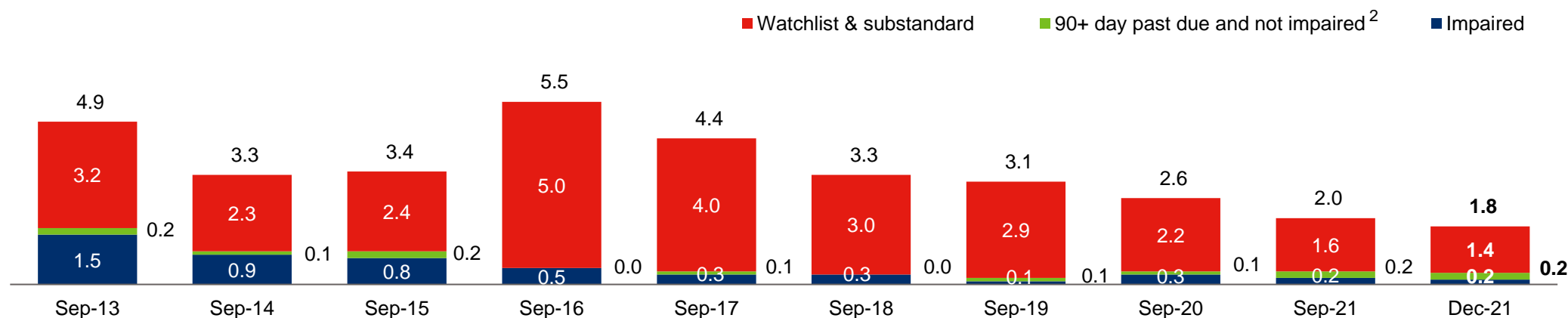
Mortgage 90+ day delinquencies¹ (%)



Unsecured consumer 90+ day delinquencies¹ (%)



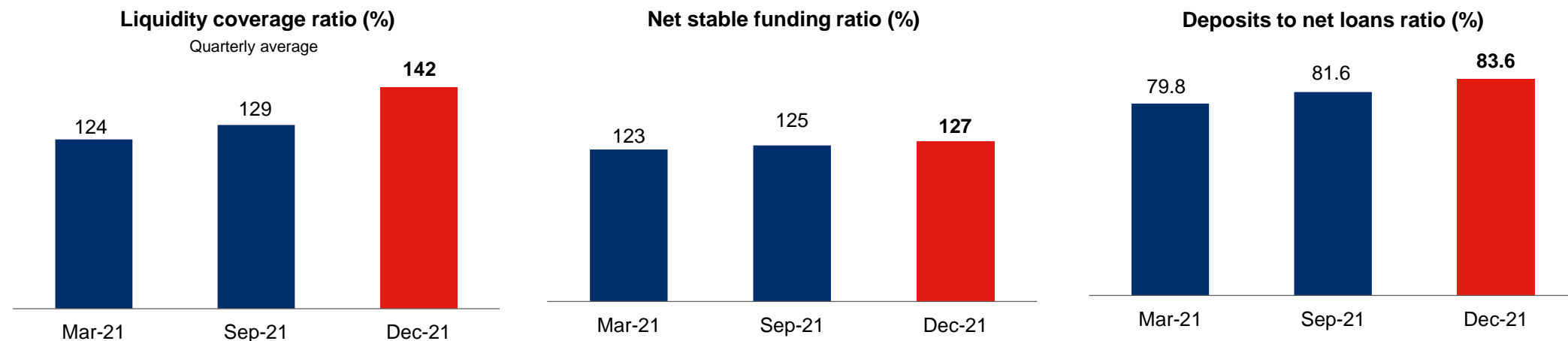
Business stressed exposures as a % of New Zealand business TCE



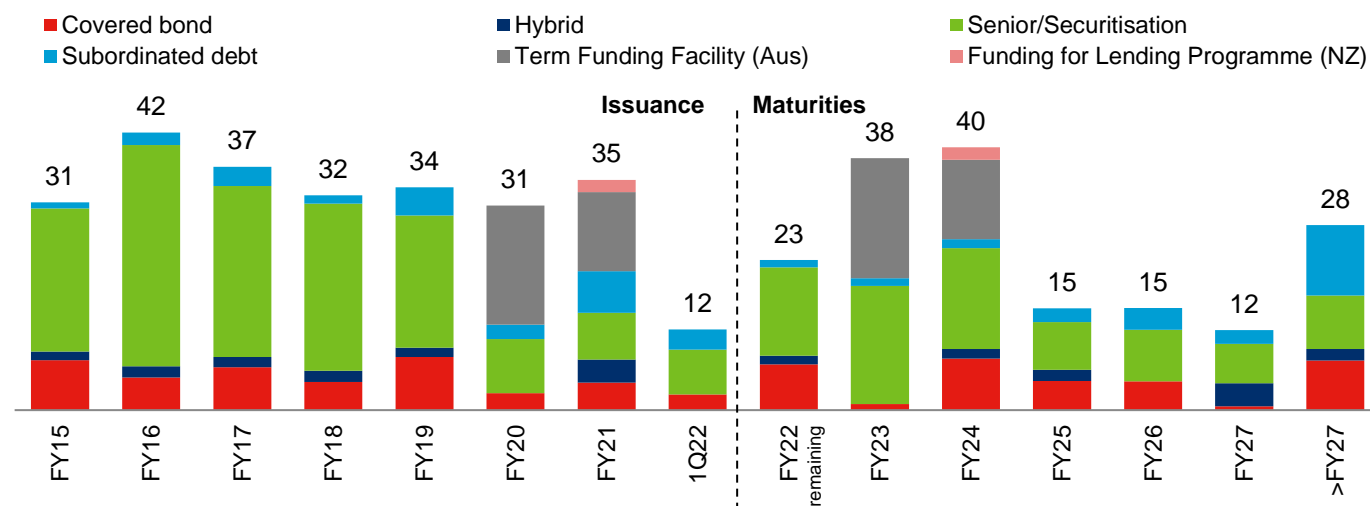
1 In May 2019 we made changes to the reporting of customers in hardship to align to the method used by APRA. 2 Facilities 90 days or more past due date not impaired. These facilities, while in default, are not treated as impaired for accounting purposes.

Funding and liquidity.

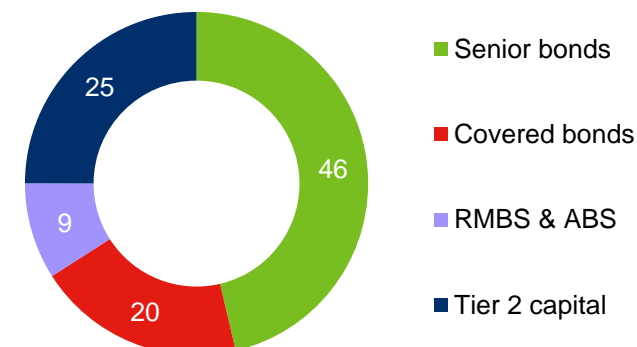
Key funding and liquidity measures



Term debt issuance and maturity profile¹ (\$bn)



1Q22 term issuance by program (%)

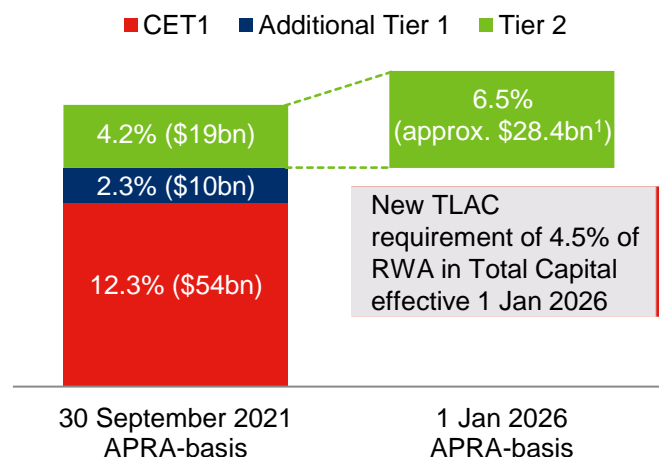


¹ Based on residual maturity and FX spot currency translation. Includes all debt issuance with contractual maturity greater than 13 months excluding US Commercial Paper and Yankee Certificates of Deposit. Contractual maturity date for hybrids and callable subordinated instruments is the first scheduled conversion date or call date for the purposes of this disclosure. Perpetual sub-debt has been included in >FY27 maturity bucket. Maturities exclude securitisation amortisation.

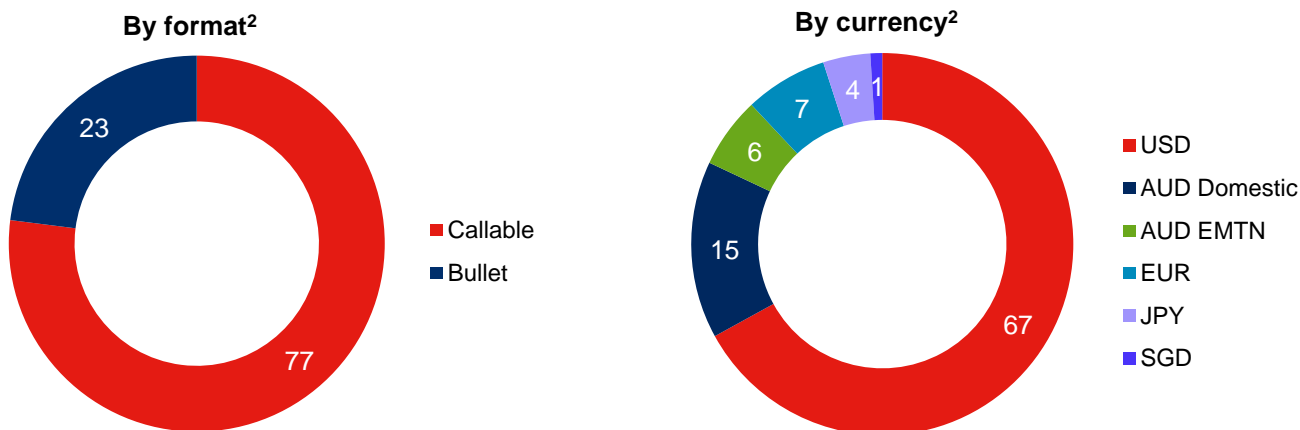
Tier 2 capital issuance.

Well positioned for loss-absorbing capital requirements by 1 Jan 2026.

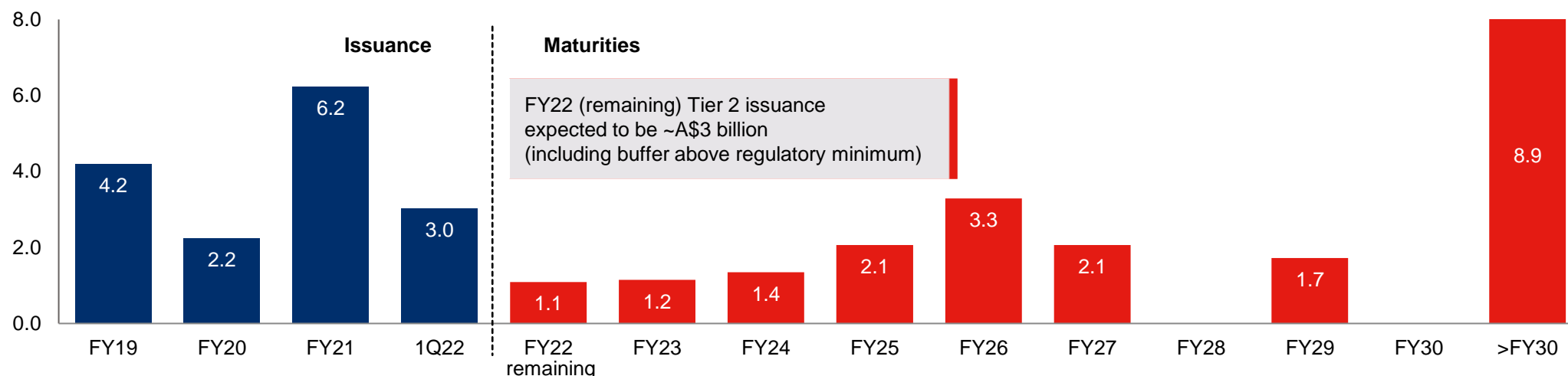
Westpac Total Regulatory Capital



Westpac Tier 2 capital (notional amount, %)



Westpac Tier 2 issuance and calls/maturities³ (notional amount, A\$bn)



¹ Based on capital regulation at 30 September 2021. Does not include balance sheet growth or management buffer. ² Represents AUD equivalent notional amount using spot FX translation at 31 December 2021. ³ Represents AUD equivalent notional amount using spot FX translation at date of issue for issuance and spot FX translation at 31 December 2021 for maturities. Securities in callable format profiled to first call date, excluding the Perpetual Floating Rate Notes issued 30 September 1986. Securities in bullet format profiled to maturity date.

Appendix

Financial results throughout this presentation are in Australian dollars and are based on cash earnings unless otherwise stated. Refer to the 2021 Full Year Financial Results Presentation and Investor Discussion Pack for definition. All results relating to 1Q22 are on an unaudited basis. This document should be read in conjunction with Westpac's December 2021 Pillar 3 Report, incorporating the requirements of APS330. Results principally cover and compare the 1Q22 and 2H21 quarterly average periods unless otherwise stated.

Unaudited 1Q22 cash earnings excluding notable items.

(\$m)	2H21 Qtr Avg	1Q22	Change
Net interest income	4,094	4,182	2%
Non-interest income	925	874	(6%)
Expenses	(2,850)	(2,659)	(7%)
Core earnings	2,169	2,397	10%
Impairment (charges)/benefit	109	(118)	Large
Tax and non-controlling interests	(711)	(699)	(2%)
Cash earnings ex notable items	1,567	1,580	1%

2H21 quarterly average may not add up due to rounding.

Cash earnings impact of notable items

(\$m)	2H21 Qtr Avg	1Q22
Net interest income	28	-
Non-interest income	72	55
Expenses	(801)	(38)
Tax and non-controlling interests	41	(13)
Cash earnings impact of notable items	(660)	4

Notable items in 1Q22 mainly reflect gains from asset sales and revaluations which offset additional litigation and remediation costs

1Q22 reported net profit after tax.¹

Reported net profit (\$m)	2H21 Qtr Avg	1Q22
Net interest income	4,255	4,498
Non-interest income ²	1,013	949
Operating expenses	(3,657)	(2,701)
Impairment (charges)/benefit	109	(118)
Income tax expense and net profit attributable to non-controlling interests	(712)	(813)
Net profit attributable to owners of WBC	1,008	1,815
Cash earnings	908	1,584

Details

- Reported net profit \$1,815m, up 80% on 2H21 quarter average
- Net interest income
 - AIEA \$868bn, up 5%, mostly from liquid assets up \$29bn and gross loans up \$11bn
 - NIM 2.05%, down 1 basis point. NIM decline from competitive pressures and increased liquid assets. Largely offset by fair value gain on economic hedges
- Non-interest income down 6% or \$64m mostly from loss of revenue due to businesses sold in 2H21
- Operating expenses down \$956m (or 26%) due to the absence of asset write-downs in 1Q22, lower litigation and remediation costs, lower headcount⁴, and lower expenses from businesses sold in 2H21
- Impairment (charges)/benefit
 - Credit quality sound, stressed assets and delinquencies improving
 - Remaining prudent in light of current uncertainty with provision overlay up A\$371m and increased weighting of downside economic scenario to 45% from 40%
- Income tax expense and net profit attributable to non-controlling interests up 14%

Cash earnings³ policy and cash earnings adjustments to reported profit

Westpac Group uses a measure of performance referred to as cash earnings to assess financial performance at both a Group and divisional level. This measure has been used in the Australian banking market for over 15 years and management believes it is the most effective way to assess performance for the current period against prior periods and to compare performance across divisions and across peer companies

To calculate cash earnings, reported net profit is adjusted for:

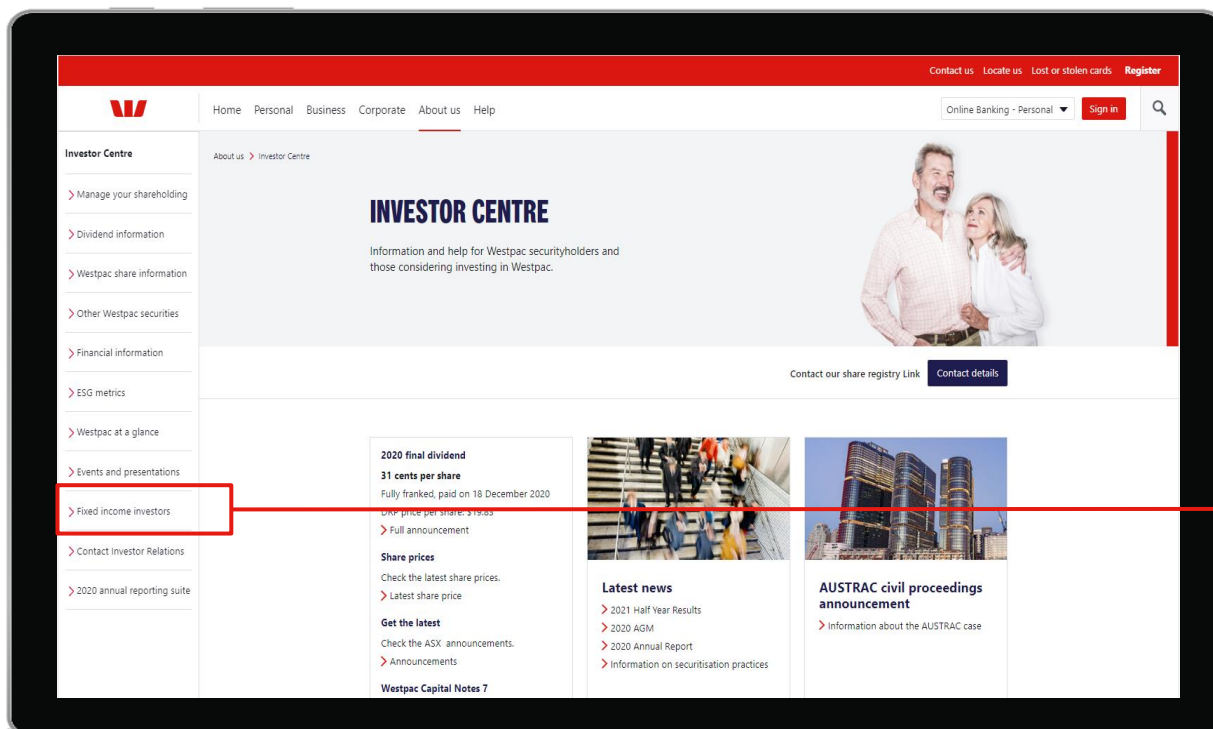
- Material items that key decision makers at the Westpac Group believe do not reflect the Group's operating performance
- Items that are not typically considered when dividends are recommended, such as the impact of treasury shares and economic hedging impacts

\$m	2H21 Qtr Avg	1Q22
Reported net profit	1,008	1,815
Fair value (gain)/loss on economic hedges	(92)	(244)
Ineffective hedges	(8)	13
Cash earnings	908	1,584

¹ Performance comparison is 1Q22 compared to 2H21 quarterly average unless otherwise stated. 1Q22 reported profit is unaudited. ² Non-interest income is the total of Net fee income, Net wealth management and insurance income, Trading income, and Other income. ³ Cash earnings is not a measure of cash flow or net profit determined on a cash accounting basis, as it includes both cash and non-cash adjustments to statutory net profit. The specific adjustments outlined include both cash and non-cash items. Cash earnings is reported net profit adjusted for certain items which management believe provides a measure of profit that is more effective for assessment of performance. All adjustments shown are after tax. ⁴ Headcount includes full time equivalent employees and third-party contractors.

More information.

www.westpac.com.au/investorcentre



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[Unsecured funding](#)

[Secured funding](#)

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FIXED INCOME INVESTORS

Our strategy for stable and efficiently priced wholesale funding is twofold: build a strong and diverse funding profile and broaden the investor base, while applying prudent liquidity oversight.

Unsecured funding (including senior and subordinated)

Debt programs for Westpac Banking Corporation (WBC), WBC (previously of St George), Westpac Securities NZ Limited (WSNZL) and Westpac New Zealand Limited (WNZL).

[Find out more](#)

Secured funding

Details of our covered bond programs for WBC and WSNZL and outstanding securitisation issuance.

[Find out more](#)

Credit ratings

Details of Fitch, Moody's and Standard & Poor's short and long term ratings for Westpac Banking Corporation and Westpac New Zealand Ltd.

[Find out more](#)

Fixed income presentations

Presentations for fixed income investors from Westpac and Westpac New Zealand Ltd (in PDF).

[Find out more](#)

Westpac Securities NZ Limited

A dedicated entity providing offshore wholesale funding for Westpac New Zealand Limited. Includes key facts, financial statements, credit ratings for WNZL and other information.

[Find out more](#)

Westpac Green Bonds

Details of our Green Bond program, including annual investor reports.

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All amounts are in Australian dollars unless otherwise indicated.

Unless otherwise noted, financial information in this presentation is presented on a cash earnings basis. Cash earnings is a non-GAAP measure. Refer to Westpac's 2021 Full Year Financial Results (incorporating the requirements of Appendix 4E) for the twelve months ended 30 September 2021 available at www.westpac.com.au for details of the basis of preparation of cash earnings. Refer to Westpac's 2021 Full Year Financial Results Presentation and Investor Discussion Pack for an explanation of cash earnings and a reconciliation of reported net profit to cash earnings.

The financial information for the three months ended 31 December 2021 has not been audited or reviewed by any independent registered public accounting firm and has been derived from the unaudited financial statements for the quarter ended 31 December 2021. Any other financial information provided as at a date after 31 December 2021 has not been audited or reviewed by any independent registered public accounting firm either.

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We use words such as 'will', 'may', 'expect', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'estimate', 'anticipate', 'believe', 'probability', 'risk', 'aim', or other similar words to identify forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond our control, and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with our expectations or that the effect of future developments on us will be those anticipated. Actual results could differ materially from those which we expect, depending on the outcome of various factors. Factors that may impact on the forward-looking statements made include, but are not limited to, those described in the section titled 'Risk factors' in Westpac's 2021 Annual Report for the twelve months ended 30 September 2021 available at www.westpac.com.au. When relying on forward-looking statements to make decisions with respect to us, investors and others should carefully consider such factors and other uncertainties and events. We are under no obligation to update any forward-looking statements contained in this presentation, whether as a result of new information, future events or otherwise, after the date of this presentation.