

# Westpac 2021 Full Year Result

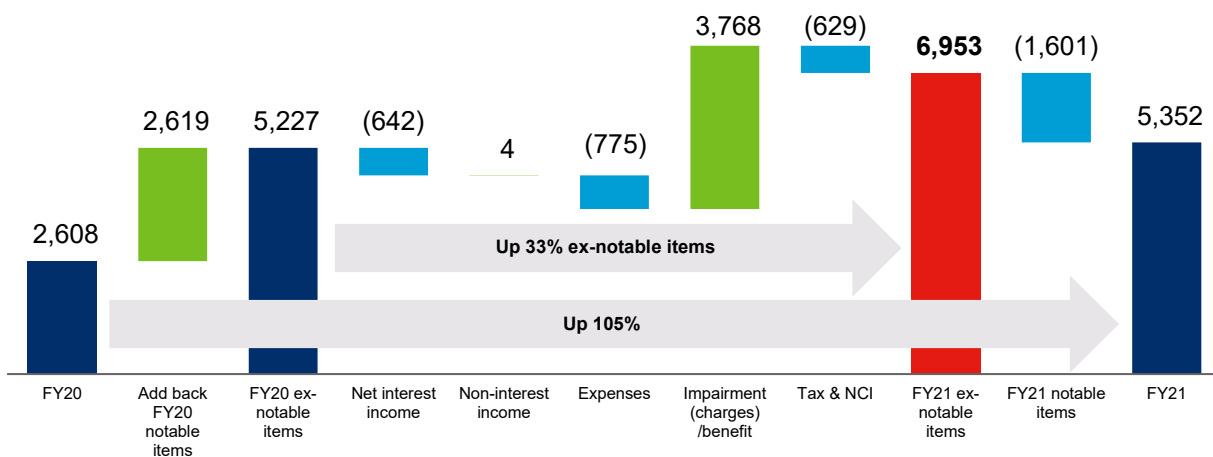


## MEDIA RELEASE

1 NOVEMBER 2021

FINANCIAL RESULTS SNAPSHOT <sup>1</sup>	KEY POINTS
<ul style="list-style-type: none"> <li>• Statutory net profit \$5,458m, up 138%</li> <li>• Cash earnings \$5,352, up 105%</li> <li>• Cash EPS 146 cents, up 102%</li> <li>• NIM 2.04%, down 4bps</li> <li>• ROE 7.6%, up 372bps</li> <li>• CET1 capital ratio 12.32%, up 119bps</li> <li>• Fully franked final dividend 60 cents per share</li> <li>• Excl. notable items<sup>2</sup>, cash earnings \$6,953m, up 33%</li> <li>• Excl. notable items<sup>2</sup>, ROE 9.8%, up 212bps</li> </ul>	<ul style="list-style-type: none"> <li>• Total return to shareholders \$5.7bn – \$3.5bn off-market buy-back, \$2.2bn dividends</li> <li>• 2021 impairment benefit of \$590m</li> <li>• Australian mortgage lending up 3% (\$14.7bn)</li> <li>• Australian business lending up 4% in 2H21</li> <li>• Total customer deposits up 4% (\$24.9bn)</li> <li>• Credit quality sound – stressed exposures to total committed exposures 1.36%, down 55bps. Australian 90+ day mortgage delinquencies 1.07%, down 55bps. Impaired exposures down 23% in the year</li> </ul>

### CASH EARNINGS (\$m) FY21 – FY20



<sup>1</sup> Full Year 2021 compared to Full Year 2020. Reported on a cash earnings basis unless otherwise stated. For a reconciliation of cash earnings to reported results, refer to Section 5, Note 8 of Westpac Group 2021 Full Year Financial Results. For an explanation of cash earnings, refer to Section 1.3.

<sup>2</sup> References to notable items in this release include (after tax) provisions and costs related to the AUSTRAC proceedings; provisions for estimated customer refunds and repayments, associated costs and litigation; the write-down of assets; and the impact of asset sales and revaluations. Refer to Westpac Group 2021 Full Year Financial Results for detail.

## THE RESULT

Westpac Group CEO, Peter King, said: “2021 has been another challenging year, with a focus on continuing to support customers and employees through the pandemic, while implementing our Fix, Simplify and Perform strategic priorities.

“Cash earnings rose, the balance sheet remains strong, and I am pleased with the progress we are making to transform Westpac into a simpler, stronger bank. Credit quality has remained remarkably good with stressed exposures continuing to decline off last year’s peak, while mortgage 90+ day delinquencies were also significantly lower.

“A turnaround in impairment charges and lower notable items were the main drivers of our improved earnings, while we also restored growth in mortgages and have begun to see better momentum in our institutional and business portfolios. While notable items were lower, they remain elevated as we continue to work on fixing our issues and simplifying our business,” he said.

“We grew our Australian mortgage portfolio 3 per cent or \$14.7 billion over the year, a significantly better performance than 2020. Owner occupied lending increased 9 per cent. Consistent with increased liquidity in the market, total customer deposits were up 4 per cent, or \$24.9 billion.

“Margins were down in a competitive, low-rate environment, and as we foreshadowed, costs were much higher in FY21. This was mainly due to an increase in our workforce to improve risk management and support higher business volumes, including COVID related assistance, as well as returning more than 1,000 jobs back to Australia,” Mr King said.

“Our underlying results are not where we want them to be, and we recognise we have more to do to become the high-performing company we aspire to be.

“However, we are making progress in changing how the bank is run, including improving our culture and risk management systems, streamlining decision-making processes through lines of business, and streamlining our processes through digitisation,” he said.

## FIX. SIMPLIFY. PERFORM.

Mr King said this year Westpac made significant progress on becoming a simpler, stronger bank.

### Fix

“We are one year into our Customer Outcomes and Risk Excellence (CORE) Program, which comprises more than 300 activities to strengthen risk governance, accountability and culture across the organisation,” Mr King said.

“In addition, we have strengthened our financial crime practices with a rebuild of our processes and systems.

“We are also progressing customer remediation with 2021 seeing us substantially complete the two largest legacy advice programs.”

In 2021 Westpac paid or offered more than \$1 billion to approximately 1 million customers as part of customer remediation.

### Simplify

Mr King said Westpac was well progressed in simplifying its portfolio.

“We have completed the sale of four businesses and announced a further three asset sales, with these due for completion in 2022.

“We have also made progress on consolidating our international footprint, closing our offices in Mumbai and Jakarta, and we expect three more international offices to close by the end of 2022,” he said.

“We continued our focus on digital this year, launching a new Westpac mobile banking app to iPhone customers, with 1.7 million users.

“In mortgages, we have further digitised processes and introduced more than 70 policy and process improvements, which contributed to faster approval times. Our digital mortgage origination platform peaked at 810 applications per week, and we have started rolling out this platform to mortgage brokers,” Mr King said.

“We also implemented more than 100 policy and process improvements in business lending and increased automated credit decisioning, leading to faster decisions for customers.”

## **Perform**

“The economic outlook has improved significantly since last year and given our strong capital position, the Board has decided to conduct an off-market buy-back of up to \$3.5 billion of shares. This combined with the final dividend for 2021 delivers a return to shareholders of \$5.7 billion,” Mr King said.

“Our improved growth in mortgages was concentrated in owner occupied lending which was up 9 per cent. We saw a significant change in mix with fixed rate lending making up 52 per cent of new lending and now comprising 38 per cent of the portfolio.

“In addition, we regained momentum in business lending, with our Australian business loan book growing four per cent in the Second Half,” he said.

“We announced our cost reset program this year – targeting an \$8 billion cost base by FY24 – and this is underway, led initially by divestments and simplification of our operations.

“We expect our costs to begin reducing in the year ahead from our simplification and the completion of key programs in our Fix priority,” Mr King said.

## **DIVIDENDS & CAPITAL MANAGEMENT**

The Board has determined a final, fully franked dividend of 60 cents per share to be paid on 21 December 2021.

Total dividends for 2021 were 118 cents per share representing a 62 per cent payout of cash earnings excluding notable items.

The Board also announced an off-market buy-back of up to \$3.5 billion of capital. In making this decision the Board considered the improved economic outlook, higher earnings, and progress on our strategic priorities, particularly the completion of a number of divestments, which contribute to a strong capital position.

An off-market buy-back is considered an effective method to return capital and optimise our capital structure. It enables a higher number of shares to be bought back in a shorter timeframe, reducing Westpac’s shares on issue, which will help support return on equity and other per share metrics for our shareholders.

Following the buy-back, Westpac will continue to have a strong capital position to respond to uncertainties, and to support growth and our customers. This capital position, together with surplus franking credits and the potential for further asset sales, creates flexibility for the Board in its ongoing considerations on capital management.

## DIVISIONAL PERFORMANCE

Division	FY21 cash earnings (\$m)	% change FY21-FY20	% change 2H21-1H21	Commentary (FY21-FY20)
<b>Consumer</b>	\$3,081	12	(6)	Cash earnings were 12% higher than FY20, mainly from an impairment benefit of \$125m compared to a charge of \$1,015m in FY20. Mortgages increased \$19.1bn or 5% over the year. Margins decreased 3bps driven by competitive pricing to attract and retain customers, portfolio mix effects as customers shifted to lower fixed rate lending, and a decline in personal lending. Operating expenses rose off the back of higher risk management and processing costs.
<b>Business</b>	\$1,789	144	(6)	Cash earnings were 144% higher mainly due to an impairment benefit of \$484m compared to an impairment charge of \$1,371m in FY20, along with a \$268m turnaround in notable items. Excluding notable items, net interest income was down \$416m from an 11bp decrease in margins and a 5% decrease in lending. While lending was down, momentum improved through the year. Deposits were up 4%, or \$6.8bn, over the year. Operating expenses rose as resources increased as part of our Fix priority.
<b>Westpac Institutional Bank</b>	(\$670)	Large	Large	Cash earnings were a loss of \$670m for FY21 compared to a profit of \$332m in FY20. Notable items were \$991m (net of tax) and related to the write-down of assets, mostly intangible assets, (including goodwill, capitalised software and other assets) following an annual impairment test. Excluding this, cash earnings were \$321m, \$11m lower than FY20. Net interest margin declined 9bps to 1.26% with lower interest rates reducing deposit spreads and earnings on capital. Impairment charges were lower as asset quality improved. Compared to the first half, net loans increased 7%, or \$4.6bn, mainly from growth in the Retail and Industrials sectors.
<b>Westpac New Zealand (NZ\$)</b>	\$1,013	56	(26)	Cash earnings of \$1,013m increased \$364m or 56% compared to FY20, primarily driven by a \$404m turnaround in impairment charges. Net interest income benefitted from a 3bp increase in margins and lending growth of 5% driven by \$5.7bn of mortgage growth. Deposits increased 7%, or \$4.9bn, fully funding loan growth and lifting the deposit to loan ratio to 82%.
<b>Specialist Businesses</b>	\$193	Large	(56)	Cash earnings for FY21 were \$193m compared to a loss of \$506m for FY20, mainly due to lower notable items (\$382m net of tax) and an impairment benefit of \$66m compared to an impairment charge of \$255m in FY20.

## OUTLOOK

Mr King said that despite a challenging 2021, he was confident the Australian economy will rebound over the next 12 months.

“The recent lockdowns in NSW, Victoria and the ACT have been difficult for many businesses, and while uncertainty in the outlook remains, I am confident most industries will begin to recover as Australia’s two biggest states re-open.

“Consumer spending will likely increase significantly as states re-open and pent-up demand is released, particularly supported by consumer optimism and sizeable savings.

“We expect the Australian economy to expand by 7.4 per cent in 2022, with credit growth expanding 6.8 per cent. Demand for housing is likely to remain elevated but home price increases should moderate to 8 per cent next year,” he said.

Mr King said while there was more work to do, Westpac continued to make progress on its Fix, Simplify and Perform strategic priorities.

“Next year we expect to reduce our cost base as we head towards our \$8 billion cost target from completion of programs under our Fix priority and realise the benefits from divestments.

“We have made considerable progress in improving our mortgage and business banking performance, driven by streamlining of lending processes to create a better customer experience. This sets us up to maintain momentum in the year ahead.

“For our business, loan growth is expected to be sound as the economy rebounds, although net interest margins will remain under pressure from low interest rates and competition.

“We are also committed to resolving a number of outstanding regulatory issues where our actions were not good enough.

“We are making progress in strengthening risk management, growing our core franchise, and simplifying the bank, which provides a strong platform to deliver a better service to customers, as well as returns for shareholders,” Mr King said.

*A video interview with Mr King, and Chief Financial Officer, Michael Rowland, is available on the Westpac Wire website – [www.westpacwire.com.au](http://www.westpacwire.com.au)*

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