

ASX

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Westpac's Second Half 2022 (2H22) notable items

Westpac today announced that its reported net profit and cash earnings in 2H22 will be reduced by \$1.3 billion (after tax) due to notable items. The majority of these notable items have been previously disclosed with announced divestments.

The notable items after tax for 2H22 include:

- A loss of \$1.1 billion on the sale of Westpac Life Insurance Limited;
- Expenses and revaluations associated with the sale of Advance Asset Management and successor funds transfer of BT's personal and corporate superannuation funds;
- Tax benefits from the sales of our motor vehicle and vendor finance businesses;
- Expenses and write-downs associated with reducing our corporate and branch footprint; and
- An increase in provisions for customer refunds, associated costs and litigation costs.

The net impact of these notable items on our Common equity Tier 1 capital ratio was a positive 12 basis points. The impact was positive as the completion of the life insurance sale added 17 basis points while the other notable items had a 5 basis point impact.

Details of notable items in Second Half 2022 are in Appendix 1 and a summary of line item impacts is in Appendix 2.

Segment structure changes in Westpac's FY22 results

From 1H22 we changed our segment reporting for our lines of business operating structure. At that time, we updated prior period numbers for 2H21 and these have not changed. We are now providing FY21 data under these segment changes in the same way they will be presented in FY22. This is in Appendix 3. There are no other prior period restatements to the P&L. There has been one restatement to the balance sheet, with a movement in the allocation of intangible items between the Consumer and Business segments.

We are scheduled to announce our Full Year 2022 results on Monday, 7 November 2022.

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Appendix 1 – Details of items affecting Westpac’s 2H22 Financial Results

This table details how the notable items will be described in our 2H22 Financial Results.

Summary	2H22 Cash earnings (after tax)	Detail
Provisions for customer refunds and payments, associated costs and litigation costs	\$68m reduction	<p>Revenue - \$17m (pre-tax)</p> <ul style="list-style-type: none"> Decrease in revenue due to additional remediation provisions related to wealth products and to New Zealand. <p>Expenses - \$80m (pre-tax)</p> <ul style="list-style-type: none"> Additional costs for our Australian customer remediation program; and An increase in litigation costs and provisions.
The write-down of assets (incl. goodwill and capitalised software) and costs associated with the consolidation of branches	\$129m reduction	<ul style="list-style-type: none"> Write-down of assets from a reduction in corporate office space required. Reduced space requirements are from business sales, reduced headcount, and more flexible working. The write-down considers the capitalised value of the remaining term of the lease less likely sublease income, \$118m in costs, \$82m after tax; and Expenses associated with the accelerated consolidation of branches that has progressed more rapidly than recent years of \$66m in costs, \$47m after tax.
The impact of asset sales and revaluations	\$1,089m reduction	<ul style="list-style-type: none"> Loss on sale of Westpac Life Insurance Services Limited of \$1,112m in non-interest income, \$1,120m after tax; Expenses and revaluations associated with assets sales, including of Advance Asset Management and successor funds transfer of BT’s personal and corporate superannuation funds of \$125m, \$101m after tax; and A tax refund related to the sale of the Group’s motor vehicle dealer finance and novated leasing business and vendor finance businesses.

Appendix 2 – Summary of 2H22 and FY22 notable items

2H22 (\$m)	Consumer	Business	WIB	New Zealand (in \$A)	Specialist Businesses	Group Businesses	Total
Net interest income	-	-	-	(8)	-	-	(8)
Non-interest income	-	-	-	(1)	(1,120)	-	(1,121)
Operating expenses	(66)	-	-	-	(150)	(174)	(390)
Core earnings	(66)	-	-	(9)	(1,270)	(174)	(1,519)
Income tax benefit/ (expense)	19	-	-	2	158	54	233
NCI	-	-	-	-	-	-	-
Cash earnings	(47)	-	-	(7)	(1,112)	(120)	(1,286)

2H22 (\$m)	Provisions for refunds, payments, costs & litigation	Write-down of assets and accelerated branch closure costs	Asset sales and revaluations	Total
Net interest income	(8)	-	-	(8)
Non-interest income	(9)	-	(1,112)	(1,121)
Operating expenses	(80)	(184)	(126)	(390)
Core earnings	(97)	(184)	(1,238)	(1,519)
Income tax benefit/(expense)	29	55	149	233
NCI	-	-	-	-
Cash earnings	(68)	(129)	(1,089)	(1,286)

FY22 (\$m)	Consumer	Business	WIB	New Zealand (in \$A)	Specialist Businesses	Group Businesses	Total
Net interest income	-	-	-	(1)	-	-	(1)
Non-interest income	-	-	-	118	(1,011)	-	(893)
Operating expenses	(66)	-	-	-	(365)	(190)	(621)
Core earnings	(66)	-	-	117	(1,376)	(190)	(1,515)
Income tax benefit/ (expense)	19	-	-	-	150	54	223
NCI	-	-	-	-	-	-	-
Cash earnings	(47)	-	-	117	(1,226)	(136)	(1,292)

FY22 (\$m)	Provisions for refunds, payments, costs & litigation	Write-down of assets and accelerated branch closure costs	Asset sales and revaluations	Total
Net interest income	(1)	-	-	(1)
Non-interest income	(52)	-	(841)	(893)
Operating expenses	(126)	(351)	(144)	(621)
Core earnings	(179)	(351)	(985)	(1,515)
Income tax benefit/(expense)	46	68	109	223
NCI	-	-	-	-
Cash earnings	(133)	(283)	(876)	(1,292)

Appendix 3 – Selected comparative disclosures

3.1 Consumer and Business Banking

\$m	Half Year	Half Year	% Mov't	Full Year	Full Year	% Mov't
	Sept 2022	March 2022	Sept 22 - Mar 22	Sept 2022	Sept 2021	Sept 22 - Sept 21
Net interest income		5,700			12,473	
Non-interest income		487			867	
Net operating income		6,187			13,340	
Operating expenses		(3,351)			(7,116)	
Core earnings		2,836			6,224	
Impairment (charges)/benefits		(131)			609	
Profit before income tax expense		2,705			6,833	
Income tax expense and NCI		(820)			(2,049)	
Cash earnings		1,885			4,784	
Add back notable items		-			20	
Cash earnings excluding notable items		1,885			4,804	
Expense to income ratio		54.16%			53.34%	
Net interest margin		2.29%			2.54%	

\$bn	As at	As at	% Mov't	As at	As at	% Mov't
	30 Sept 2022	31 March 2022	Sept 22 - Mar 22	30 Sept 2022	30 Sept 2021	Sept 22 - Sept 21
Customer deposits						
Term deposits		75.6			76.5	
Other		335.3			318.5	
Total customer deposits		410.9			395.0	
Net loans						
Mortgages		458.4			455.7	
Business		82.4			79.8	
Other		9.0			8.8	
Provisions		(3.2)			(3.2)	
Total net loans		546.6			541.1	
Deposit to loan ratio		75.16%			73.00%	
Total assets		561.0			555.4	
TCE		660.6			653.9	
Average interest earning assets		499.9			490.8	
Average allocated capital		33.1			33.0	
Credit quality						
Impairment charges/(benefits) to average loans		0.05%			(0.15%)	
Total stressed exposures to TCE		1.49%			1.74%	

3.1.1 Consumer

	Half Year	Half Year	% Mov't	Full Year	Full Year	% Mov't
	Sept	March	Sept 22 -	Sept	Sept	Sept 22 -
\$m	2022	2022	Mar 22	2022	2021	Sept 21
Net interest income		4,377			9,486	
Non-interest income		324			518	
Net operating income		4,701			10,004	
Operating expenses		(2,369)			(4,898)	
Core earnings		2,332			5,106	
Impairment (charges)/benefits		27			184	
Profit before income tax expense		2,359			5,290	
Income tax expense and NCI		(713)			(1,583)	
Cash earnings		1,646			3,707	
Add back notable items		-			105	
Cash earnings excluding notable items		1,646			3,812	
Expense to income ratio		50.39%			48.96%	
Net interest margin		2.09%			2.30%	

	As at	As at	% Mov't	As at	As at	% Mov't
	30 Sept	31 March	Sept 22 -	30 Sept	30 Sept	Sept 22 -
\$bn	2022	2022	Mar 22	2022	2021	Sept 21
Customer deposits						
Term deposits		50.5			50.2	
Other		225.7			216.2	
Total customer deposits		276.2			266.4	
Net loans						
Mortgages		458.4			455.7	
Other		9.0			8.8	
Provisions		(1.7)			(1.8)	
Total net loans		465.7			462.7	
Deposit to loan ratio		59.30%			57.58%	
Total assets		477.8			474.8	
TCE		554.0			551.8	
Average interest earning assets		420.3			411.7	
Average allocated capital		25.2			24.8	
Credit quality						
Impairment charges/(benefits) to average loans		(0.01%)			(0.04%)	
Mortgage 90+ day delinquencies		0.88%			1.07%	
Other consumer loans 90+ day delinquencies		1.48%			1.60%	
Total stressed exposures to TCE		0.81%			0.98%	

3.1.2 Business

	Half Year	Half Year	% Mov't	Full Year	Full Year	% Mov't
	Sept 2022	March 2022	Sept 22 - Mar 22	Sept 2022	Sept 2021	Sept 22 - Sept 21
\$m						
Net interest income		1,323			2,987	
Non-interest income		163			349	
Net operating income		1,486			3,336	
Operating expenses		(982)			(2,218)	
Core earnings		504			1,118	
Impairment (charges)/benefits		(158)			425	
Profit before income tax expense		346			1,543	
Income tax expense and NCI		(107)			(466)	
Cash earnings		239			1,077	
Add back notable items		-			(85)	
Cash earnings excluding notable items		239			992	
Expense to income ratio		66.08%			66.49%	
Net interest margin		3.33%			3.78%	

	As at	As at	% Mov't	As at	As at	% Mov't
	30 Sept 2022	31 March 2022	Sept 22 - Mar 22	30 Sept 2022	30 Sept 2021	Sept 22 - Sept 21
\$bn						
Customer deposits						
Term deposits		25.1			26.3	
Other		109.6			102.3	
Total customer deposits		134.7			128.6	
Net loans						
Loans		82.4			79.8	
Provisions		(1.5)			(1.4)	
Total net loans		80.9			78.4	
Deposit to loan ratio		166.42%			164.00%	
Total assets		83.2			80.6	
TCE		106.6			102.1	
Average interest earning assets		79.6			79.1	
Average allocated capital		7.9			8.2	
Credit quality						
Impairment charges/(benefits) to average loans		0.40%			(0.80%)	
Impaired exposures to TCE		0.60%			0.72%	
Total stressed exposures to TCE		5.07%			5.90%	

3.2 Westpac Institutional Bank (WIB)

\$m	Half Year	Half Year	% Mov't	Full Year	Full Year	% Mov't
	Sept 2022	March 2022	Sept 22 - Mar 22	Sept 2022	Sept 2021	Sept 22 - Sept 21
Net interest income		481			925	
Non-interest income		588			1,313	
Net operating income		1,069			2,238	
Operating expenses		(577)			(2,595)	
Core earnings		492			(357)	
Impairment (charges)/benefits		(58)			(162)	
Profit before income tax expense		434			(519)	
Income tax expense and NCI		(128)			(14)	
Cash earnings		306			(533)	
Add back notable items		-			991	
Cash earnings excluding notable items		306			458	
Expense to income ratio		53.98%			115.95%	
Net interest margin		1.17%			1.25%	

\$bn	As at	As at	% Mov't	As at	As at	% Mov't
	30 Sept 2022	31 March 2022	Sept 22 - Mar 22	30 Sept 2022	30 Sept 2021	Sept 22 - Sept 21
Customer deposits		104.7			99.3	
Net loans						
Loans		74.3			68.3	
Provisions		(0.3)			(0.6)	
Total net loans		74.0			67.7	
Deposit to loan ratio		141.53%			146.64%	
Total assets		94.0			82.8	
TCE		190.8			179.7	
Average interest earning assets		82.6			73.9	
Average allocated capital		7.7			7.8	
Credit quality						
Impairment charges to average loans		0.16%			0.25%	
Impaired exposures to TCE		0.14%			0.29%	
Total stressed exposures to TCE		0.20%			0.64%	

Revenue Contribution

\$m	Half Year	Half Year	% Mov't	Full Year	Full Year	% Mov't
	Sept 2022	March 2022	Sept 22 - Mar 22	Sept 2022	Sept 2021	Sept 22 - Sept 21
Lending and deposit revenue		710			1,315	
Markets, sales and fee income		417			823	
Total customer revenue		1,127			2,138	
Derivative valuation adjustments		(29)			97	
Trading revenue		34			100	
Other		(63)			(97)	
Total WIB revenue		1,069			2,238	

3.4 Specialist Businesses (SB)

	Half Year	Half Year	% Mov't	Full Year	Full Year	% Mov't
	Sept 2022	March 2022	Sept 22 - Mar 22	Sept 2022	Sept 2021	Sept 22 - Sept 21
\$m						
Net interest income		242			494	
Non-interest income		550			1,455	
Net operating income		792			1,949	
Operating expenses		(584)			(1,478)	
Core earnings		208			471	
Impairment (charges)/benefits		38			66	
Profit before income tax expense		246			537	
Income tax expense and NCI		(114)			(375)	
Cash earnings		132			162	
Add back notable items		114			540	
Cash earnings excluding notable items		246			702	
Expense to income ratio		73.74%			75.83%	
Net interest margin		3.45%			3.10%	

	As at	As at	% Mov't	As at	As at	% Mov't
	30 Sept 2022	31 March 2022	Sept 22 - Mar 22	30 Sept 2022	30 Sept 2021	Sept 22 - Sept 21
\$bn						
Deposits		8.4			8.7	
Net loans						
Loans		12.0			14.0	
Provisions		(0.3)			(0.4)	
Total net loans		11.7			13.6	
Deposit to loan ratio		71.29%			64.46%	
Total funds		222.9			227.4	
TCE		15.4			18.1	
Average interest earning assets		14.1			15.9	
Average allocated capital		4.1			4.6	
Average funds		224.9			214.6	
Credit quality						
Auto finance 90 day+ delinquencies		2.00%			1.97%	
Total stressed exposures to TCE		6.98%			6.41%	

3.5 Group Businesses

	Half Year	Half Year	% Mov't	Full Year	Full Year	% Mov't
\$m	Sept	March	Sept 22 -	Sept	Sept	Sept 22 -
	2022	2022	Mar 22	2022	2021	Sept 21
Net interest income		564			835	
Non-interest income		36			366	
Net operating income		600			1,201	
Operating expenses		(320)			(1,032)	
Core earnings		280			169	
Impairment (charges)/benefits		3			(2)	
Profit before income tax expense		283			167	
Income tax expense and NCI		(108)			(178)	
Cash earnings		175			(11)	
Add back notable items		16			(2)	
Cash earnings excluding notable items		191			(13)	

Treasury

	Half Year	Half Year	% Mov't	Full Year	Full Year	% Mov't
\$m	Sept	March	Sept 22 -	Sept	Sept	Sept 22 -
	2022	2022	Mar 22	2022	2021	Sept 21
Net interest income		554			838	
Non-interest income		12			8	
Net operating income		566			846	
Cash earnings		368			521	