Westpac Half Year 2022 Result

Westpac GROUP

MEDIA RELEASE

9 MAY 2022

First Half 2022 compared to Second Half 2021[1]	First Half 2022 compared to First Half 2021
• Statutory net profit $3,280m, up 63% • Cash earnings $3,095m, up 71% • Cash EPS 85.4 cents, up 73% • Revenue down 3% • Costs down 27%	• Statutory net profit $3,280m, down 5% • Cash earnings $3,095m, down 12% • Cash EPS 85.4 cents, down 12% • Revenue down 8% • Costs down 10%
• ROE 8.7%, CET1 ratio 11.3% • Fully franked interim dividend 61 cents per share	

THE RESULT
PETER KING, CHIEF EXECUTIVE OFFICER

In the first half of 2022, we've made steady progress towards our goals. We're managing through the low-rate environment and making the changes required to become a simpler, stronger bank.

We are tracking well on our strategic priorities. From a Perform perspective, we maintained our return on equity[2] over the prior half, as our cost reset program helped to offset a decline in revenue and an increase in impairments.

The multi-year Customer Outcomes and Risk Excellence (CORE) program is delivering to plan and we resolved a number of significant regulatory matters. Our portfolio simplification saw two more businesses sold, with our focus now on the exit of the BT businesses.

We're investing in improving the customer experience, focusing on making customer service easier and faster, accelerating digital, and building on our banker expertise and capability.

Financially, the Group's results have improved. Cash earnings were higher over the previous half, including a material reduction in notable items. The decline in cash earnings over the year was mostly due to competitive pressures on net interest margins and returning to an impairment charge after having benefits last year.

Asset quality has improved and most credit quality metrics are back to pre-COVID levels, however we increased overlays in our provisions for supply chain issues, inflation, expectations of higher interest rates and recent floods.

I'm pleased with our progress on costs which are down 27%, or 10% excluding notable items, compared to the second half of 2021. This includes a reduction in headcount of more than 4000 as we track towards our target of an $8 billion cost base by FY24[3].

Our deposit to lending ratio increased to 83.5% as total lending rose $8.8 billion and total deposits grew $20.6 billion over the half.

Our Australian mortgage portfolio grew off the back of owner-occupied mortgages, but we want to lift performance in investor lending. We have built on our momentum in business lending across both Business and WIB.

Our balance sheet is sound, allowing us to successfully complete our off-market share buy-back, reset our capital range and increase the dividend per share.

STRATEGIC PRIORITIES

Fix

Our CORE program is on track and starting to transform our risk management and our culture. Promontory's quarterly reports confirmed we are delivering to our plan.

We have also made good progress on our remediation programs and continue to work on resolving legacy legal matters. We closed out seven cases with ASIC during the last month[4]. As the change program continues, issues are being identified and reported and we will continue to work through them.

Simplify

We have completed the sale of another two businesses. The exit plans for the remaining businesses are also on track, but ultimate completion timing will depend on counterparty negotiations.

We have built on our lines of business operating model, continuing to move more of our people closer to customers. As part of these changes we consolidated our risk teams, created two new shared services divisions, moved some functional teams into business divisions, and reduced the size of our corporate head office.

Our digital transformation is showing clear benefits for customers. Following the iOS rollout last year, we completed the delivery of our new app to android customers. Increasing customers' security online has been a focus with increased use of card dynamic CVC and the introduction of new scam detection technology that automatically blocks suspect online transactions from overseas retailers deemed high-risk of being a scam.

In business lending, our teams have continued to digitise processes, reduce the number of products on offer and streamline credit decisioning. We've reduced loan documentation by 30%.

Perform

Core earnings excluding notables increased 6% compared to second half 2021 as our reduction in costs more than offset lower revenues.

Net interest margins were down as competition for lending and low interest rates continued to impact margins.

Our performance on deposits as well as business and institutional lending has been strong.

Our markets and treasury businesses managed the market volatility very well, contributing more revenue this half.

We reduced costs 27% over the half (10% ex-notable items) as we progress towards our $8 billion cost base target by FY24. We can see how our simplification and our business exits will contribute to this goal.

Westpac Institutional Bank has been leading our efforts to help customers adapt to climate change having participated in 39 sustainable finance transactions over the half.

We acquired Money Brilliant which will provide a step change in capability to help customers manage their finances once integrated into our app.

The Board has determined an interim, fully franked dividend of 61 cents per share to be paid on 24 June 2022.

DIVISIONAL PERFORMANCE

Division	1H22 cash earnings ($m)	% change 1H21	% change 2H21	Commentary (1H22-1H21)
Consumer	$1,646	(15)	(8)	Cash earnings were 15% lower than 1H21, mainly from lower net interest margin and reduced credit impairment benefits. Mortgages increased 3%. Margins were 25bps lower due to continued competition and portfolio mix changes including more fixed rate lending and lower card and personal loan balances. Operating expenses reduced due to increasing use of digital and a reduction in network costs.
Business	$239	(55)	(56)	Cash earnings were 55% lower mainly due to a $265 million turnaround in impairment charges (from a benefit to a charge) and lower margins. Margins were down 53 bps (excluding notable items down 35bps), reflecting the increasingly competitive market and low interest rates. Loans increased 4% while deposits were up 9%. Operating expenses were lower, partly due to notable items.
Westpac Institutional Bank	$306	3	Large	Cash earnings were 3% higher than 1H21. The division had a stronger operational performance with lending up 17%, expenses down 19% and a better markets performance. This increase was partly offset by lower loan spreads and widening counterparty credit spreads leading to an $82 million impact from derivative valuation adjustments. Asset quality improved over the year although impairment charges were higher as we increased overlays.
Westpac New Zealand (NZ$)	$635	9	48	Cash earnings increased $52m or 9% supported by the profit on the sale of Westpac NZ Life. Excluding notable items, cash earnings decreased 15% mostly from a lower impairment benefit. Loans increased 4% while deposits increased 6%. Net interest income increased 3% with NIM 8bps lower, due to lower spreads on mortgages and portfolio mix changes. Expenses increased 5% on higher technology and data resilience along with risk and compliance projects. Impairment benefit was $10m in 1H22 vs $99m in 1H21.
Specialist Businesses	$132	13	193	Cash earnings for 1H22 were $15m higher than 1H21. Excluding notable items 1H22 was $168 million or 41% lower. This decline was mainly due to businesses sold, lower life insurance income and a lower impairment benefit. Costs were down $23m or 6% excluding sold businesses as we completed some simplification initiatives.

OUTLOOK
PETER KING, CHIEF EXECUTIVE OFFICER

The first half of 2022 has been challenging for many customers. Floods, the lingering effects of the pandemic and the impact of the war in Ukraine have set many customers back and created uncertainty. However, the Australian economy is robust.

Consumer spending may be tempered by higher prices and higher interest rates. However, the positives of strong household and business balance sheets, combined with the continued reopening of international borders and local economies, will likely increase economic activity.

We expect the Australian economy to expand by 4.5% in 2022 but slow to 2.5% in 2023. Credit growth is forecast to be a strong 5.7% in 2022 slowing to 4.3% in 2023.

Demand for housing has already shown some signs of easing and rising interest rates are expected to contribute to a moderation in house prices next year.

As the economy moves into the rising rate cycle, it's important to remember that rates are moving from a very low base and we already assess loan applications on higher rates, consistent with regulatory requirements.

We will continue to deliver on our Fix, Simplify and Perform priorities. The CORE program is delivering to plan and improving our risk management capability. Our portfolio simplification is making the bank simpler. The next big step is exiting super and platforms and we are well progressed. To improve performance, we are digitising customer journeys, improving customer service, growing in our core markets and resetting the cost base. Together these things are critical to delivering for our people, customers and shareholders.

Video interviews with Mr King and Mr Rowland is available on Westpac Wire – www.westpacwire.com.au

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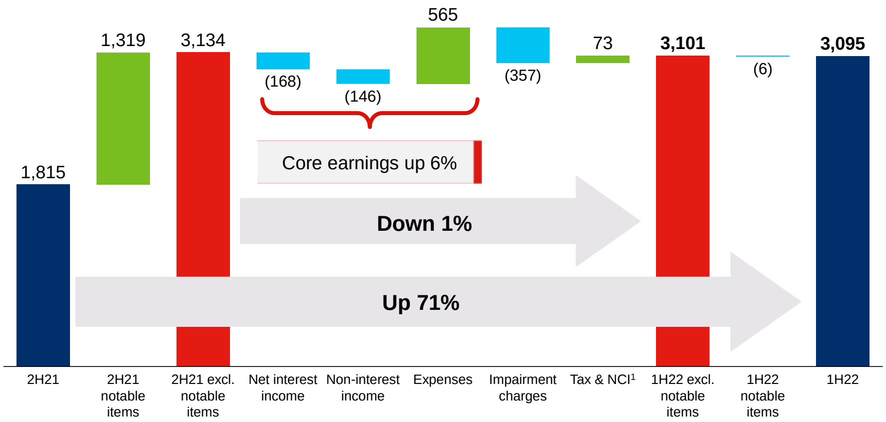
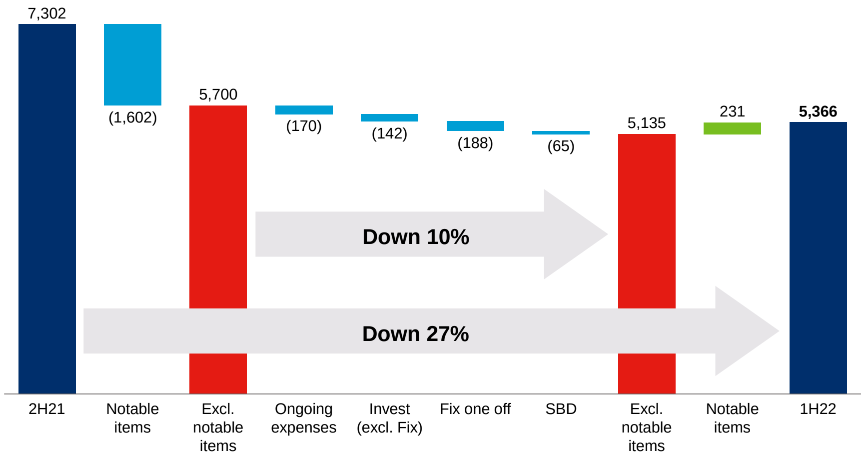
End notes:

1. Reported on a cash earnings basis unless otherwise stated. For a reconciliation of cash earnings to reported results, refer to Section 5, note 7 of Westpac Group 2022 Interim Financial Results Announcement. Cash earnings explanation provided in 1.3.2.
2. Excluding notables. References to notable items in this release include (after tax) provisions for estimated customer refunds and payments, associated costs and litigation costs; the write-down of assets, including goodwill and capitalised software; and the impact of asset sales and revaluations. Refer to Westpac Group 2022 Interim Financial Results Announcement for details
3. The $8bn FY24 cost target is subject to completion of sales of specialist business by end of FY23 which will depend on final terms with counterparties and regulatory approvals.
4. Foreshadowed in November 2021.
5. For further information on the graphs on page five, please see the relevant slide in the Investor Discussion Pack (IDP).

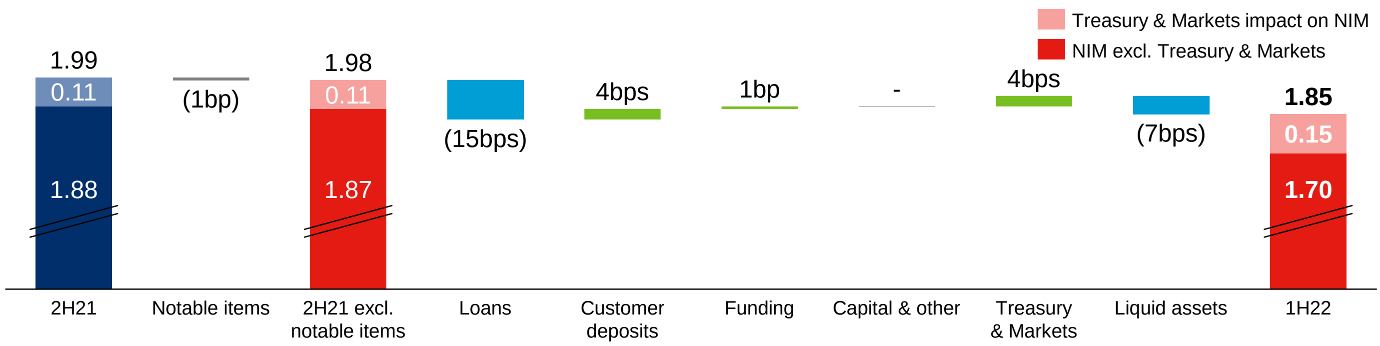
CASH EARNINGS ($m) 1H22 – 2H21



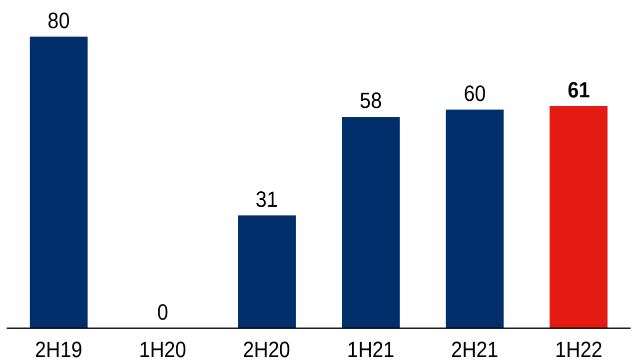
EXPENSES ($m) 1H22 – 2H21



NET INTEREST MARGINS (%, bps) 1H22 – 2H21



DIVIDENDS PER SHARE (cents)



CREDIT QUALITY

Stressed assets to TCE%