ASX Release

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Sydney, NSW, 2000

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Items affecting Westpac's First Half 2021

Westpac today announced that its cash earnings in 1H21 will be reduced by $282m (after tax) due to notable items. Statutory net profit will also be reduced by these items. The notable items after tax include:

- additional provisions for customer refunds, payments, associated costs, and litigation provisions of $220m;
- write-down of capitalised software and other intangibles of $115m;
- costs associated with ending the Group's relationship with IOOF, $56m;
- write-down of goodwill related to Lenders Mortgage Insurance of $84m; and
- an accounting loss on sale in Westpac Pacific along with transaction costs and payments associated with divestments, $113m.

These losses were partly offset by:

- a net gain on the revaluation of the Group's investment in Coinbase Inc. of $288m,
- a gain on sale of the Group's holding in Zip Co Ltd, $18m.

Of the $282m in notable items, $212m were announced in our 1Q21 Market Update with the remaining net cash earnings impact of $70m (after tax) occurring in 2Q21.

Details of notable items in First Half 2021 are in Appendix 1 and a summary of line item impacts is in Appendix 2.

Change in software capitalisation policy

Westpac has also changed its software capitalisation policy, increasing the threshold before a project is capitalised to $20m (previously $1m). This policy has been applied from 1 October 2020 and will see the Group expense a higher portion of its investment spending from First Half 2021. The higher expense is not treated as a notable item.

This change had no impact to the carrying value of capitalised software at 30 September 2020.

Additional information to be included in Westpac's 2021 Interim Financial Results

Following agreements to sell certain businesses within the Specialist Businesses division, Westpac is releasing details of businesses under the "held for sale" designation. The businesses include:

- Vendor Finance;
- Westpac General Insurance;
- Westpac Lenders Mortgage Insurance; and
- Westpac Pacific,

As a result of this presentation change we will provide the following disclosures in our 2021 Interim Financial Results:

- the Group's Consolidated balance sheet will include a separate "Held for sale" line item in both assets and liabilities which will include the sum of items relating to these businesses. Tables for Loans, Deposits, Provisions for ECL and Fair values of financial assets and liabilities will also be impacted.
- net interest income associated with these businesses will also be disclosed in separate line items and this will impact the Average balance sheet; and
- separate disclosures in section 3.5 Specialist Businesses will outline the cash earnings contribution of the businesses currently held for sale.

The held for sale classification is only effective from First Half 2021 and therefore prior periods are not presented on a held for sale basis.

The Group will continue with its existing segment reporting in its 2021 Interim Financial Results consistent with information provided internally to Westpac's key decision makers. Accordingly, the presentation of results will not be affected by the decision to bring together the leadership of its Consumer and Business divisions into a new Consumer & Business Banking division.

We are scheduled to announce our First Half 2021 results on Monday, 3 May 2021.

For further information:

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This document has been authorised for release by Tim Hartin, General Manager & Company Secretary.

Appendix 1 – Details of items affecting Westpac's Interim Financial Results

Summary	1H21 Cash earnings (post tax)	Detail
Write-down of goodwill and other intangibles	$199m reduction	• Following a review of the Group's capitalised software, $165m has been written off as an expense. • Write-down of goodwill in the Group's Lenders Mortgage Insurance business as it is now held for sale. The $84m expense impact was disclosed with our 1Q21 Update in February 2021.
Additional provisions for customer refunds payments, associated costs and litigation provisions	$276m reduction	The ongoing review of customer remediation has led to the following changes in provisions. • $71m benefit to Net interest income, mostly from a reduction in provisions (as they were no longer required) for business customers who were provided with business loans where they should have been provided a consumer loan covered by the National Consumer Credit Protection Act and the National Credit Code following further reviews. This was partly offset by higher provisions in Westpac New Zealand for existing remediation programs. • $199m decrease in non-interest income from additional provisions mostly related to: - aligned and salaried advisor remediation following the completion of further reviews and an increase in time value of money assumptions; and - customers on our platforms who were not advised of certain corporate actions following the completion of further reviews and an increase in time value of money assumptions; • $193m in additional expenses related to: - $113m in provisions for additional costs associated with implementing our remediation program as some programs are taking longer to complete; and - $80m associated with ending the Group's IOOF service agreement that was disclosed with our 1Q21 Update in February 2021. • $63m for litigation matters, including settlements. This is included in expenses.
Asset sales and revaluations	$193m increase	• Non-interest income benefitted by $571m, from: - a $546m gain on the Group's investment in Coinbase Inc. held in the Reinventure Fund No. 1 based on a VWAP for private trading in the first quarter through to 15 March 2021 of US$343.58. The Reinventure Fund No. 1 held approximately 1.2 million shares. Coinbase was listed on NASDAQ on 14 April 2021, since then we have reduced our exposure by around 50% at prices above the 1H21 VWAP. Gains are subject to tax and performance fees; - a gain on sale of Westpac's holding in Zip Co Ltd of $25m disclosed at the Group's 1Q21 Update in February 2021. • Expenses associated with asset sales and revaluations of $240m included; - provisions for Reinventure performance fees of $122m linked to the revaluation of Coinbase; - $121m loss on sale of Westpac Pacific, of which $90m was disclosed at the Group's 1Q21 Update; - transaction and other costs related to announced sales of $27m; and - partly offset by $30m of estimated NPV of future earn out payments related to the sale of the Group's Vendor Finance business.

Appendix 2 – Summary of 1H21 notable items

1H21 ($m)	Consumer	Business	WIB	New Zealand (in $A)	Specialist Businesses	Group Businesses	**Total**
Net interest income	**-**	**74**	**-**	**(3)**	**-**	**-**	**71**
Net fee income	(3)	1	-	(5)	8	(105)	(104)
Net wealth management and insurance income	-	-	-	-	-	(88)	(88)
Other income	-	-	-	-	(7)	571	564
Non-interest income	**(3)**	**1**	**-**	**(5)**	**1**	**378**	**372**
Operating expenses	**(106)**	**(40)**	**(37)**	**(6)**	**(336)**	**(220)**	**(745)**
Core earnings	**(109)**	**35**	**(37)**	**(14)**	**(335)**	**158**	**(302)**
Income tax benefit/ expense and NCI	33	(10)	11	4	38	(56)	20
Cash earnings	**(76)**	**25**	**(26)**	**(10)**	**(297)**	**102**	**(282)**

1H21 ($m)	Refunds, payments, costs & litigation	Intangible write-downs	Asset sales / revaluations	**Total**
Net interest income	**71**	**-**	**-**	**71**
Net fee income	(104)	-	-	(104)
Net wealth management and insurance income	(88)	-	-	(88)
Other income	(7)	-	571	564
Non-interest income	**(199)**	**-**	**571**	**372**
Staff expenses	(83)	-	-	(83)
Occupancy expenses	-	-	(82)	(82)
Technology expenses	(1)	(165)	(12)	(178)
Other expenses	(172)	(84)	(146)	(402)
Operating expenses	**(256)**	**(249)**	**(240)**	**(745)**
Core earnings	**(384)**	**(249)**	**331**	**(302)**
Income tax benefit/expense and NCI	108	50	(138)	20
Cash earnings	**(276)**	**(199)**	**193**	**(282)**