

Transcript of Westpac Wire video interview with Westpac Group CEO Peter King

4 May 2020

Mike Willesee: Peter, thanks for your time. Firstly, this is an extraordinary time to be delivering a result. How do you characterise the result this year?

Peter King: Mike, it is an extraordinary time. Now, the bank is dealing with the twin impacts of COVID-19 and some of our own issues, regulatory issues. And in that context, we delivered a \$1.2 billion profit. It was down two thirds, \$1.1 billion of that was related to our provisioning for historical issues and then a large charge for impairments. So we had a \$2.2 billion charge for credit impairments. And it's in that context we delivered the result. So it is unprecedented times for us.

Mike Willesee: And what do you see as being the main talking point, given that a number of the big impacts have already been announced? What do you think is going to be the main talking points for stakeholders today?

Peter King: I think very much the outlook for the economy will be something that people want to explore. Credit provisioning, obviously, in terms of how to think about it and capital levels, given the impact on credit provisioning and, of course, dividends.

Mike Willesee: Let's talk about dividends. That's likely to be something that's going to come up a bit. And given the range of options of perhaps cancelling it altogether or paying a lower one or perhaps even a capital raising, what was the Board process in coming to that decision?

Peter King: Well, obviously, dividends are an important decision every six months and the Board has decided to delay the decision at this point, so there won't be a dividend paid on the 20th of June. APRA gave us consistent feedback that their preference is the industry deferred dividends, that was accepted by the Board. The Board therefore looked at the outlook, looked at the uncertainty, took account of APRA's position and decided to defer a decision at this point. We will continue to look at that through the half and give you an update to a future point.

Mike Willesee: Another bit of news, the creation of the Specialist Businesses division and the strategic review of several businesses to be overseen by Jason Yetton, who is returning to the bank. Was that always a strategic goal or is it something that has been accelerated by the COVID situation?

Peter King: As a new CEO, one of the first things you do with the Board is look at priorities. And that's what we did. We sat down and looked at the portfolio, looked at performance over the last few years and recognised that banking has been the core of our financial performance. And so we're going to put a number of our businesses into the Specialist Businesses unit: platforms, superannuation, insurance and auto finance into that business. And I'm pleased Jason's joining us. He has some history at Westpac. He's led wealth businesses and banking businesses, and he'll conduct that strategic review. So it wasn't COVID related, it was a strategic review.

Mike Willesee: Is it an indication that Westpac might be getting out of wealth, ultimately?

Peter King: The way to think about it is we're looking at the businesses where we have competitive advantage and scale, and that's what drove the decision. The wealth businesses or insurance, super platforms, auto finance, are good businesses, but they don't have the scale. So we have a choice about where we're going to invest and we've decided to focus on banking. Those businesses are good. One of the options could be they're better off to be with someone else's business to scale them up. But we'll see. That's what the strategic review will look at for us.

Mike Willesee: There's a lot of focus, obviously, on credit quality and impairments. There's also similar optimism about how Australia is containing the COVID-19 pandemic. What's your view? How do you see the economy over the next couple of years?

Peter King: Well, the first thing I'd say is the government's done a fantastic job. So we fully support all the initiatives that the government has pursued, particularly the JobKeeper initiative, \$130 billion. Looks like there will be over \$300 billion of stimulus going into the economy. Again, we support that. So that is very important in helping customers and businesses navigate the period ahead. And the best thing for the bank and the economy is more customers going back into employment or back to their businesses. So that's why we fully support it. The one thing I would say on the economy is if we look at historical recessions, often it's very hard to see the way out. And economies need to be restarted. So the good, you know, the positive side of this is there is a way to see activity speed up, and that is when social distancing is reduced. The government's in the best position to decide the speed and timing of that, and we'll be ready to support those initiatives.

Mike Willesee: Related is the market focus on the level of provisioning and the different scenarios that the bank has used to arrive at that. Can you give us an idea of what modelling was used and what the expected credit losses will be?

Peter King: Yeah, so we've increased our provisioning to \$5.8 billion on the balance sheet this half, and part of that was \$1.6 billion for estimated COVID impacts. So what we did to do that, we updated our economic forecasts to the lower forecasts, higher unemployment, lower GDP. We upgraded our downside scenario in the provision and then we put on overlays. So it was a thorough process. One of the learnings from the GFC for us is you need to use the models and judgment. And we certainly have done that. And that's what produced the \$1.6 billion increase in provisioning for COVID.

Mike Willesee: Banks are obviously providing a lot of support for customers and some big numbers in this result of what Westpac is doing. Have you seen a significant pickup in demand for loans and drawdowns of facilities in March/April? Or is it mainly the loan repayment holidays?

Peter King: It's different by segment. So if we look at the institutional bank, there certainly has been more large corporates coming to us to shore up their liquidity. So they might have asked for new facilities or most likely drawing down on existing facilities. So they've got liquidity around them so that we've been able to support there. If we look at the small business market, it's been more about repayment holidays. Same in mortgages. And we think the combination of all those has been very good to help customers through this period and where the packages don't work, we'll deal with customers individually. And so that's seen unprecedented demand on our people. And I'm very thankful to the 35,000 people that are helping us out.

Mike Willesee: There is always a lot of focus on residential housing. Do you have a feeling on what might happen based on what you're seeing in the book?

Peter King: Yeah, it's very early days, but housing is about employment. And so that's the most important thing for us to get people into jobs so that they continue to earn, and they can fulfill their requirements. So mortgages is fundamentally about people having jobs. It will be a challenge. We are forecasting employment going down to 7% by the end of the year, so there will be people that we need to help through the next period. But I would also say in housing prices, turnover's dropping. So we'll have to see where it settles. But with lower turnover, it's less of a price signal in terms of fundamental value, if you like. And I would say in the longer term, it's about population growth. So anything that we can do to grow populations and therefore grow demand for housing, that will be good as well.

Mike Willesee: Finally, this is your first result as CEO and what a time to come in. Are there any further updates on strategy or ambitions that you have that you could share with us?

Peter King: Well, I think the change that we've announced today about focusing on banking in Australia and New Zealand and service, is pretty consistent with the past. But we are realistic that there's parts of the portfolio that we may not be able to grow as fast as what they need to grow. So that's what we put into the Specialist Businesses. Apart from that, service is massively important to our customer base and our strategy, and that is what we'll be focused on.

Mike Willesee: All right, Peter King, thank you.

Peter King: Thanks, Mike.