For personal use only

Westpac GROUP

ASX Release

Level 18, 275 Kent Street
Sydney, NSW, 2000

3 MAY 2021

Westpac 2021 Half Year Result

Westpac Banking Corporation ("Westpac") today provides the attached Westpac 2021 Half Year Result.

For further information:

David Lording
Group Head of Media Relations
0419 683 411

Andrew Bowden
Head of Investor Relations
0438 284 863

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

Westpac 2021 Half Year Result

Westpac GROUP

For personal use only

MEDIA RELEASE

3 MAY 2021

FINANCIAL RESULTS SNAPSHOT[1]

FIRST HALF 2021 COMPARED TO FIRST HALF 2020	FIRST HALF 2021 COMPARED TO SECOND HALF 2020
• Statutory net profit $3,443m, up 189% • Cash earnings $3,537m, up 256% • Cash EPS 97 cents, more than tripled • NIM 2.09%, down 4 bps • ROE 10.2%, up from 2.9% • CET1 capital ratio 12.34%, up 153 bps • Excluding notable items[2], cash earnings, $3,819m, up 60% • Excluding notable items[2], ROE 11.0%, up 394 bps • Interim dividend, 58 cents per share	• Statutory net profit $3,443m, up 213% • Cash earnings $3,537m, up 119% • Cash EPS 97 cents, more than doubled • NIM 2.09%, up 6 bps • ROE 10.2%, up from 4.7% • CET1 capital ratio 12.34%, up 121 bps • Excluding notable items[2], cash earnings, $3,819m, up 35% • Excluding notable items[2], ROE 11.0%, up 272 bps

GOOD PROGRESS ON STRATEGIC PRIORITIES

FIX	SIMPLIFY	PERFORM
• Integrated Plan to address financial and non-financial risk governance approved – first assurance report released • Increased resources in risk and financial crime teams • $200 million in payments to customers as part of customer remediation programs	• Announced sales of General Insurance, Westpac Pacific and Lenders Mortgage Insurance • Well progressed on consolidating offshore locations • End-to-end digital mortgage platform, Customer Service Hub, completed more than 20,000 settlements	• New Line of Business operating model driving performance • Australian mortgages up $2.6 billion since September 2020 • Three-year cost plan – targeting $8 billion cost base by FY24 • Strong balance sheet, higher capital ratio, good margin management and improved credit quality metrics

[1] Reported on a cash earnings basis unless otherwise stated. For an explanation of cash earnings and reconciliation to reported results, refer to Section 1.3.3 of Westpac Group's 2021 Interim Financial Results announcement.

[2] References to notable items in this release include (after tax) provisions related to AUSTRAC proceedings; estimated customer refunds, payments, costs and litigation; write-down of intangible items; and asset sales/revaluations.

THE RESULT

Westpac Group CEO, Peter King, said: “It has been a promising start to the year with increased cash earnings, growth in mortgages and continued balance sheet strength.

“First half earnings were considerably higher than the prior corresponding period, mainly due to an impairment benefit reflecting improved asset quality and a better economic outlook. Notable items were also lower. We improved balance sheet strength, with our Common Equity Tier 1 capital ratio rising 153 basis points to 12.34 per cent.

“Importantly, we are beginning to see the benefits of our new operating model through improved performance.

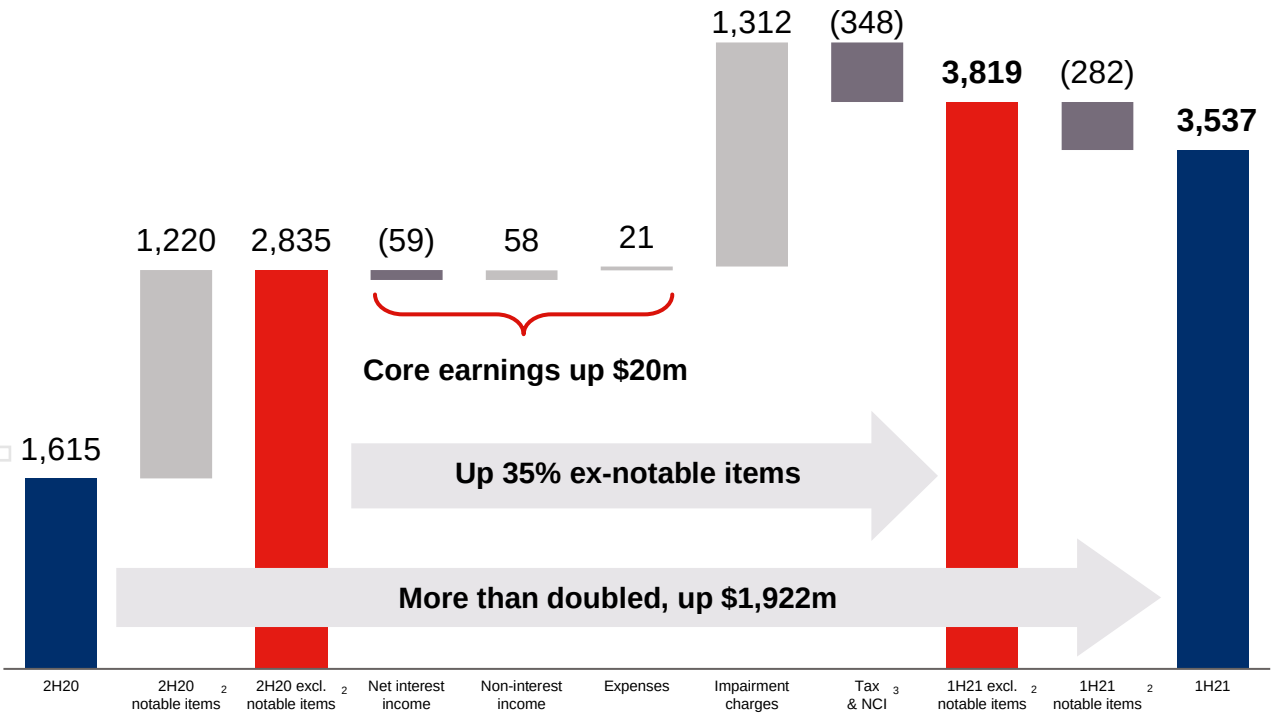
“Our Australian mortgage book increased $2.6 billion over the past six months, with good growth in owner occupier loans partly offset by lower investor lending. Owner occupier loans increased 3 per cent, with first home buyers making up 13 per cent of new loans.

“We also managed margins well, with the margin up six basis points from Second Half 2020,” he said.

“Australia and New Zealand have managed the pandemic well and we are proud to have helped so many customers return to full repayments. Stressed exposures to total committed exposures ended the half at 1.60 per cent, compared to 1.91 per cent at 30 September 2020.

“While the economic outlook is more positive, there is still some uncertainty and we have remained prudent in our impairment provisioning,” Mr King said.

CASH EARNINGS ($m) 1H21 – 2H20



2 Notable items include (after tax) provisions related to AUSTRAC proceedings; estimated customer refunds, payments, costs and litigation; write-down of intangible items; and asset sales/revaluations.
3 NCI is non-controlling interests.

For personal use only

FIX. SIMPLIFY. PERFORM

Mr King said with its refreshed leadership team in place, Westpac had made good progress in the first half on its strategic priorities while continuing to focus on improving customer experience.

Fix

"Strengthening risk governance across financial and non-financial risk is one of my top priorities, and we have a comprehensive plan underway. Promontory is providing independent assurance on our progress and in its first report released in April, it noted our plan sets the foundation for a successful risk remediation program.

"We have more than doubled the number of people in our financial crime operations team over the past 18 months and added more than 100 roles in risk to improve our risk management capability.

"We are also focused on completing legacy customer remediation as quickly as possible," Mr King said.

Over the half, Westpac paid $200 million to approximately 500,000 customers as part of customer remediation.

Simplify

"We continue to simplify how we operate to be more responsive to our customers' needs," Mr King said.

"Our end-to-end digital mortgage platform is now in place and has completed more than 20,000 settlements.

"We have also rolled out our new mobile banking app to 1.3 million iPhone customers – containing simpler search tools, digital card functionality, and more personalised banking services – ahead of releasing the Android version later this year. In the app, customers can access an instant digital version of their debit and credit card which can be used for purchases or if their physical card is lost or stolen," he said.

"We made good progress on portfolio simplification this half, announcing the sales of our general insurance, lenders mortgage insurance, and Pacific businesses.

"We are embedding the Lines of Business operating model, with more responsibility delegated to our leaders. We consolidated the divisional leadership of Consumer and Business banking to simplify our operating model, improve accountability and drive efficiency.

"We are also well progressed on consolidating our international operations into the key locations of Singapore, London and New York," he said.

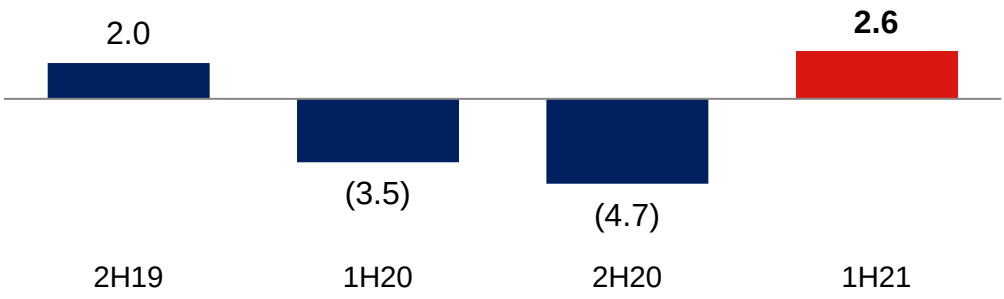
Perform

"Our performance over the past six months has improved, particularly in mortgages," Mr King said.

"Under our mortgage Line of Business, we have returned to growth through end-to-end management of the mortgage process. Getting the process right for customers and being more competitive has delivered benefits.

"We are strengthening our focus on costs and today have announced a three-year cost reset plan to set us up for being a more streamlined, simpler organisation with a stronger digital focus and smaller head office. As part of this plan, we will maintain our level of investment and expect to invest around $3.5-$4 billion back into the business over the next three years."

AUSTRALIAN GROSS MORTGAGE MOVEMENT ($bn)



For personal use only

THREE-YEAR COST PLAN

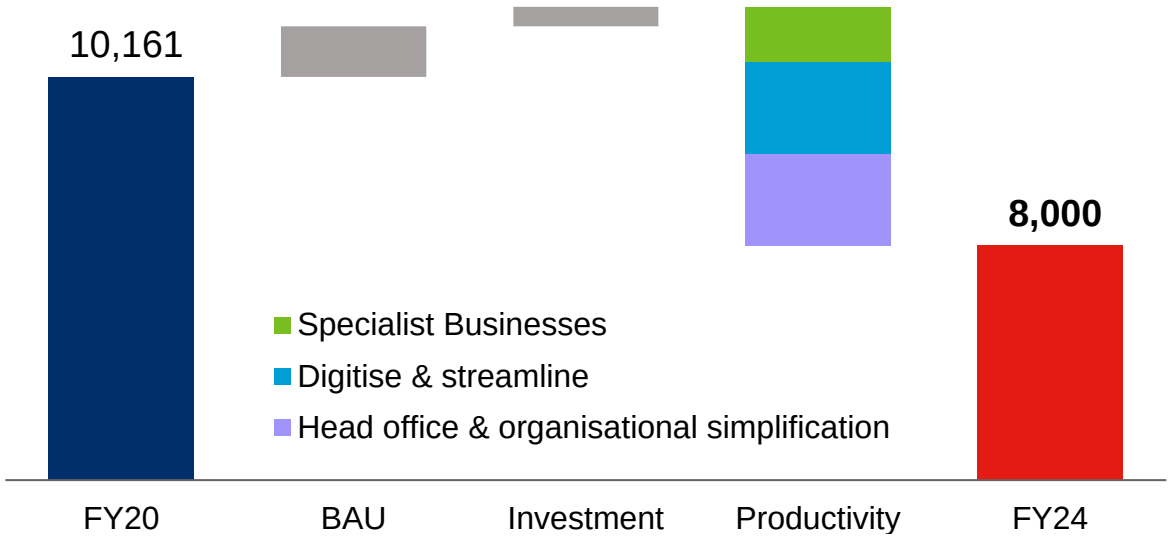
Mr King said Westpac was targeting an $8 billion cost base by financial year 2024 to materially improve its efficiency.

“A significant reset is required to ensure the business is cost competitive over the long term, particularly as we navigate the pandemic’s recovery phase and an extended low-rate environment.

“The main drivers are simplification and digitisation as we exit all specialist businesses and accelerate our digital transformation. We need to do things differently to deliver a competitive cost base, including redesigning and digitising many of our processes.

“We expect costs to increase in FY21 as we deliver on our Fix priority, before starting to fall from FY22,” he said.

COST TARGET ($bn)[4]



DIVIDENDS, CAPITAL AND BALANCE SHEET

The Westpac Board has determined an interim dividend of 58 cents per share to be paid on 25 June 2021.

The rise in cash earnings contributed to a further strengthening of the Group’s balance sheet. The CET1 capital ratio increased by 153 basis points to 12.34% while funding and liquidity metrics are all above regulatory minimums.

At 31 March 2021, the Group’s average Liquidity Coverage Ratio was 124% and Net Stable Funding Ratio was 122% compared to regulatory minimums of 100% for both.

4 Excludes notable items. References to notable items in this release include (after tax) provisions related to AUSTRAC proceedings; estimated customer refunds, payments, costs and litigation; write-down of intangible items; and asset sales/revaluations.

For personal use only

DIVISIONAL PERFORMANCE

Division	1H21 cash earnings ($m)	% change 1H20	% change 2H20	Commentary (1H21-1H20)
Consumer	1,592	8	25	Cash earnings were $120m higher than First Half 2020. Excluding notable items, cash earnings were $176m higher mostly due to an impairment benefit. Lending was little changed (down $0.5bn) with higher mortgages offset by lower cards and personal loans. Deposits increased 7% from growth in at call deposits, including switching from term deposits.
Business	920	92	259	Cash earnings were $442m higher, mainly due to an impairment benefit and lower notable items. Excluding notable items, net interest income was down $242m. Deposits were 9% higher with a $16.1bn rise in transaction balances and a $8.6bn increase in savings and online balances.
Westpac Institutional Bank	230	56	24	Cash earnings were $83m higher than First Half 2020. Excluding notable items, cash earnings were up $109m, mostly from lower impairment charges. These gains were partly offset by 19bp decline in net interest margin and lower markets revenue.
Westpac New Zealand (NZ$)	583	98	65	Cash earnings were $288m higher primarily due to an impairment benefit ($99m) compared to an impairment charge in First Half 2020 ($211m). Mortgages increased 10% while deposits were up $5bn (7%), with growth primarily in household deposits. Excluding the impact of notable items, expenses decreased $11m, mostly related to lower restructuring costs.
Specialist Businesses	134	44	Large/ $733m	Cash earnings were $41m higher than First Half 2020. Excluding notable items, cash earnings were $236m higher from an impairment benefit, while non-interest income increased 28%.

OUTLOOK

Mr King said that after a challenging 2020, the Australian economy is now rebounding with consumer sentiment at its highest level in more than a decade.

“Most significantly, unemployment is falling and there are more people employed now than pre-COVID. A strong labour market will continue to support growth in the economy,” he said.

“While challenges remain, we expect the Australian economy to expand by 4.5 per cent in 2021, supporting a 4.6 per cent increase in total credit with residential lending expanding 6.5 per cent.

“New lending for housing has surged, up 49 per cent over the past year, including a 75 per cent jump from the May 2020 low. While most interest has been from owner occupiers, investors are beginning to return to the market, with investor lending up 31 per cent over the four months to February.

“While we expect continued increases in home prices, as the supply of houses for sale increases, the rate of house price growth will likely moderate,” Mr King said.

“Businesses are positive, with most industries responding to the brisk rebound in activity and the winding back of COVID-19 restrictions. Overall business investment is forecast to expand by 3.7 per cent in 2021, centred on a 12.5 per cent lift in equipment.”

Mr King said while there remains significant work to do, Westpac has made good progress in implementing its Fix, Simplify and Perform strategic priorities.

For personal use only

“We have made good progress this half and remain focused on improving the performance of our key businesses, including reducing loan approval times,” he said.

“We are continuing to assess what is in the best interests of shareholders regarding the ownership of our New Zealand business.

“I am committed to delivering on the comprehensive plans that are now in place, including strengthening risk management, growing our core franchise, and delivering a competitive cost base.

“With a stronger economic outlook, and as Westpac becomes a simpler and stronger bank delivering more for customers, we are well positioned to deliver returns for shareholders,” Mr King said.

Video interviews with Peter King and Chief Financial Officer, Michael Rowland, on 1H21 results, are available on the Westpac Wire website – www.westpacwire.com.au

For further information:

David Lording
Head of Media Relations
M. 0419 683 411

Andrew Bowden
Head of Investor Relations
T. 02 8253 4008
M. 0438 284 863

For personal use only