

# 3Q21

# Capital, Funding and Credit Quality Update

Financial results throughout this presentation are in Australian dollars and are based on cash earnings unless otherwise stated. Refer to the 2021 Interim Financial Results Presentation and Investor Discussion Pack for definition. All numbers relating to 3Q21 are on an unaudited basis. This document should be read in conjunction with Westpac's June 2021 Pillar 3 Report, incorporating the requirements of APS330. Numbers principally cover and compare the 3Q21 and 1H21 periods unless otherwise stated.

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**FOR THE 3 MONTHS ENDED 30 JUNE 2021**

WESTPAC BANKING CORPORATION  
ABN 33 007 457 141

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# 3Q21 Summary.

Summary



## Capital

- CET1 ratio of 12.0% compared to 12.3% at March 21, lower from dividend payment and higher RWA
- RWA up \$8.5bn or 2.0% over 3Q21, mostly higher credit RWA. Mortgage credit risk weight floor 25%<sup>1</sup>
- Pro forma CET1 ratio 12.5%<sup>2</sup>
- Given excess capital and franking credits, the Board will consider a return of capital, with an update expected at our FY21 results



## Credit quality

- Stressed assets to TCE 1.51%, 9bps lower than March 21
- Mortgage 90+ day delinquencies – Australia 1.11% (down 9bps), New Zealand 0.37% (up 4bps)
- Provision cover little changed. Total provisions to credit RWAs 1.55%, down 4bps over the quarter
- Forum Finance alleged fraud included as an IAP in 3Q21
- Relatively small number of new repayment deferrals related to recent lockdowns (to 11 August 21)



## Funding and liquidity

- Funding and liquidity remain strong. LCR 127% and NSFR 123%
- Deposit to loan ratio 80.2%, compared to 79.8% at March 21
- Term Funding Facility (TFF) fully drawn down (\$30bn). \$8bn drawn in 3Q21



## Other

- Australian mortgages and Australian business lending grew at 1x system in 3Q21<sup>3</sup>
- Confirming key 2H21 considerations indicated at 1H21
  - Margins for 2H21 expected to be lower than 1H21
  - FY21 expenses expected to be higher than FY20 (excl notable items)
- Completed sale of General Insurance. Responding to PNG's ICCC interim findings on Westpac Pacific sale<sup>4</sup>
- Announced sales of Motor Vehicle Finance, New Zealand Life insurance and Australian Life business

<sup>1</sup> Risk weight floor % is ratio of risk weighted assets to exposure at default. <sup>2</sup> Refer to page 13 for further details of the announced divestments and the expected CET1 benefit. <sup>3</sup> Mortgage system is based on APRA banking statistics, business lending is based on RBA financial system. <sup>4</sup> On 26 July 2021, Westpac announced that PNG's Independent Consumer and Competition Commission (ICCC) has released its draft determination indicating it proposes to deny authorisation to Kina Bank for the proposed acquisition of Westpac's stake in Westpac Bank PNG Limited. Westpac and Kina Bank are currently reviewing the draft determination and intend to make further submissions to the ICCC before its final determination is issued in September 2021, following a public consultation period.

# Supporting customers, communities and our people.

COVID-19

We have continued to operate effectively through the latest lockdown.

## New and ongoing support to customers

- New support for eligible customers announced in July 2021 including<sup>1</sup>:
  - Short term deferrals for **mortgages, personal loans** and **small business loans**
  - Repayment and interest rate reductions for **credit cards**
  - **Interest free** temporary overdrafts up to \$15k on a maximum 45-day term for business customers
  - Access to term deposit or farm management deposits early with **no interest adjustment**
- To 11 August 21, **\$1.6bn** in home loan balance deferrals (~**3,700** customers) and **\$29.5m** in business loan balance deferrals (~**725** customers) have been approved<sup>2</sup>
- This is in addition to standard hardship support options available to customers experiencing financial difficulty

## Supporting key infrastructure

- System availability **>99%** in 2021<sup>3</sup>
- **96%** of branches remain open<sup>4</sup>
- Increased staff in operations and call centres
- Continue to return certain capabilities and operations onshore

## 2020 support

- In 2020 we provided \$55bn in mortgage deferrals to 149k customers, and \$10bn in business loan deferrals to 33k customers
- Most customers returned to payment with **~\$1.9bn** in mortgages and **\$0.4bn** in business lending migrating to hardship

## Supporting our people

- Supporting **vaccine** rollout
  - Special **paid leave** to get vaccinated
  - **Voluntary vaccination program** currently available to all employees in greater Sydney and household members of customer facing staff in the most impacted local government areas (LGAs)
- Special **paid leave** when in isolation
- Pilot program for **rapid antigen testing** for employees in some key operational sites and the most impacted LGAs
- Over **25,000** employees working from home
- Less than **1%** of capacity on site in our Sydney CBD head office sites (275 Kent St and Barangaroo)<sup>5</sup>
- Wellbeing and mental health support

<sup>1</sup> For further details of support and conditions refer westpac.com.au. <sup>2</sup> Support provided only relates to those customers who have accessed COVID-19 emergency support since 10 July 2021. Business loans also include equipment finance and auto loans to business customers. <sup>3</sup> Refers to availability of customer channels. <sup>4</sup> Some branches have been operating at reduced hours but remain open. <sup>5</sup> Refers to the average number of employees on site for the four weeks to 6 August 2021 compared to the capacity of the buildings.

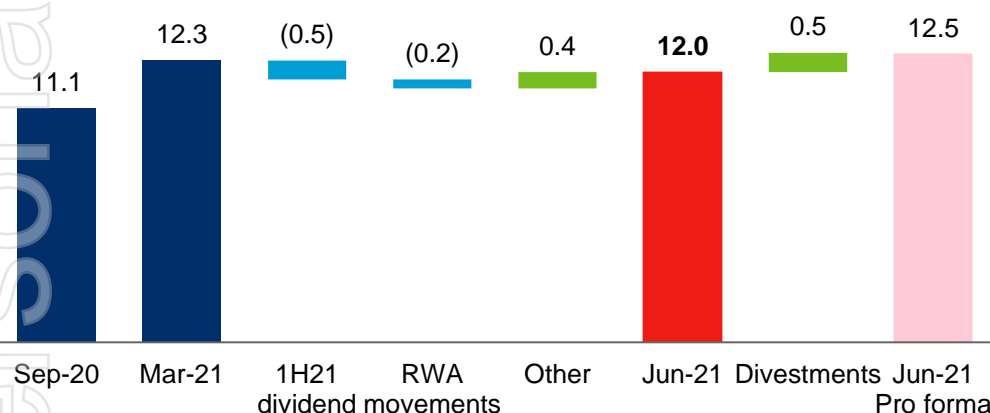
# Capital remains well above APRA's unquestionably strong benchmark of 10.5%.

Capital

## CET1 capital ratio movements

- CET1 capital ratio of 12.0% at June 21, down from 12.3% at March 21 from
  - Interim dividend payment (49bps)
  - Increase in RWAs mainly from higher mortgage RWAs (22bps)
  - This was partly offset by 3Q21 cash earnings and the benefit from the sale of Coinbase Inc. shares
- On a pro forma basis, the CET1 capital ratio is 12.5% including announced divestments<sup>1</sup>
- Higher mortgage RWAs mostly from a management overlay to increase the mortgage risk weight floor to 25% (RWA to EAD) reflecting anticipated unwind of temporary COVID-19 stimulus effects and our expectation that mortgage risk weights will rise from APRA's future RWA changes

## CET1 capital ratio (%)



| Key capital ratios (%)                               | Sep-20 | Mar-21 | Jun-21      |
|--|--------|--------|-------------|
| <b>CET1 capital ratio</b>                            | 11.1   | 12.3   | <b>12.0</b> |
| Additional Tier 1 capital ratio                      | 2.1    | 2.2    | <b>2.2</b>  |
| Tier 1 capital ratio                                 | 13.2   | 14.5   | <b>14.2</b> |
| Tier 2 capital ratio                                 | 3.1    | 3.9    | <b>4.2</b>  |
| Total regulatory capital ratio                       | 16.4   | 18.4   | <b>18.4</b> |
| Risk weighted assets (RWA) (\$bn)                    | 438    | 429    | <b>437</b>  |
| Leverage ratio                                       | 5.8    | 6.3    | <b>5.9</b>  |
| <b>Level 1 CET1 capital ratio</b>                    | 11.4   | 12.6   | <b>12.2</b> |
| <b>Internationally comparable ratios<sup>2</sup></b> |        |        |             |
| Leverage ratio (internationally comparable)          | 6.5    | 6.9    | <b>6.5</b>  |
| CET1 capital ratio (internationally comparable)      | 16.5   | 18.1   | <b>17.7</b> |

<sup>1</sup> Refer to page 13 for further details of the announced divestments and the expected CET1 benefit. <sup>2</sup> Internationally comparable methodology aligns with the APRA study titled 'International Capital Comparison Study' dated 13 July 2015.

# Regulatory developments and risk weighted assets.

Capital

## Regulatory developments

- APRA advised that COVID-19 loan deferrals will not be treated as a period of arrears or loan restructuring
- On 21 July 2021, APRA released further guidance on the implementation of Basel III reforms including
  - The CET1 requirement (comprising the minimum requirement and buffers) for the major banks is proposed to increase from 8% to 10.5% from 1 January 2023
  - The interest-only (IO) component of non-standard mortgages amended to IO loans with a current contractual term >5 years and a loan to valuation ratio >80%. We estimate that less than \$10bn of mortgages at 30 June 2021 meet this criteria
  - We expect further clarity on the changes ahead of 1 January 2023 implementation
- On 5 August 2021, APRA released the final revised APS 111 standard which will come into force from 1 January 2022. The changes are expected to reduce the Level 1 CET1 capital ratio by ~20bps, primarily from Westpac's equity investment in WNZL

## Risk weighted assets (\$bn)

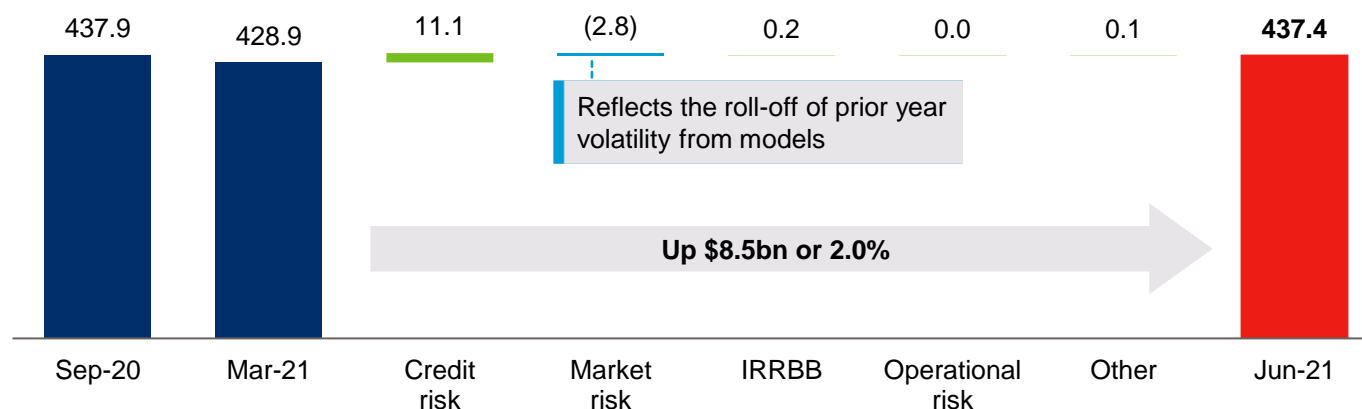
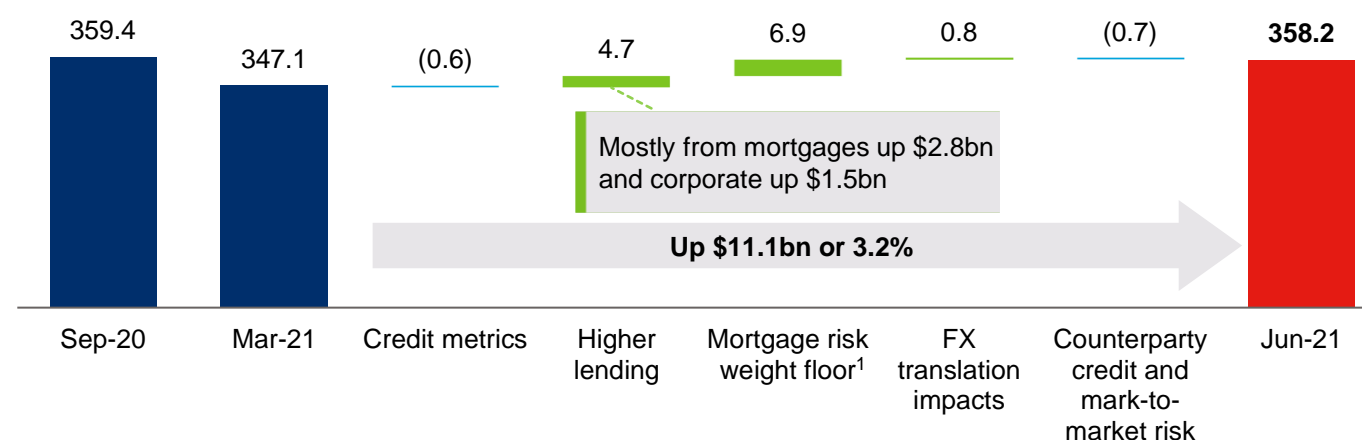


Chart may not add due to rounding

## Credit risk weighted assets (\$bn)



<sup>1</sup> Refer to page 4 for further details.

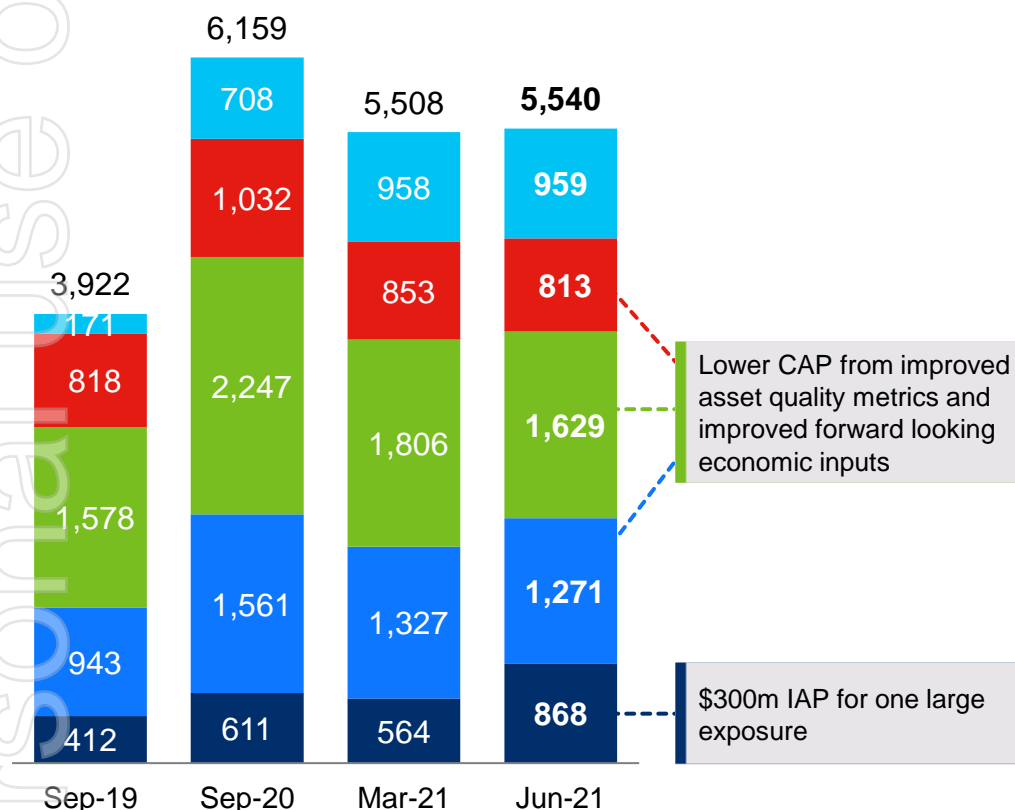
# Provisions.

Prudence maintained.

Credit quality

## Total impairment provisions<sup>1</sup> (\$m)

- Overlay
- Stage 1 CAP
- Stage 2 CAP
- Stage 3 CAP
- IAP (Stage 3)



| Provision coverage                     | Sep-20 | Mar-21 | Jun-21 |
|--|--------|--------|--------|
| Provisions to Credit RWA               | 171bps | 159bps | 155bps |
| Provisions to TCE                      | 58bps  | 51bps  | 50bps  |
| Impaired provisions to impaired assets | 41.5%  | 47.0%  | 55.0%  |

## Forecasts used in base case economic scenario<sup>2</sup>

|  | At Mar 2021 |      | At Jun 2021 |      |
|--|-------------|------|-------------|------|
|  | 2021        | 2022 | 2021        | 2022 |
| GDP growth                                     | 4.0%        | 3.0% | 4.8%        | 3.2% |
| Unemployment                                   | 6.0%        | 5.3% | 5.0%        | 4.7% |
| Residential property price increase/(decrease) | 10%         | 10%  | 15%         | 5%   |

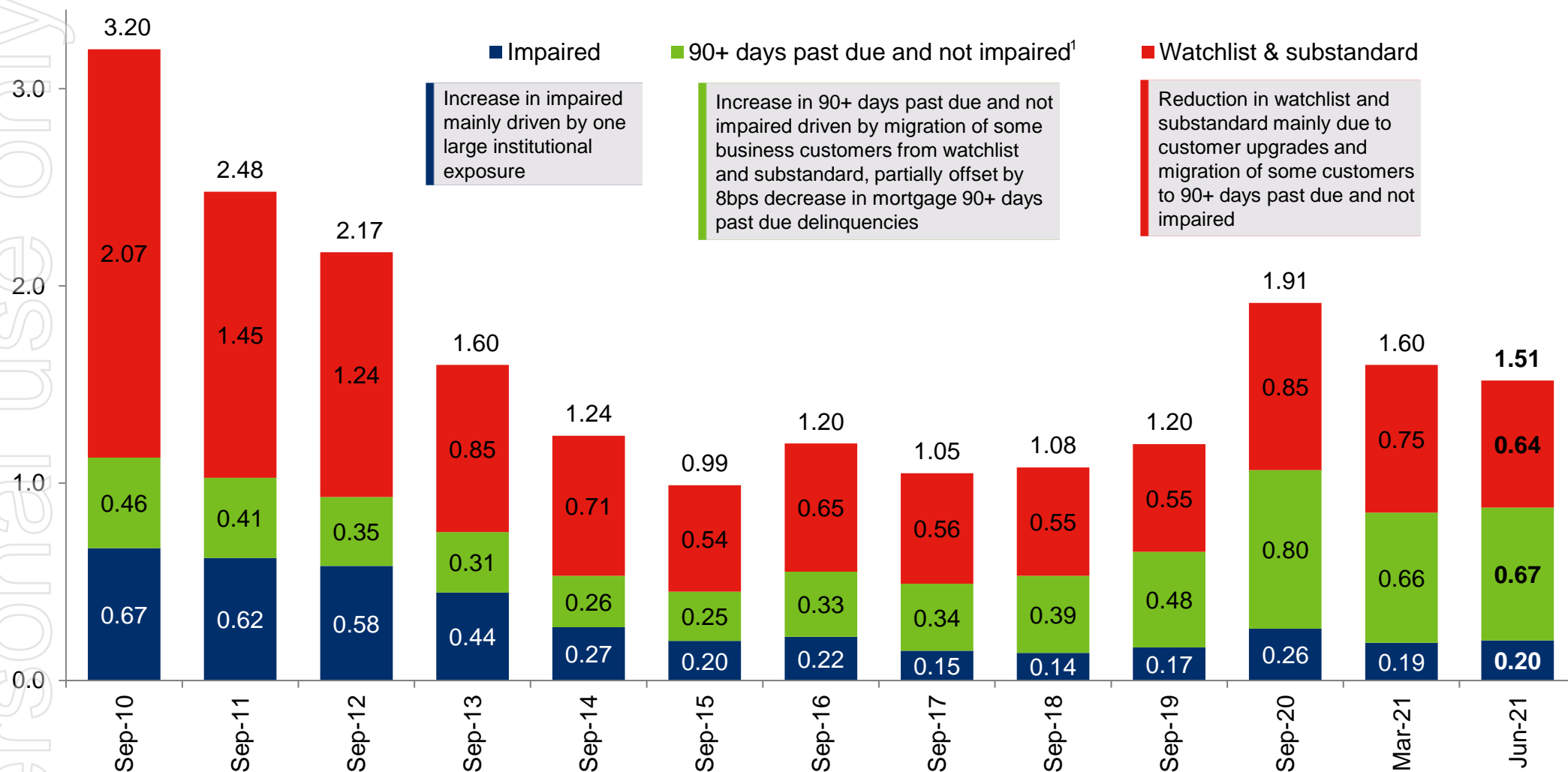
<sup>1</sup> CAP is Collectively Assessed Provision. IAP is Individually Assessed Provision. <sup>2</sup> GDP and Residential property price growth is annual growth to December each year. Unemployment rate forecast is as at year end. Forecasts used for June 21 were determined 7 June 21. These forecasts are likely to change in light of recent lockdowns.

# Credit quality.

Stressed exposures down 9bps in 3Q21.

Credit quality

## Stressed exposures as a % of TCE

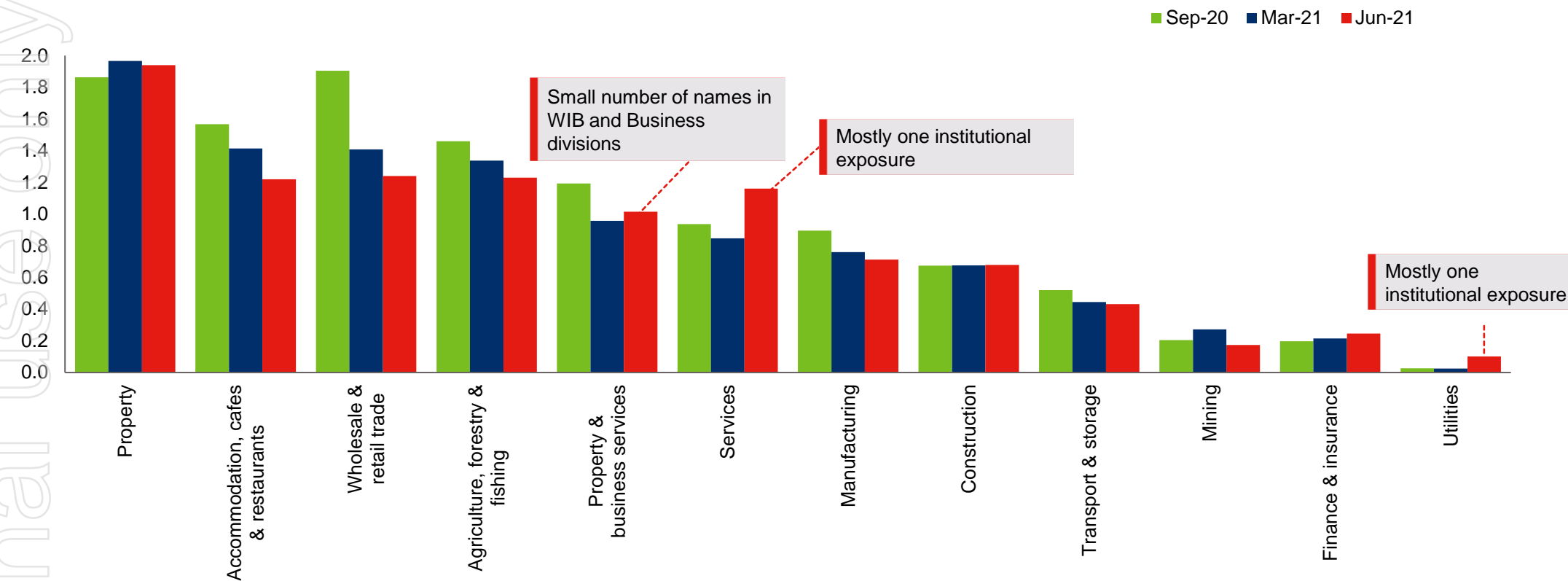


<sup>1</sup> Facilities 90 days or more past due date and not impaired. These facilities, while in default, are not treated as impaired for accounting purposes.

# Stressed exposures reduced across most sectors.

Credit quality

## Corporate and business stressed exposures by industry sector (\$bn)



## Stressed exposures to TCE by sector

| Sector     | Property | Accomm., cafes & restaurants | Wholesale & retail trade | Agriculture, forestry & fishing | Property & business services | Services <sup>1</sup> | Manufacturing | Construction | Transport & storage | Mining | Finance & insurance | Utilities |
|------------|----------|------------------------------|--------------------------|---------------------------------|------------------------------|-----------------------|---------------|--------------|---------------------|--------|---------------------|-----------|
| Mar-21 (%) | 2.9      | 14.6                         | 4.8                      | 6.0                             | 4.3                          | 3.7                   | 3.3           | 6.1          | 2.7                 | 3.4    | 0.2                 | 0.2       |
| Jun-21 (%) | 2.9      | 12.8                         | 3.9                      | 5.4                             | 4.7                          | 5.1                   | 3.2           | 6.2          | 2.5                 | 2.0    | 0.2                 | 0.7       |

<sup>1</sup> Services includes education, health & community services, cultural & recreational services and personal & other services.



# Australian consumer portfolio.

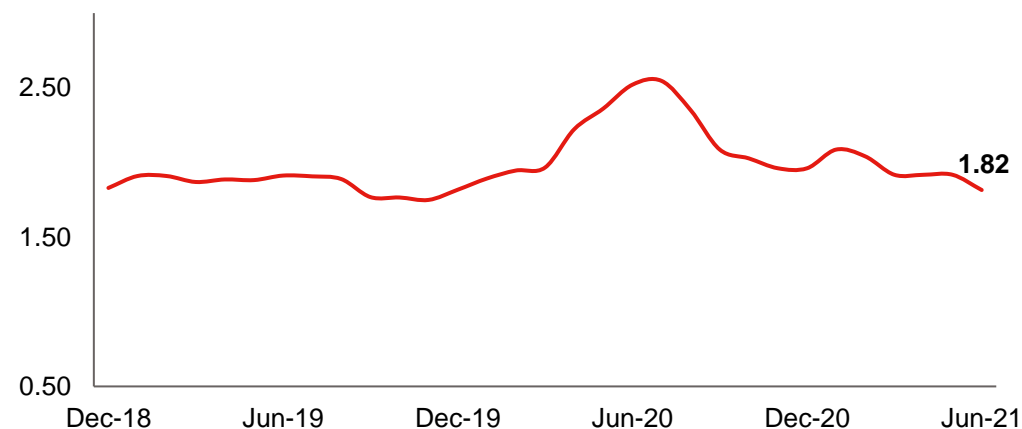
Credit quality

## Australian consumer finance portfolio<sup>1</sup>

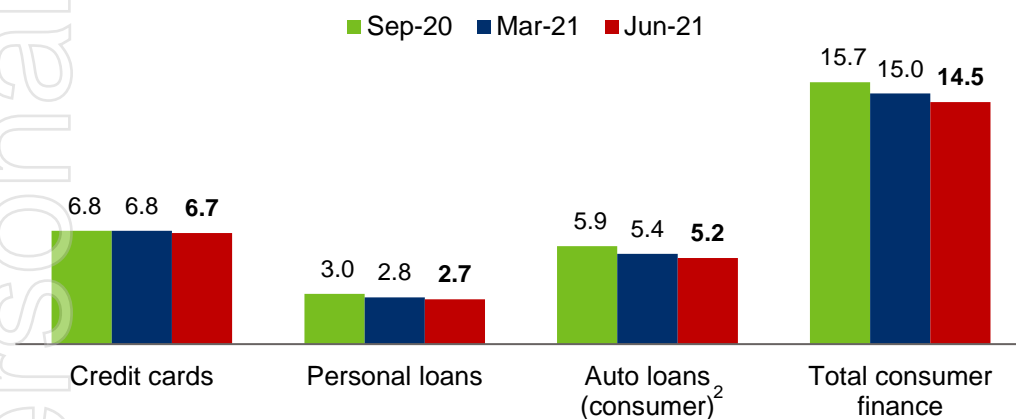
|                           | Sep-20   | Mar-21   | Jun-21          |
|---------------------------|----------|----------|-----------------|
| Lending                   | \$15.7bn | \$15.0bn | <b>\$14.5bn</b> |
| 30+ day delinquencies (%) | 3.62     | 3.58     | <b>3.25</b>     |
| 90+ day delinquencies (%) | 2.09     | 1.92     | <b>1.82</b>     |

90+ day delinquencies improved 10bps over 3Q21, reflecting 16bps improvement in portfolio, partially offset by 6bps from portfolio contraction. 30+ day delinquency improved 33bps over the period, reflecting 43bps improvement in portfolio, partially offset by 10bps from portfolio contraction

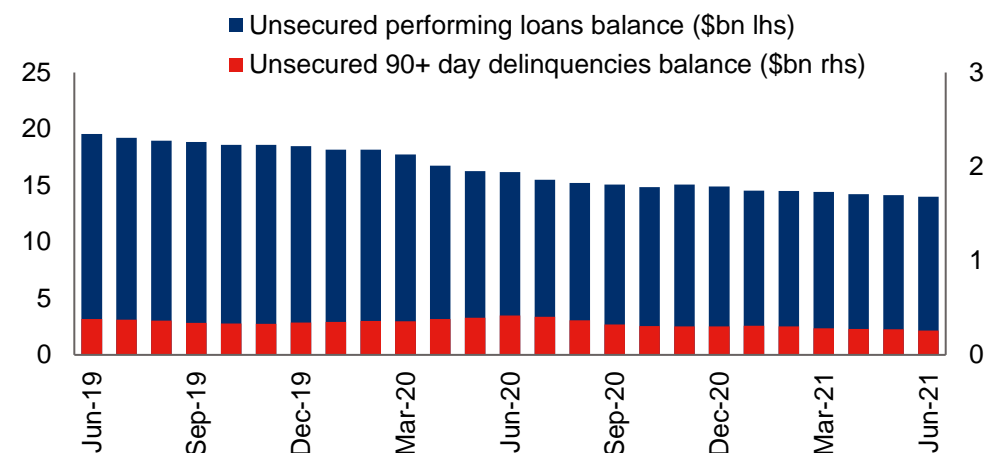
## Australian consumer finance 90+ day delinquencies (%)



## Australian consumer finance portfolio (\$bn)<sup>1</sup>



## Australian consumer finance portfolio (\$bn)



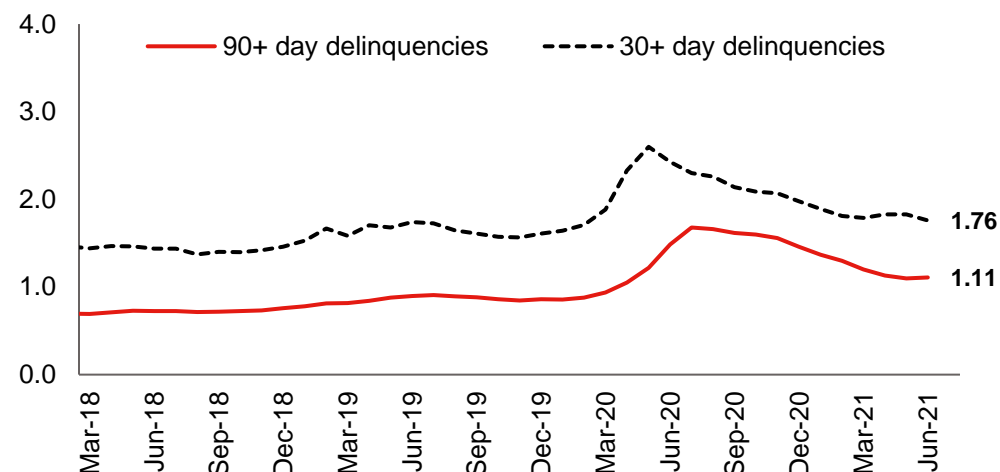
<sup>1</sup> Does not include margin lending. <sup>2</sup> These Auto loans only relate to consumer loans and do not relate to loans outstanding to business customers. These loans will be run-down over their contractual term.

# Australian mortgage delinquencies.

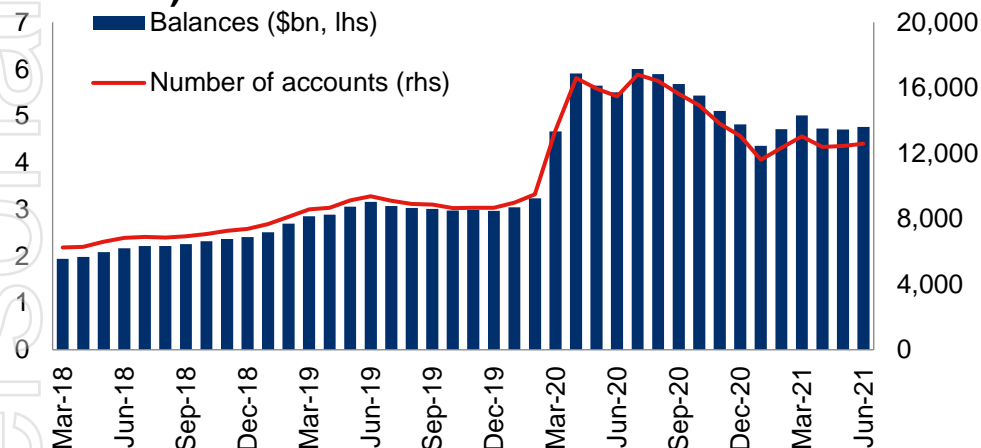
Mortgage credit quality

| Australian mortgages  | Sep-20 | Mar-21 | Jun-21     |
|---|--------|--------|------------|
| Total portfolio 30+ day delinquencies (bps)   | 214    | 179    | <b>176</b> |
| Total portfolio 90+ day delinquencies (bps)<br>(incl. impaired mortgages)           | 162    | 120    | <b>111</b> |
| Investment property loans<br>90+ day delinquencies (bps)                            | 148    | 118    | <b>109</b> |
| Interest-only loans<br>90+ day delinquencies (bps)                                  | 125    | 91     | <b>84</b>  |
| Customers in hardship <sup>1</sup> (by balances, bps)                               | 129    | 113    | <b>106</b> |
| Consumer properties in possession (number)  | 256    | 180    | <b>199</b> |
| Actual mortgage loss rate annualised <sup>2</sup> (bps,<br>for the 6 months ending) | 3      | 2      | <b>2</b>   |

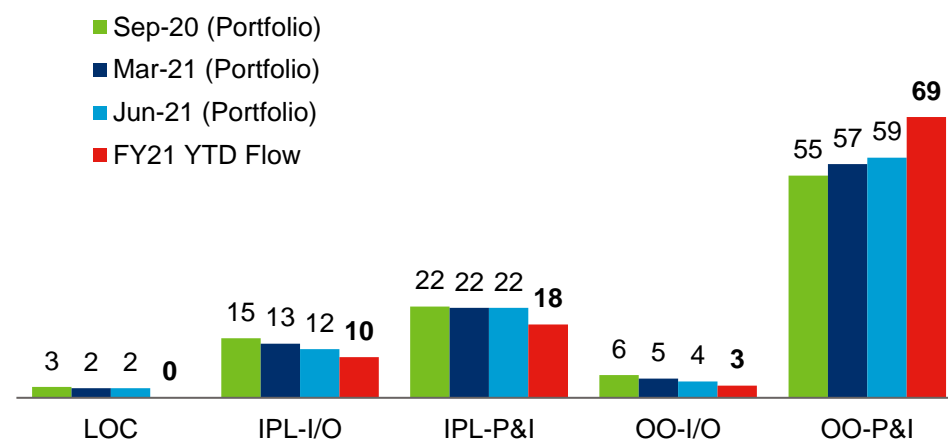
## Australian mortgage delinquencies (%)



## Australian mortgage hardship balances (\$bn and # of accounts)



## Australian mortgage portfolio and FY21 YTD flow by product and repayment type (%)

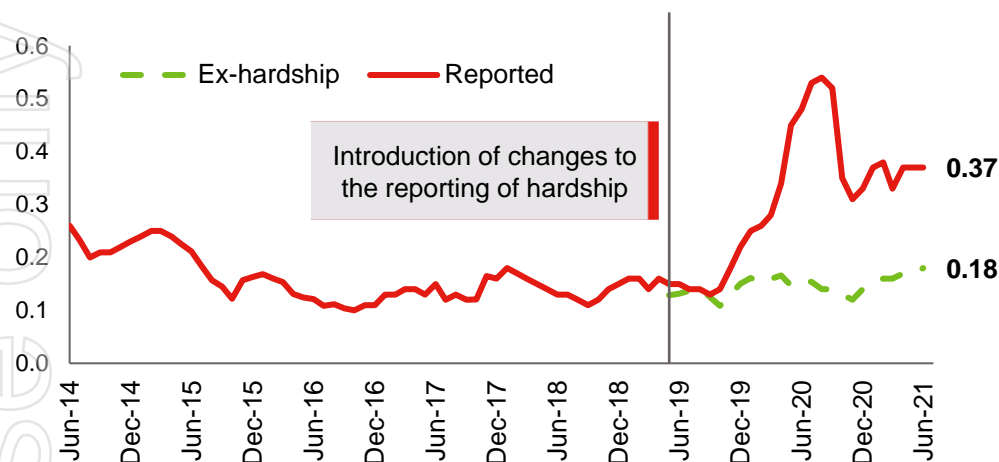


<sup>1</sup> Financial hardship assistance is available to customers experiencing unforeseen events, including changes in income due to illness, a relationship breakdown or a natural disaster. Hardship assistance often takes the form of a reduction or deferral of repayments for a short period. Customers requesting financial hardship assistance must provide a statement of financial position and an assessment is made regarding their eligibility. <sup>2</sup> Mortgage loss rates are annualised write-offs for the 6 months ending.

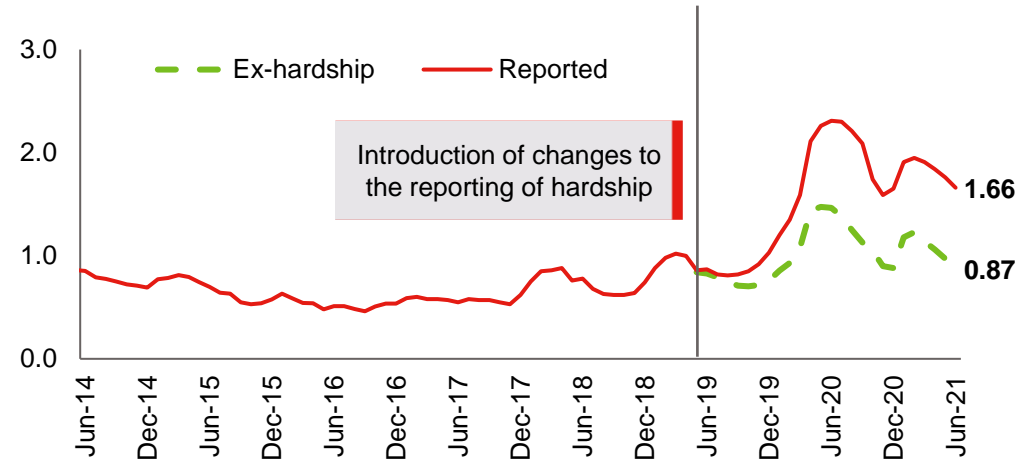
# New Zealand credit quality remains sound.

Credit quality

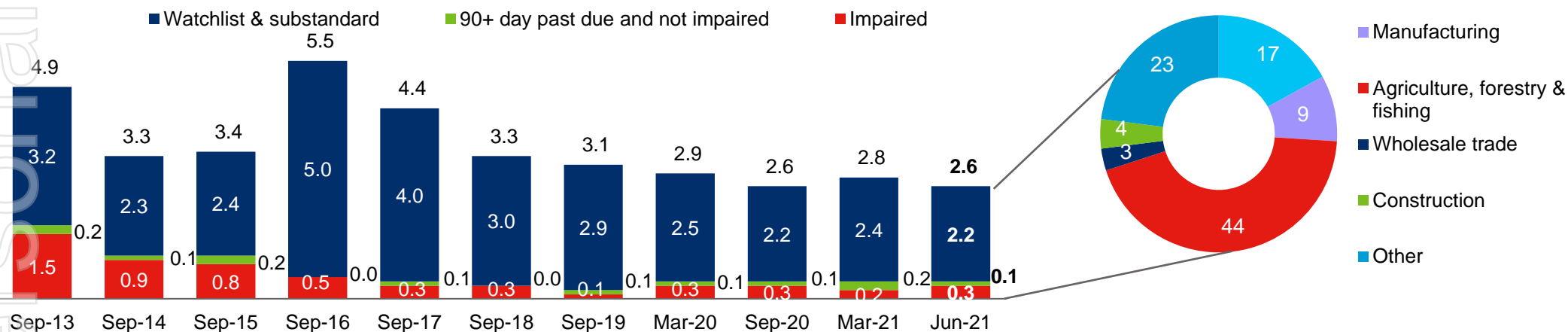
## Mortgage 90+ day delinquencies<sup>1</sup> (%)



## Unsecured consumer 90+ day delinquencies<sup>1</sup> (%)



## Business stressed exposures as a % of New Zealand business TCE



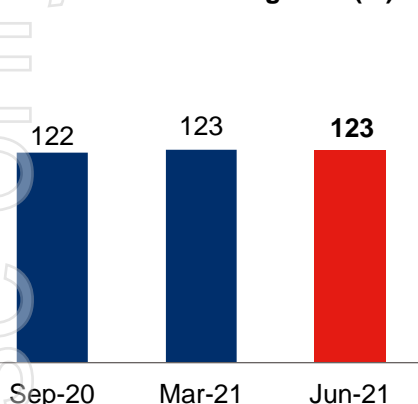
<sup>1</sup> In May 2019 we made changes to the reporting of customers in hardship to align to the method used by APRA.

# Funding and liquidity.

Funding and liquidity

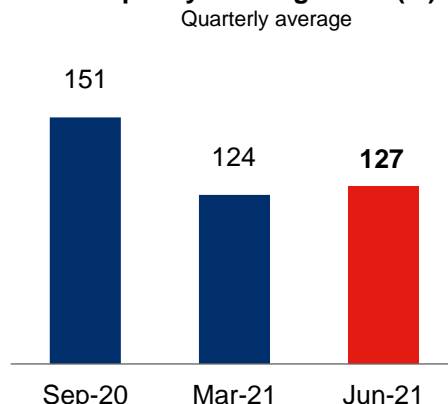
## Key funding and liquidity measures

Net stable funding ratio (%)

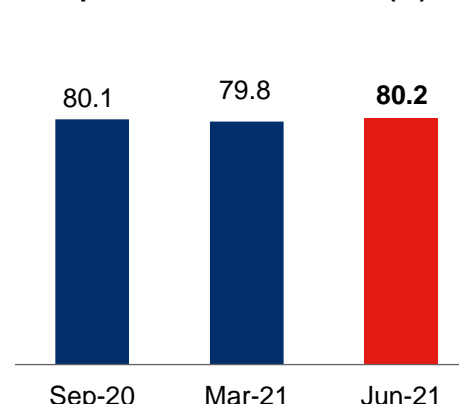


Liquidity coverage ratio (%)

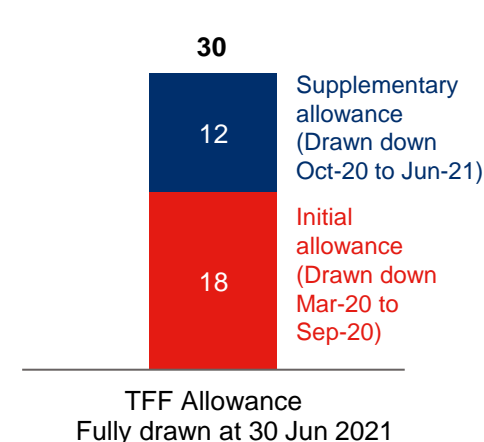
Quarterly average



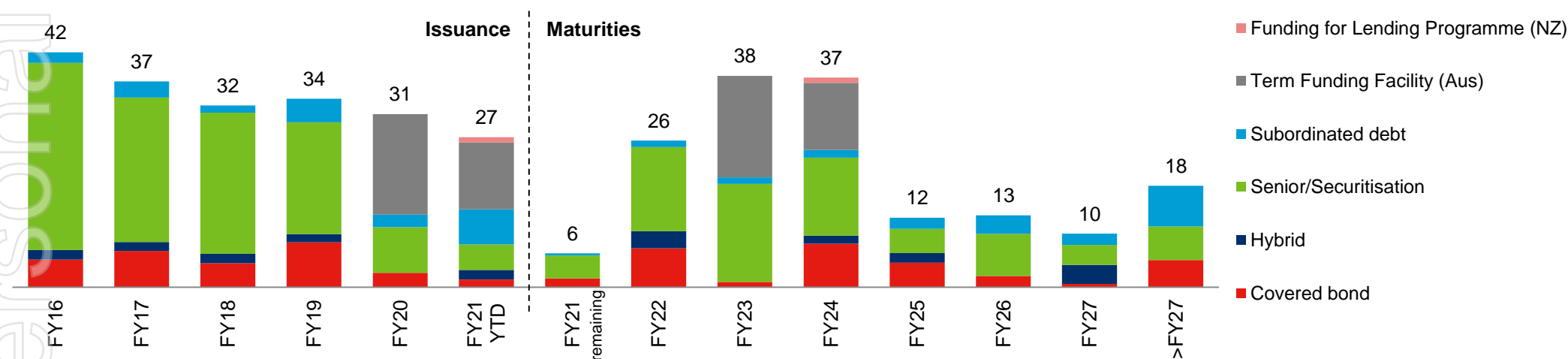
Deposits to net loans ratio (%)



Term Funding Facility<sup>1</sup> (TFF) (\$bn)



## Term debt issuance and maturity profile<sup>2</sup> (\$bn)



<sup>1</sup> Westpac's Additional Allowance at 30 June 2021 was zero. <sup>2</sup> Based on residual maturity and FX spot currency translation. Includes all debt issuance with contractual maturity greater than 13 months excluding US Commercial Paper and Yankee Certificates of Deposit. Contractual maturity date for hybrids and callable subordinated instruments is the first scheduled conversion date or call date for the purposes of this disclosure. Perpetual sub-debt has been included in >FY27 maturity bucket. Maturities exclude securitisation amortisation.

# Portfolio simplification progress.

Simplification

| Businesses sold                          | Announced | Completed           | Expected divestment CET1 benefit (bps) |
|--|-----------|---------------------|--|
| Zip Co Ltd.                              | Oct 2020  | Oct 2020            | Realised                               |
| Coinbase Inc.                            | May 2021  | May 2021            | Realised                               |
| General Insurance                        | Dec 2020  | Jul 2021            | 12                                     |
| Vendor Finance                           | Aug 2020  | Aug 2021            | -                                      |
| Announced sale                           | Announced | Completion expected |  |
| Westpac Pacific <sup>1,2</sup>           | Dec 2020  | Dec 2021            | 6                                      |
| Westpac LMI                              | Mar 2021  | Sep 2021            | 7                                      |
| Motor Vehicle Finance                    | Jun 2021  | Dec 2021            | 6                                      |
| NZ Life Insurance                        | Jul 2021  | Dec 2021            | 7                                      |
| Westpac Life Insurance                   | Aug 2021  | Second half of 2022 | 12                                     |
| <b>Total expected divestment benefit</b> |           |                     | <b>50</b>                              |

| Operations within Specialist Businesses Division |
|--|
| Superannuation, Platforms and Investments        |

<sup>1</sup> On 26 July 2021, Westpac announced that PNG's Independent Consumer and Competition Commission (ICCC) has released its draft determination indicating it proposes to deny authorisation to Kina Bank for the proposed acquisition of Westpac's stake in Westpac Bank PNG Limited. Westpac and Kina Bank are currently reviewing the draft determination and intend to make further submissions to the ICCC before its final determination is issued in September 2021, following a public consultation period. <sup>2</sup> Impact reflects the remaining CET1 impact expected to occur by Dec 2021 (mainly the release of risk weighted assets upon sale). The accounting loss on sale in Westpac Pacific included in First Half 2021 notable items impacted the CET1 ratio for June 21. In total, the sale of Westpac Pacific is expected to add approximately 3bps to Westpac's Common Equity Tier 1 capital ratio.

# Investor Relations Team.

Contact us.

Contact us

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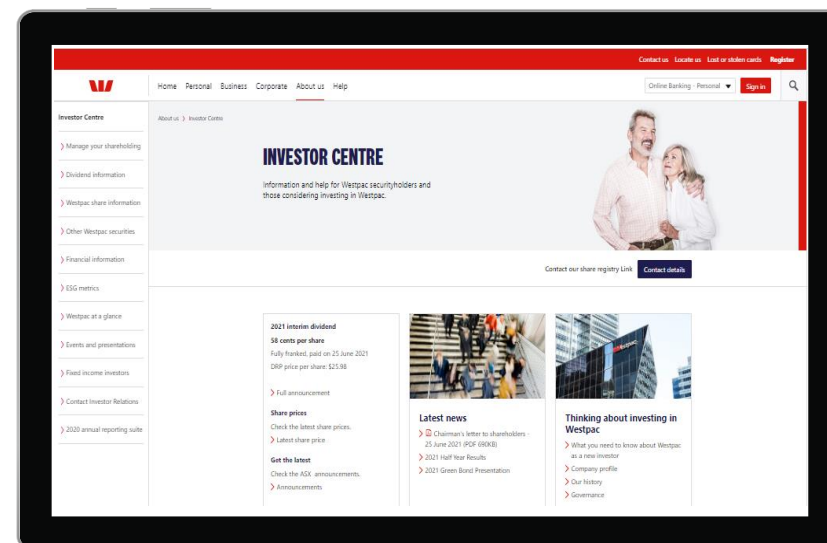
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For all shareholding enquiries relating to:

- Address details and communication preferences
- Instructions for dividends including: bank account, participation in the dividend reinvestment plan, or the dividend donation plan



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All amounts are in Australian dollars unless otherwise indicated.

Unless otherwise noted, financial information in this presentation is presented on a cash earnings basis. Cash earnings is a non-GAAP measure. Refer to Westpac's 2021 Interim Financial Results (incorporating the requirements of Appendix 4D) for the six months ended 31 March 2021 available at [westpac.com.au](http://westpac.com.au) for details of the basis of preparation of cash earnings. Refer to Westpac's 2021 Interim Financial Results Presentation and Investor Discussion Pack for an explanation of cash earnings and a reconciliation of reported net profit to cash earnings.

The financial information for the three months ended 30 June 2021 has not been audited or reviewed by any independent registered public accounting firm and has been derived from the unaudited financial statements for the quarter ended 30 June 2021. Any other financial information provided as at a date after 30 June 2021 has not been audited or reviewed by any independent registered public accounting firm either. The information contained in this presentation is presented for information purposes only, is based on management's current information and reflects management's view of other factors, including a wide variety of significant business, economic and competitive risks and uncertainties, which may be heightened during the ongoing COVID-19 pandemic. Certain data herein may involve underlying estimates, assumptions and judgments when applying accounting policies and preparing its financial statements, particularly in connection with the calculation of provisions. Any change in such estimates, assumptions and/or judgments resulting from new information or from changes in circumstances or experience could result in Westpac incurring losses greater than those anticipated or provided for.

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