

**ASX**

# Release

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**17 February 2023**

## **WESTPAC 1Q23 CAPITAL, CREDIT QUALITY AND FUNDING UPDATE**

Following is Westpac's 1Q23 slides covering capital, credit quality and funding for the three months ended December 2022.

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

# 1Q23 Capital, Credit Quality and Funding Update

This document should be read in conjunction with Westpac's December 2022 Pillar 3 Report. Content principally covers and compares the 1Q23 and 2H22 quarterly average periods unless otherwise stated. All amounts are in Australian dollars.

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**FOR THE 3 MONTHS ENDED 31 DECEMBER 2022**

WESTPAC BANKING CORPORATION  
ABN 33 007 457 141

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# 1Q23 summary.



## Solid capital position

- CET1<sup>1</sup> capital ratio of 11.13%
- From 1 Jan-23 CET1 capital ratio increases ~45bps under APRA's revised capital framework<sup>2</sup>
- RWA<sup>3</sup> up \$2.8bn or 0.6%, mostly from higher lending



## Sound credit quality

- Stressed assets to TCE<sup>4</sup> 1.06%, down 1bp
- Mortgage 90+ day delinquencies:
  - Australia 0.70%, down 5bps
  - New Zealand 0.24%, up 2bps
- CAP<sup>5</sup> to credit RWA 121bps, up 5bps
- Impairment charge of \$184m
  - IAP<sup>6</sup> benefit of \$107m
  - CAP charge of \$291m



## Strengthened funding and liquidity

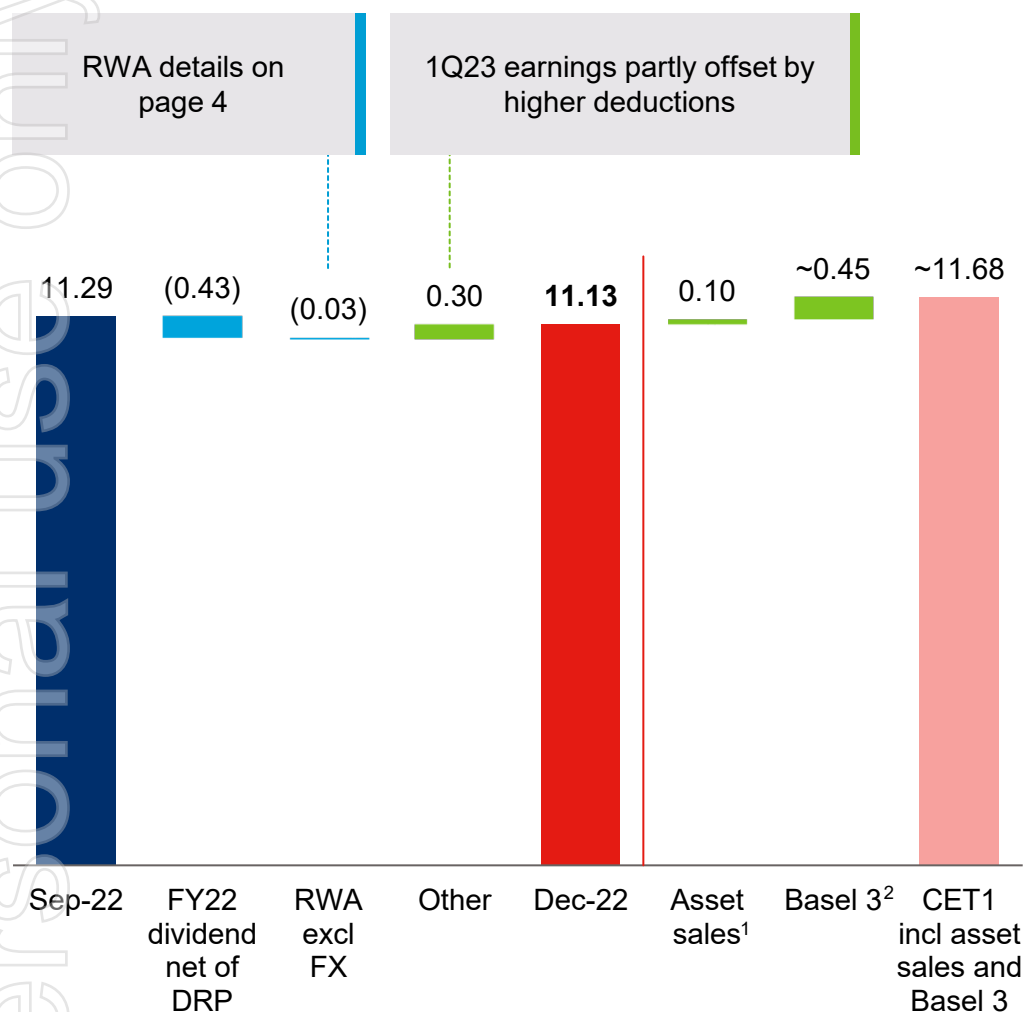
- LCR<sup>7</sup> at 139%, up 7 pts
- NSFR<sup>8</sup> at 122%, up 1 ppt
- Deposit to loan ratio 84.0%, up 1.1 pts

<sup>1</sup> Common equity tier 1 (CET1). <sup>2</sup> The CET1 increase is an estimate and may change on the final implementation of APRA's revised framework. <sup>3</sup> Risk weighted assets (RWA). <sup>4</sup> Total committed exposure (TCE). <sup>5</sup> Collectively assessed provisions (CAP). <sup>6</sup> Individually assessed provisions (IAP). <sup>7</sup> Liquidity coverage ratio (LCR). <sup>8</sup> Net stable funding ratio (NSFR).

# CET1 capital ratio 11.13%.

Capital

## Level 2 CET1 capital ratio movements (%)

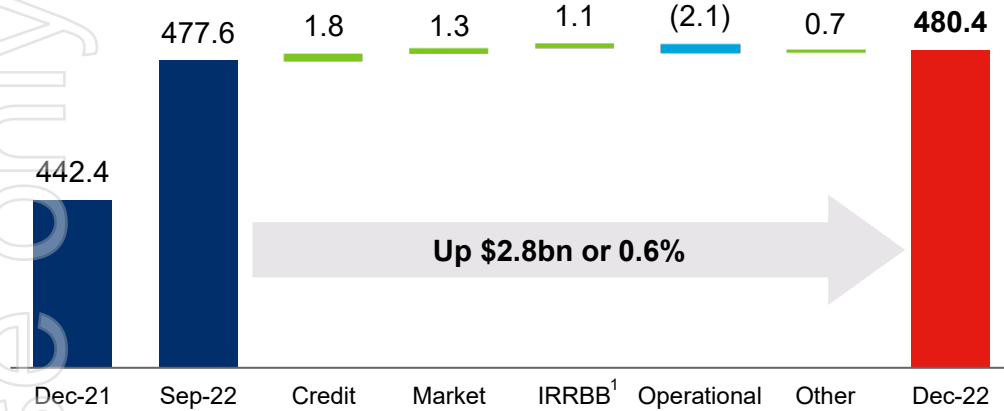


Key capital ratios (%)	Dec-21	Sep-22	Dec-22
<b>Level 2 CET1 capital ratio</b>	12.2	11.3	<b>11.1</b>
Additional Tier 1 capital ratio	2.2	2.1	<b>2.1</b>
Tier 1 capital ratio	14.4	13.4	<b>13.2</b>
Tier 2 capital ratio	4.8	5.0	<b>4.9</b>
Total regulatory capital ratio	19.2	18.4	<b>18.1</b>
Risk weighted assets (RWA) (\$bn) <sup>3</sup>	442	478	<b>480</b>
Leverage ratio	5.8	5.6	<b>5.5</b>
<b>Level 1 CET1 capital ratio</b>	12.4	11.3	<b>11.1</b>
<b>Internationally comparable ratios<sup>4</sup></b>			
Leverage ratio (internationally comparable)	6.3	6.0	<b>5.9</b>
CET1 capital ratio (internationally comparable)	18.0	17.6	<b>17.4</b>

<sup>1</sup> Reflects announced exits relating to Superannuation and the Advance Asset Management business, 10bps (subject to divestment completion occurring). <sup>2</sup> Increase is an estimate and may change on the final implementation of APRA's revised framework. <sup>3</sup> Actual movement is \$2.8bn in 1Q23, but does not add due to rounding. <sup>4</sup> Internationally comparable methodology aligns with the APRA study titled 'International Capital Comparison Study' dated 13 July 2015.

# Risk weighted assets movements.

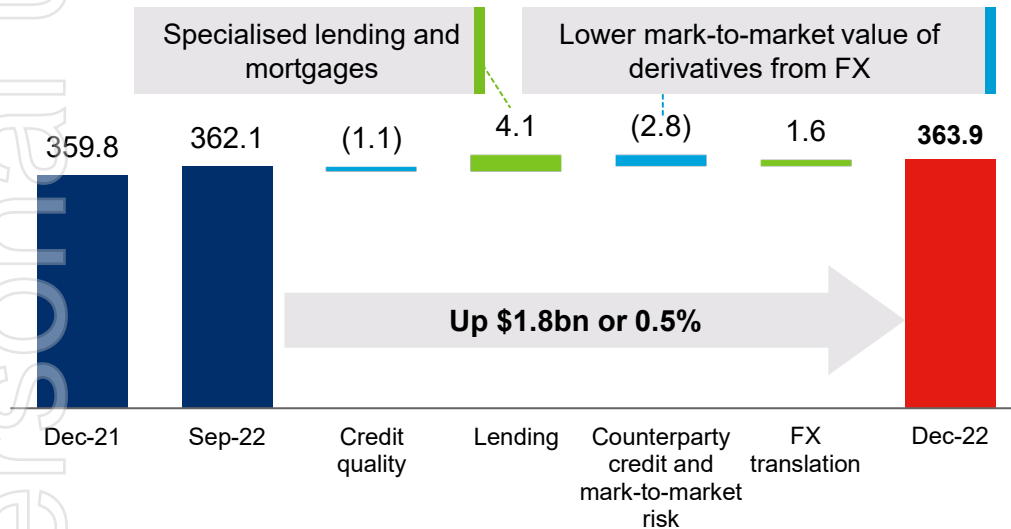
## Risk weighted assets (RWA) (\$bn)



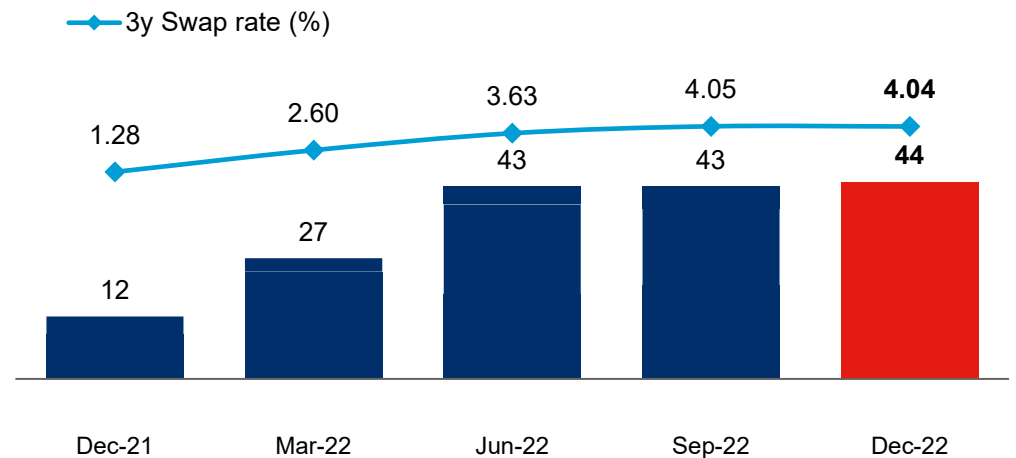
• RWA up \$2.8bn or 0.6% from:

- Credit RWA increased \$1.8bn (4bps impact) due to loan growth partly offset by lower counterparty credit risk
- Market RWA up \$1.3bn (3bps impact) mainly from underlying portfolio movements
- IRRBB RWA up \$1.1bn (3bps impact) mainly from the underlying portfolio which impacted the repricing and yield curve risk component of the IRRBB calculation, while regulatory embedded loss was lower
- Operational RWA down \$2.1bn (5bps impact) due to reduced operational risk assessed under APRA's Standardised Measurement Approach<sup>2</sup>

## Movement in credit risk weighted assets (\$bn)



## IRRBB RWA (\$bn)



<sup>1</sup> Interest rate risk in the banking book (IRRBB). <sup>2</sup> Westpac adopted the Standardised Measurement Approach to calculate operational risk capital from Jan-22. Under the revised standard, operational risk was calculated using the FY22 audited financial statements.

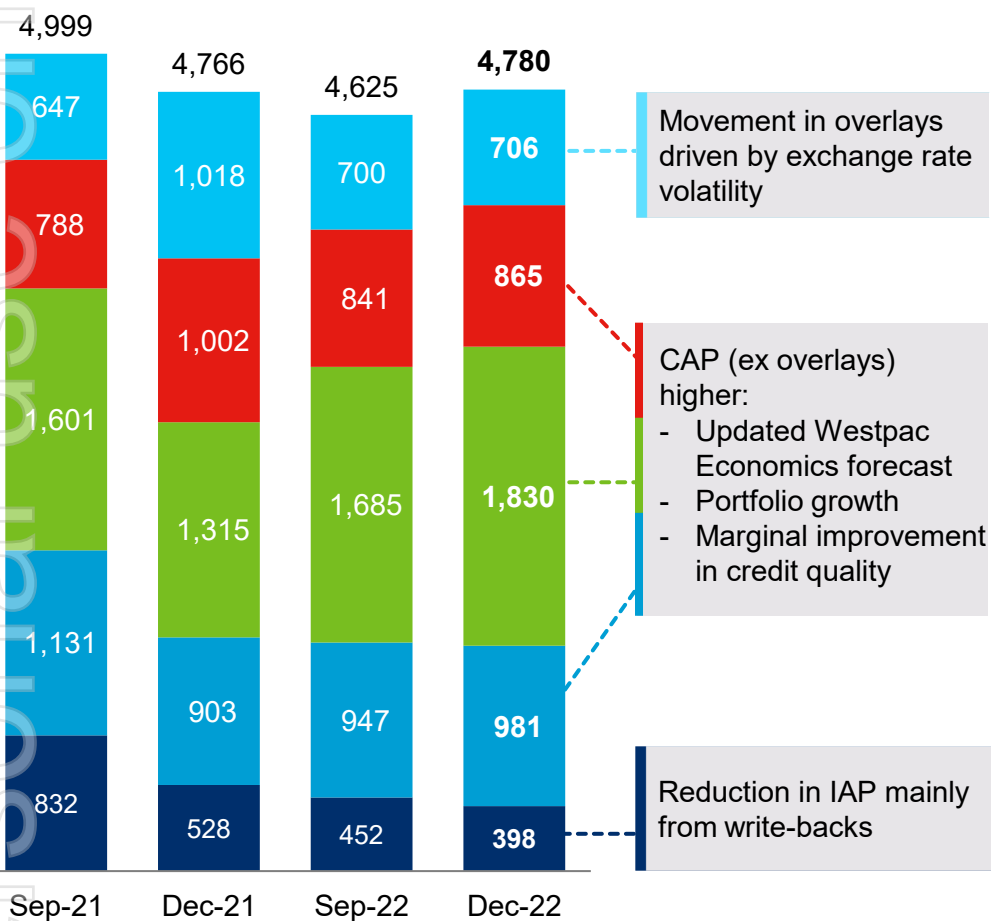
# Provision coverage.

Provisioning

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

Overlay  
Stage 2 CAP  
Stage 3 IAP

Stage 1 CAP  
Stage 3 CAP



## Provision coverage

	Sep-21	Dec-21	Sep-22	Dec-22
Provisions to credit RWA	140bps	132bps	128bps	<b>132bps</b>
CAP to credit RWA	117bps	118bps	116bps	<b>121bps</b>
Provisions to TCE	44bps	41bps	39bps	<b>40bps</b>
Impaired provisions to impaired assets	54%	49%	48%	<b>44%<sup>2</sup></b>

## Forecasts used in economic scenarios<sup>3</sup>

	Base case		Downside <sup>4</sup>	
	Sep-22	Dec-22	2023	Trough / peak
	2022	2022	2023	
GDP growth	3.4%	2.6%	1.0%	(6%)
Unemployment	3.1%	3.2%	4.5%	11%
Residential property prices	(6.5%)	(2.7%)	(7.8%)	(27%)

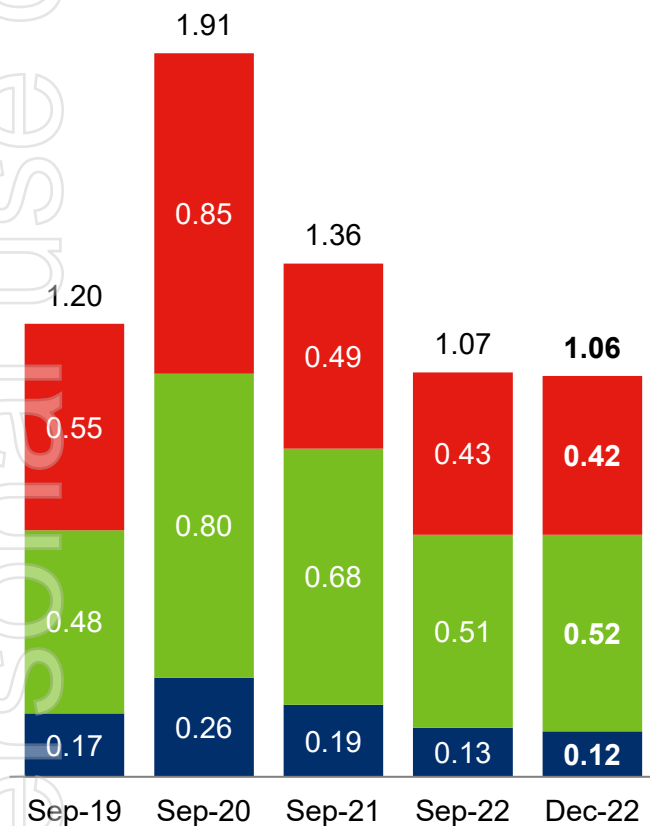
<sup>1</sup> Excludes provisions for debt securities. <sup>2</sup> Reduction in impaired provisions to impaired assets ratio reflects writebacks. <sup>3</sup> Forecast provided by Westpac Economics at 13 December 2022. <sup>4</sup> These key economic indicators represent trough or peak values that characterise the scenarios considered in setting downside severity.

# Stressed exposures and delinquencies.

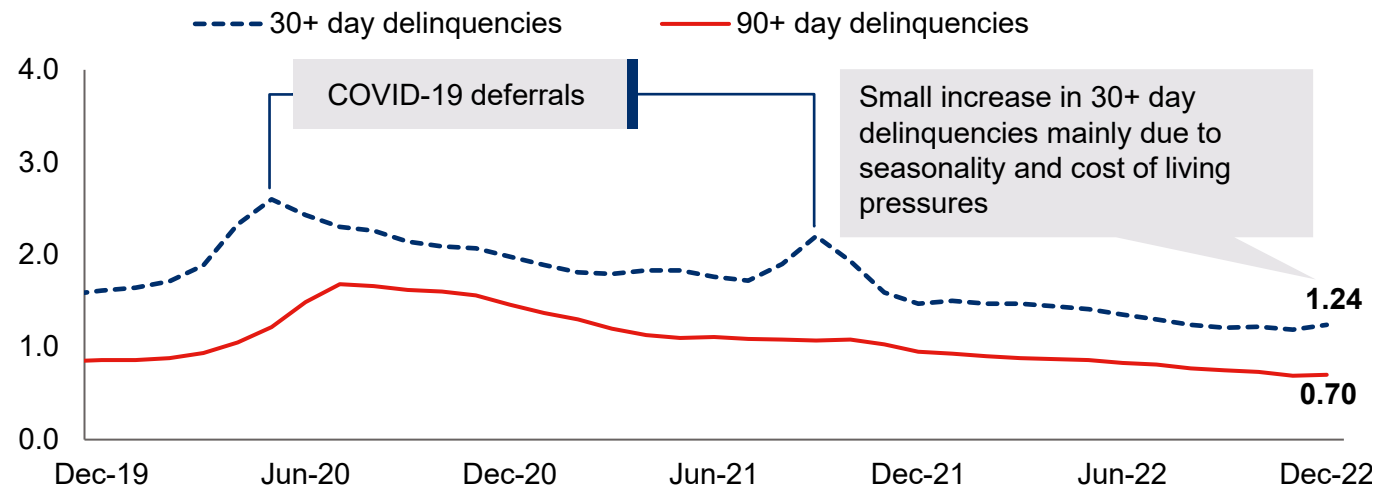
Credit quality

## Stressed exposures as a % of TCE

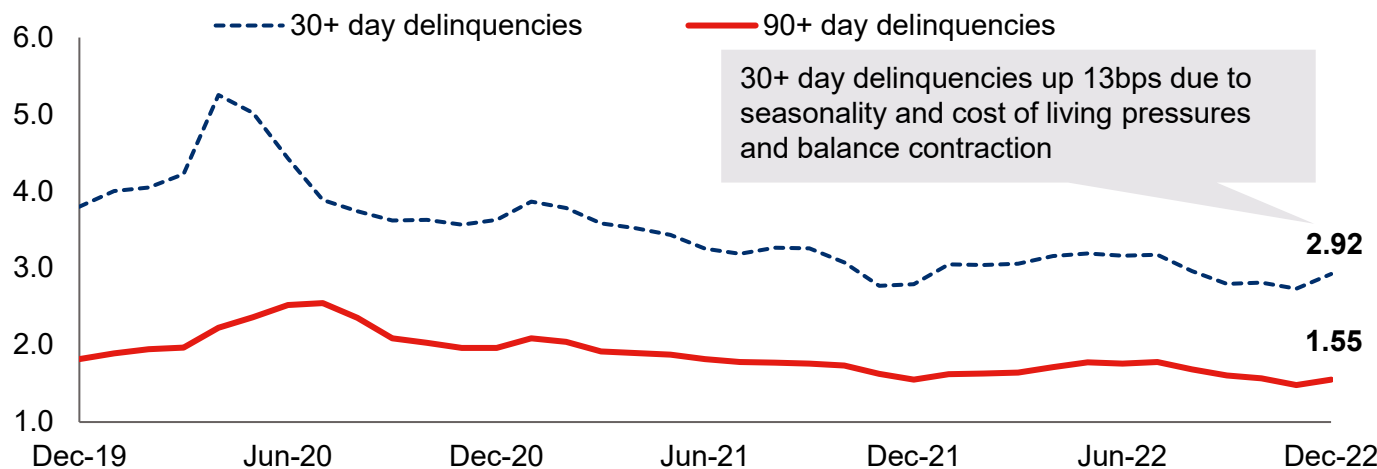
- Watchlist and substandard
- 90+ day past due and not impaired<sup>1</sup>
- Impaired



## Australian mortgage delinquencies (%)



## Australian consumer finance delinquencies<sup>2</sup> (%)



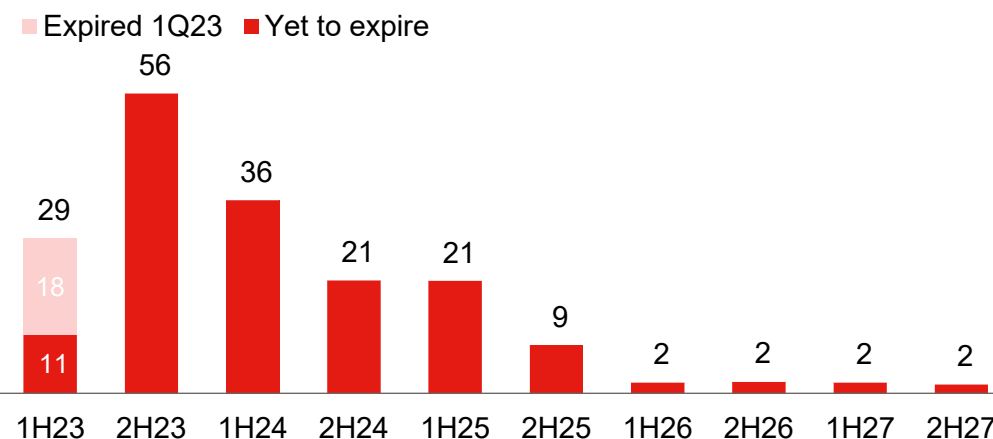
<sup>1</sup> Facilities 90 days or more past due date not impaired. These facilities, while in default, are not treated as impaired for accounting purposes. <sup>2</sup> Consumer finance includes personal loans, overdrafts, credit cards and auto loans.

# Australian mortgage portfolio composition.

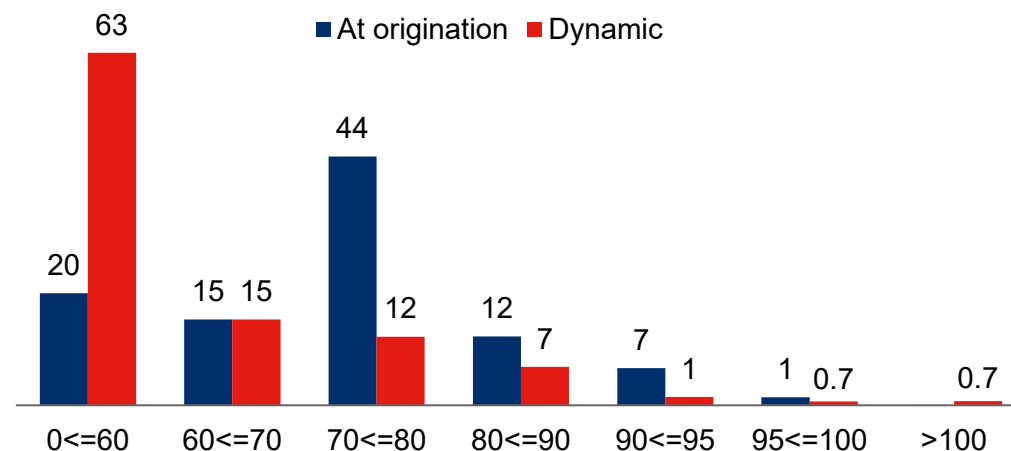
Mortgage credit quality

Australian mortgage portfolio	Sep-21 balance	Sep-22 balance	Dec-22 balance
Total portfolio (\$bn)	455.6	467.6	<b>470.9</b>
Owner occupied (OO) (%)	63.7	65.8	<b>66.2</b>
Investment property loans (IPL) (%)	33.8	32.6	<b>32.3</b>
Portfolio loan/line of credit (LOC) (%)	1.9	1.6	<b>1.5</b>
Variable rate / Fixed rate (%)	62/38	63/37	<b>65/35</b>
Interest only (I/O) (%)	15.8	13.5	<b>13.4</b>
Proprietary channel (%)	52.8	51.8	<b>51.6</b>
First home buyer (%)	9.6	10.1	<b>9.9</b>
Mortgage insured (%)	15.8	14.7	<b>14.5</b>
	<b>Sep-21</b>	<b>Sep-22</b>	<b>Dec-22</b>
Average loan size <sup>1</sup> (\$'000)	277	286	<b>289</b>
Customers ahead on repayments including offset account balances (%)	70	68	<b>68</b>
Annual mortgage loss rate <sup>2</sup> (bps)	2	<1	<b>&lt;1</b>

## Fixed rate mortgage expiry schedule at 31 December 2022 (\$bn)



## Australian housing loan-to-value ratios (LVRs) at 31 December 2022<sup>3</sup> (%)



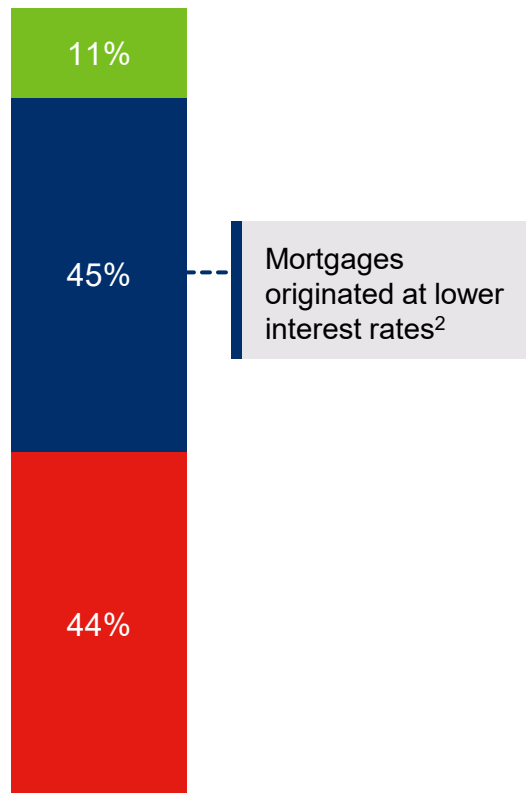
<sup>1</sup> Includes amortisation. Calculated at account level, where split loans represent more than one account. <sup>2</sup> Mortgage loss rates for Dec-22 balances are annualised, based on losses for the 3 months. Mortgage loss rates for September are actual losses for the 12 months ending. <sup>3</sup> Dynamic LVR is the loan-to-value ratio taking into account the current loan balance, changes in security value, offset account balances and other loan adjustments. Property valuation source: CoreLogic.



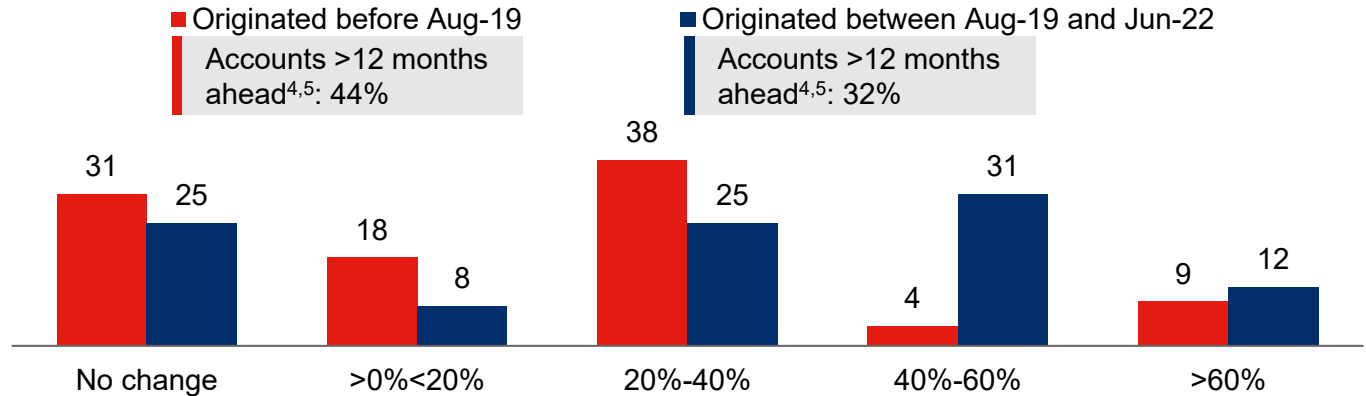
# Australian mortgage portfolio analysis.

## Australian mortgage book by origination period at 31 Dec-22: \$471 billion<sup>1</sup>

- Originated since Jul-22
- Originated between Aug-19 and Jun-22
- Originated before Aug-19



## Percentage increase in variable-rate repayment following interest rate changes (accounts at 31 Dec-22)<sup>3,4</sup>



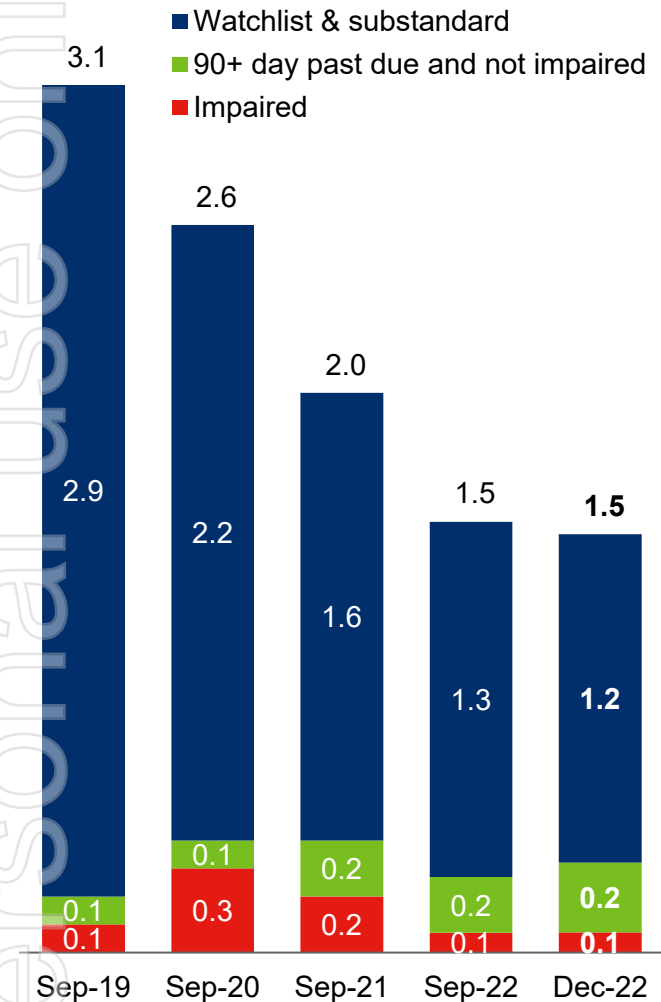
## Focus on mortgages originated between Aug-19 and Jun-22<sup>2,4</sup>

Analysis of minimum contractual repayment at December 2022	Dynamic LVR with no LMI		
	>80%	Of which >85%	Of which >90%
Repayment buffer <12months (Total: \$159bn)	\$13.4bn	\$7.0bn	\$3.5bn
Of which repayment buffer <3months (Total: \$137bn)	\$12.1bn	\$6.4bn	\$3.2bn

<sup>1</sup> Includes all mortgage products. <sup>2</sup> Between Aug-19 and Jun-22, Australian mortgages were assessed using a serviceability buffer of 2.5%-3.0%. Assuming a cash rate of 3.85% (Westpac Economics peak forecast), the serviceability buffer for these mortgages is expected to be exceeded. <sup>3</sup> Captures accounts active in both Jun-22 and Dec-22. Increase is measured based on the actual repayment made in Jun-22 and the contractual mortgage rates at a cash rate of 3.1% assuming rates changed by an equivalent amount. Analysis assumes an IO mortgage remains an IO mortgage. <sup>4</sup> Excludes equity/line of credit products as there are no scheduled principal payments. <sup>5</sup> Analysis based on minimum repayments. Includes fixed and variable rate mortgages.

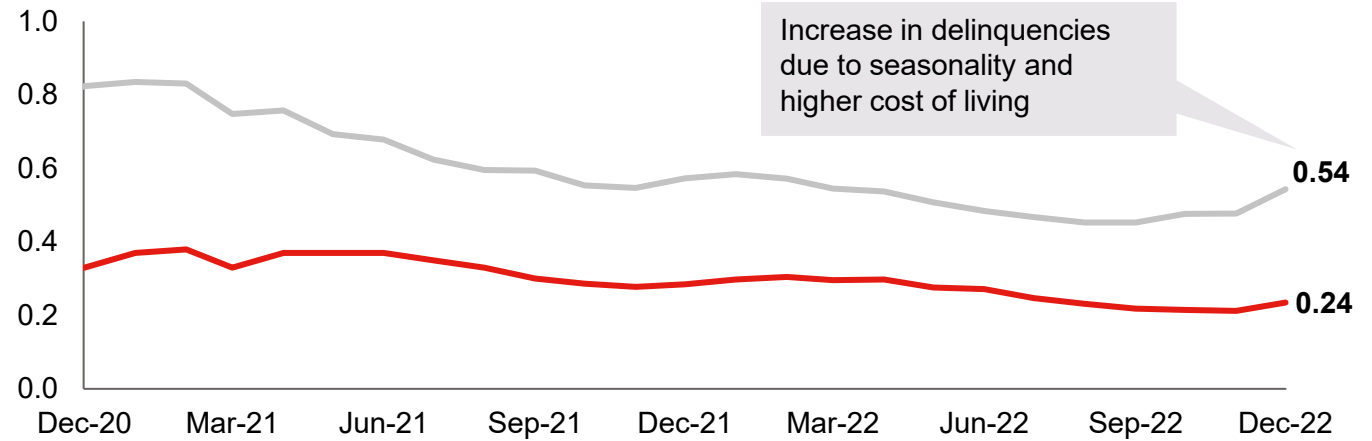
# New Zealand credit quality.

## Business stressed exposures as a % of New Zealand business TCE<sup>1</sup>

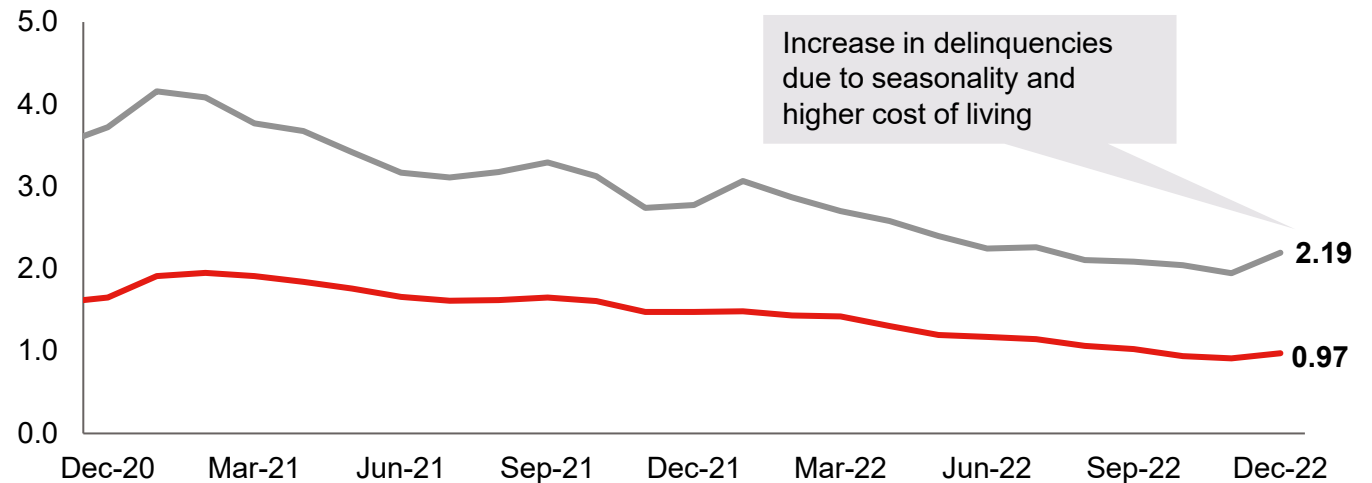


<sup>1</sup> Chart does not add due to rounding.

## Mortgage 30+ and 90+ day delinquencies (%)



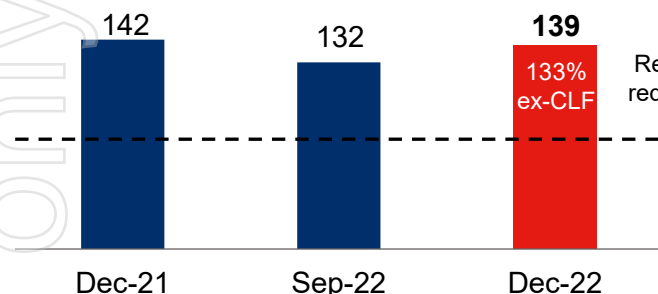
## Unsecured Consumer 30+ and 90+ day delinquencies (%)



# Funding and liquidity.

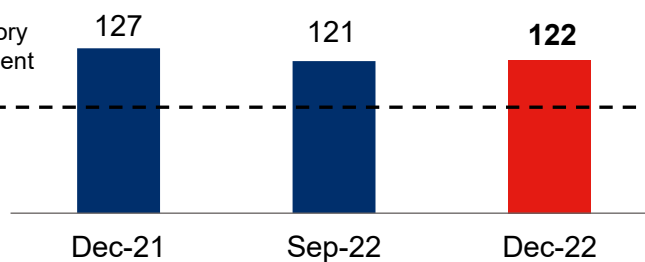
## Key funding and liquidity measures

**Liquidity coverage ratio (%)**  
Quarterly average



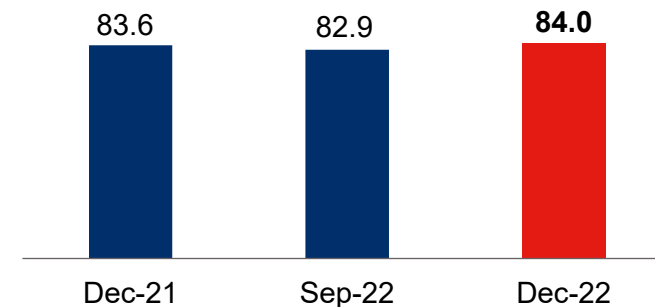
- LCR elevated in advance of final CLF drop (\$9.25bn) effective 1 January 2023

**Net stable funding ratio (%)**



- NSFR increase reflects deposit growth and long-term issuance

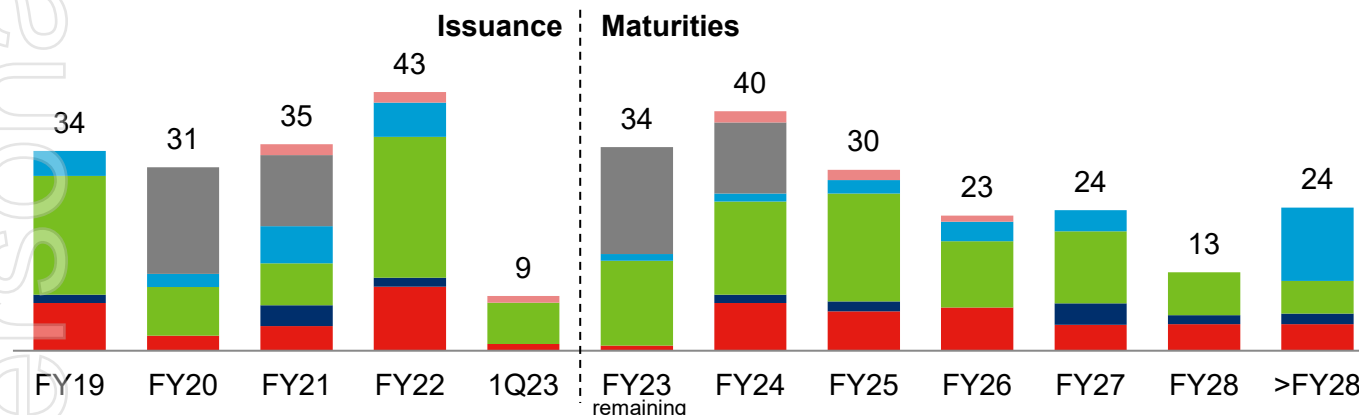
**Customer deposits to net loans ratio (%)**



- Strong household deposit growth over the quarter

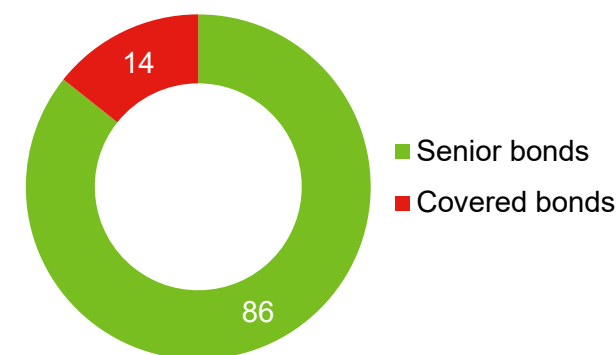
## Term debt issuance and maturity profile<sup>1</sup> (\$bn)

- Covered bond
- Senior/Securitisation
- Term Funding Facility (Aus)
- Hybrid
- Subordinated debt
- Funding for Lending Programme (NZ)



1 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 >FY28 maturity bucket. Maturities exclude securitisation amortisation.  
2 Excludes Funding for Lending Programme. 3 As at 12 February 2023.

## 1Q23 term debt issuance<sup>2</sup> by product (%)



- Additional \$9bn issued in January and February<sup>3</sup> 2023 in senior and covered bonds

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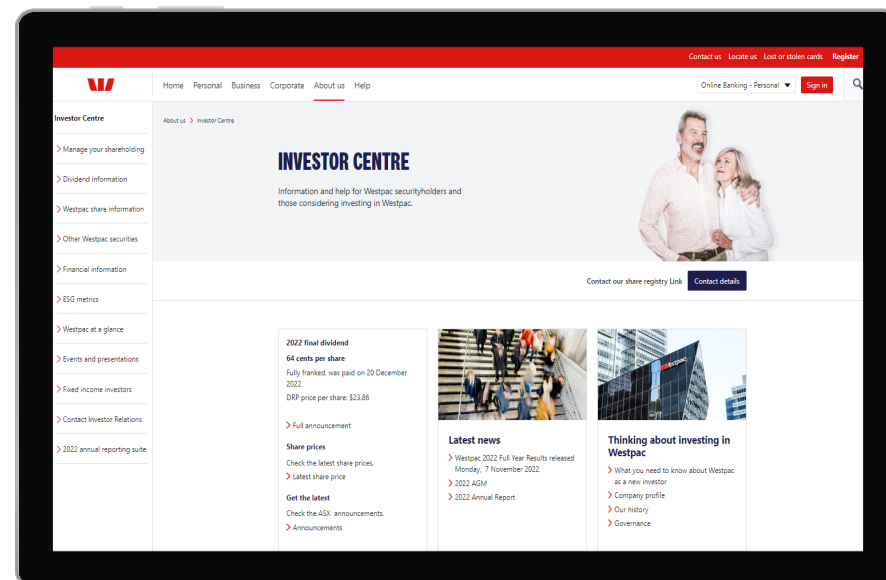
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