



Media Release

8 May 2023

Westpac New Zealand reports stable underlying performance

Westpac New Zealand (Westpac NZ)ⁱ has reported a 33% fall in net profitⁱⁱⁱ for the six months ended 31 March 2023, compared with the same period last year, but says its underlying performance has been stable.

Last year's one-off sale of Westpac Lifeⁱⁱⁱ not being repeated and a lift in impairment provisions, including an overlay for financial impacts of severe weather in the North Island, had contributed to the decrease in net profit.

Excluding the sale of Westpac Life and other notable items, net profit was down 15%, compared with the same period last year.

Chief Executive Catherine McGrath said Westpac NZ had made good progress supporting customers' home ownership, business growth and savings aspirations during the reporting period. It had also offered significant support to customers affected by Cyclone Gabrielle and flooding.

"We've seen some really positive momentum during the reporting period.

"More New Zealanders have chosen to become Westpac customers, and we have grown mortgage lending by 5%, business lending by 4% and deposits by 2%.

"We're in a stable and well-capitalised position and are well-placed to support our customers."

While Westpac NZ had delivered a stable performance during the half year period, the weakening economic cycle and impact of severe weather had been felt in the financial result.

Ms McGrath said there was not yet clarity about several key issues for homeowners and businesses severely impacted by Cyclone Gabrielle and flooding in the North Island.

"As soon as the outlook is clearer, we will be able to work with our customers to agree the best way we can support them over the longer term. Due to the current uncertainty, we have made a weather event impairment overlay."

She said another factor within the \$154 million impairment charge was the deteriorating economic outlook impacting households and businesses.

"Our economists are forecasting a recession this year. The global outlook remains uncertain and funding markets are moving around. In addition, inflation and consumer spending remain high, increasing the risks of a hard landing.

"The rising cost of living has squeezed households and interest rates have risen quickly. While we are not currently seeing significant numbers of customers requiring hardship assistance, demand is slowly increasing, and we expect it to rise further as the outlook worsens."

Customer support

Ms McGrath said Westpac NZ had introduced new programmes to identify and contact customers who may need extra support.

- Employees had begun proactively calling 600 customers per month, who had been identified as being at higher risk of encountering financial stress.
- The bank was writing to about 7,000 customers per month who were coming off a fixed-rate home loan to let them know they could lock in a new rate 60 days before expiry, to give them certainty about repayments.
- About 1,000 of those home loan customers facing the largest increases in repayments or thought to need extra guidance were receiving follow-up phone calls.

Ms McGrath said the majority of New Zealand household and business customers were generally coping well and encouraged anyone feeling under strain to reach out to Westpac NZ for help.

“We recognise cashflows are getting tighter. Last month we led the market in setting a special 3-year fixed mortgage rate of 5.99% for eligible customers, so that borrowers could choose a competitive rate that also provided certainty around repayments.”

Cyclone & flood assistance

Ms McGrath said Westpac NZ’s teams had worked hard to provide assistance to customers affected by flooding and Cyclone Gabrielle.

“We’ve already paid more than \$3.75 million^{iv} in direct financial support to customers and communities that felt the force of the summer’s severe weather, including cash grants of \$2,500 to affected business customers. We also provided a range of interest-free lending support to eligible businesses and households.

“Businesses told us the immediate cash grants provided a kickstart to help them through a difficult time, with many struggling with issues like damage to premises, loss of stock and booking cancellations.

“We’ve paid out most of our \$1 million pool of targeted donations to a range of support organisations helping their communities, including iwi, rural support trusts and mayoral relief funds, with remaining funds to be paid in coming months.

“We were also the first major bank to announce that temporary overdrafts for eligible households, enabled through a Government regulatory exemption^v, would be offered interest-free.”

Key Financials

(All comparisons are for the six months ended 31 March 2023 versus the same period last year)

- Net profit of \$426 million, down 33% (down 15% when notable items excluded)
- Pre-provision profit of \$748 million, up 8% excluding notable items
- Net operating income of \$1,372 million, up 9% excluding notable items
- Operating expenses of \$624 million, up 11%
- Net impairment charge of \$154 million, compared with an impairment benefit of \$10 million in the previous comparative period
- Net interest margin 2.10%, up 14 basis points excluding notable items

“While operating expenses increased, much of the extra spending has gone on risk, regulatory and technology projects that will set us up strongly to deliver for customers in coming years,” said Ms McGrath.

Funds under management in the Westpac KiwiSaver Scheme^{vi} increased 3% year-on-year, to \$9.6 billion as at 31 March 2023. The average Westpac KiwiSaver Scheme balance increased 3% over the same period to \$22,647.

Together Greater

Ms McGrath said Westpac NZ remained focussed on addressing the big challenges facing New Zealand.

“Our release in April^{vii} of the *Westpac NZ Access to Banking in Aotearoa Report* shone a light on the challenges faced by some New Zealanders in getting a bank account.

“Banks have a part to play in making access easier. One highlight has been working with Oranga Tamariki and VOYCE-Whakarongo Mai towards making it easier for youths in care to sign up for an account.

“This follows work we have done with the Department of Corrections to make it easier for prisoners nearing release to get a bank account.”

Ms McGrath said the severity of this year’s storms had driven home the need to respond to climate change.

“Our Westpac Warm Up loan allows mortgage holders to borrow up to \$40,000 interest-free over five years to make their home warmer, drier and more energy efficient. It’s proved popular with \$73 million lent to more than 6,000 customers.

“We also worked with Lincoln University^{viii} to release a major new report and information fact sheets late last year to help farmers and growers understand the impact of climate change, so they can plan for the future.

“We are preparing to roll out a Sustainable Agribusiness Loan following an earlier pilot of this initiative.

“These areas of work will equip our agribusiness customers to make practical decisions that factor in the growing impact of climate change.”

Ms McGrath said her team was also proud it had launched a new partnership with NZ Landcare Trust to improve water quality, and had also significantly increased support for Community Law Centres o Aotearoa.

ⁱ Westpac New Zealand is a segment of Westpac Banking Corporation (WBC). Westpac New Zealand includes, but is not limited to, Westpac New Zealand Limited, BT Funds Management (NZ) Limited and WBC (New Zealand branch). Westpac Life-NZ- Limited was included in Westpac New Zealand until 28 February 2022 when the completion of the sale by Westpac Financial Services Group-NZ- Limited (a subsidiary of Westpac Banking Corporation) to Fidelity Life Assurance Company Limited occurred. The financial results of Westpac New Zealand Limited will be available in the Westpac New Zealand Limited Disclosure Statement, with a reconciliation between the two results also provided in the Westpac New Zealand Summary Financials section of this media release.

ⁱⁱ Also referred to as Net profit attributable to owners of Westpac NZ, net profit after tax or statutory net profit. Net profit is now the single measure Westpac Group and Westpac NZ use to assess overall financial performance. Westpac Group and Westpac NZ no longer report cash earnings.

ⁱⁱⁱ <https://www.westpac.co.nz/about-us/media/westpac-completes-sale-of-new-zealand-life-insurance-business-to-fidelity-life/>

^{iv} <https://www.westpac.co.nz/about-us/media/westpac-nz-increases-cyclone-gabrielle-and-flooding-support-to-4-million/>

^v <https://www.westpac.co.nz/about-us/media/westpac-offers-temporary-overdrafts-for-customers-affected-by-severe-weather/>

^{vi} BT Funds Management (NZ) Limited is the scheme provider and issuer and Westpac New Zealand Limited is a distributor of the Westpac KiwiSaver Scheme. A copy of the product disclosure statement for the Westpac KiwiSaver Scheme is available from any Westpac branch in New Zealand or by visiting www.westpac.co.nz

^{vii} <https://www.westpac.co.nz/about-us/media/westpac-nz-working-to-help-more-new-zealanders-get-a-bank-account/>

^{viii} <https://www.westpac.co.nz/about-us/media/westpac-nz-and-lincoln-university-partner-on-climate-change-guidance-for-farmers/>

Westpac New Zealand Summary Financials

Summary Profit & Loss NZ\$ millions	Six Months	Six Months	Six Months	% Movement	% Movement
	Ended	Ended	Ended	Mar 23 vs.	Mar 23 vs.
	31 Mar 23	30 Sep 22	31 Mar 22	Sep 22	Mar 22
Net interest income	1,246	1,185	1,095	5%	14%
Non-interest income	126	145	161	(13%)	(22%)
Notable Items ¹	-	(13)	140	(100%)	(100%)
Net operating income	1,372	1,317	1,396	4%	(2%)
Operating expenses	(624)	(594)	(564)	5%	11%
Pre-provision profit	748	723	832	3%	(10%)
Impairment (charges)/benefits	(154)	17	10	Large	Large
Profit before income tax expense	594	740	842	(20%)	(29%)
Taxation	(168)	(212)	(202)	(21%)	(17%)
Net profit²	426	528	640	(19%)	(33%)
Notable items (post tax)	-	(9)	136	(100%)	(100%)
Profit/(loss) attributable to businesses sold	-	-	19	-	(100%)
Net interest margin (%)³	2.10%	2.04%	1.96%	6 bps	14 bps
Reconciliation of Westpac New Zealand to WNZL Banking Group net profit					
Net profit of Westpac New Zealand	426	528	640	(19%)	(33%)
Structural differences between Westpac NZ and WNZL Banking Group ⁴	(52)	(37)	(143)	41%	(64%)
Intergroup funding, notional charges and other reconciling items ⁵	108	64	(11)	69%	Large
Taxation	(15)	(5)	11	Large	Large
Net profit of WNZL Banking Group⁶	467	550	497	(15%)	(6%)

Summary Balance Sheet NZ\$ billions				% Movement	% Movement
	31 Mar 23	30 Sep 22	31 Mar 22	Mar 23 vs.	Mar 23 vs.
				Sep 22	Mar 22
Total deposits⁷	79.8	77.9	78.4	2%	2%
Net loans	98.2	96.8	94.0	1%	4%
Mortgages	65.2	63.8	62.2	2%	5%
Business	32.3	32.2	31.0	0%	4%
Other	1.2	1.2	1.2	-	-
Provisions	(0.5)	(0.4)	(0.4)	25%	25%
Deposit to loan ratio	81.3%	80.5%	83.4%	78 bps	(214 bps)

¹ Notable items are those that are not considered reflective of Westpac NZ's ordinary operations and include unrealised fair value gains and losses on economic hedges that do not qualify for hedge accounting, net ineffectiveness on qualifying hedges and other large items.

² Also referred to as Net profit attributable to owners of Westpac NZ, net profit after tax or statutory net profit. Net profit is now the single measure Westpac Group and Westpac NZ use to assess overall financial performance. Westpac Group and Westpac NZ no longer report cash earnings. The summary financials above reflect this basis of preparation and prior period balances have been restated.

³ Net interest margin is calculated by dividing net interest income excluding notable items by average interest-earning assets.

⁴ Relates to results of entities included in Westpac NZ which do not form part of WNZL Banking Group and results of business units excluded in Westpac NZ but included in WNZL Banking Group.

⁵ Relates to differences in treatment of intercompany borrowing and expenses between Westpac NZ and WNZL Banking Group. This also includes internal transfer pricing included in Westpac NZ but excluded from WNZL Banking Group and other reconciling items.

⁶ Net profit of WNZL Banking Group has been prepared in accordance with GAAP. It complies with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards.

⁷ Total deposits in this table refers to total customer deposits.