



## Media Release

06 May 2019

### Westpac New Zealand delivers solid half-year performance

Westpac New Zealand (Westpac NZ)<sup>1</sup> has reported a solid half-year financial result as it continues to concentrate on delivering a range of improvements for customers.

Cash earnings<sup>2</sup> for the six months ended 31 March 2019 increased 7% on the same period last year, excluding the proceeds from the sale of Paymark<sup>3</sup>.

Westpac NZ Chief Executive David McLean said the bank had benefitted from its ongoing focus on customer outcomes, despite a maturing economic cycle and a changing banking environment.

“Our purpose is to help our customers financially to grow a better New Zealand. That starts with working to ensure we’re delivering great service and great outcomes for customers each and every time they interact with us.

“The low margin environment and evolving regulatory outlook will present challenges into the second half of the year, but we have confidence in the fundamentals of the economy, and our capability to execute in response to change.”

Westpac NZ is continuing to transform its business to respond to the ever-changing environment, Mr McLean said.

“We’ve been investing money and resources into delivering new innovative banking products and services, and simplifying the banking experience.”

#### Focus on customers

Mr McLean said the low-interest environment had benefitted borrowers, with first home buyers particularly active.

“In the last six months, credit growth has slowed across the industry despite some regional variations in the housing market. We’ve responded by focusing our business on high quality deposits and lending, in the process helping more New Zealanders to save and own their own home.

“In March, Westpac NZ became the first bank to launch a dedicated mortgage product which streamlines construction home loans for prefabricated builds. That’s important as prefabricated builds generally cost less and can be built faster helping with affordability and housing supply.

“Our new way of funding for *Westpac Prebuilt* essentially means we have security before the house is delivered, which removes much of the uncertainty for buyers and builders partnering on a build.”

Westpac NZ had also made it easier than ever to save, by streamlining the process for opening term deposits.

“We’ve also continued to pro-actively use our ‘Value Me’ programme to provide our customers with data-driven insights, to help them get greater value from their bank account, credit card or Westpac KiwiSaver Scheme<sup>4</sup> fund. During the past six months we contacted more than 320,000 customers, and since the programme began in 2017, have sent out more than 1.2 million individual communications,” Mr McLean said.

A focus on innovation had resulted in the introduction of a range of digital products.

“We’ve recently introduced Apple Pay which enables eligible customers with an iPhone or Apple Watch to make contactless payments. We’ve also launched beContento, an app that allows users to keep a digital record of their possessions.”

### **Changing banking environment**

Westpac NZ continues to operate in an evolving industry environment, with credit growth slowing and increasing regulatory requirements.

Westpac NZ is engaging constructively with the Financial Markets Authority and Reserve Bank of New Zealand, including in relation to the regulators’ recent Bank Conduct and Culture Review. Westpac NZ provided its response to the regulators at the end of March 2019.

Westpac NZ started removing product-based sales targets in 2017 and all sales targets were removed for frontline branch and contact centre staff from 1 October 2018, with team members now assessed on a range of measures that include quality of conversations and a strong focus on meeting the needs of customers.

### **Key Financials**

*(All comparisons are for the six-month period, ended 31 March 2019 versus the same period last year)*

- Cash earnings of \$555m, up 15% [\$515m, up 7% excluding sale of Paymark Limited]
- Net operating income of \$1,248m, up 6% [\$1,208m, up 3% excluding sale of Paymark Limited]
- Operating expenses of \$480m, up 3%
- Impairment expenses of \$14m, down from \$38m
- Net interest margin 2.23%

Customer deposits<sup>5</sup> and loans both grew 4% year-on-year.

“General conditions have remained favourable on the farm with milk prices increasing and meat prices stabilising at comparatively high levels. We continue to support growth in the agriculture sector, with lending rising by 6% year-on-year and deposits increasing by 10% over the same period,” said Mr McLean.

Funds under management in the Westpac KiwiSaver Scheme increased by 15% year-on-year, to \$6.4 billion as at 31 March 2019. The average Westpac KiwiSaver Scheme balance increased 15% over the same period to \$16,149.

Credit quality remained solid with bad debts at historical lows.

### **Growing a better New Zealand**

Mr McLean said Westpac NZ had become the first and only bank in New Zealand to be accredited as a Living Wage Employer<sup>6</sup>, reflecting its commitment to helping grow the financial wellbeing of New Zealanders.

“In practice, this means offering similar pay conditions enjoyed by our own staff to the 480 contractors and suppliers who perform functions such as cleaning our offices, guarding our branches and staffing our cafes.

“While there were many reasons to make the change, above all else we thought it was the right thing to do. These workers help us in our daily operations and we really value their work.”

In the six months to 31 March 2019, Westpac NZ also:

- Signed on as the inaugural platinum sponsor of the New Zealand Rainbow Excellence Awards, which celebrate organisations that value inclusion and sexual and gender diversity.
- Worked with Meridian Energy to support a carbon calculator for farmers that was created by Lincoln University’s Agribusiness and Economics Research Unit (AERU) and Agrilink NZ.
- Provided Managing Your Money workshops to 3,183 New Zealanders.

### **About Westpac NZ**

*Westpac NZ has been serving New Zealanders since 1861 and is today one of the country’s largest full service banks with more than 1.3 million customers.*

*We provide a full range of retail and commercial financial services including home and business lending, funds management, life insurance and treasury services.*

*Westpac NZ is committed to improving the social, environmental and economic wellbeing of all New Zealanders. Our purpose is to help our customers financially to grow a better New Zealand.*

### **Endnotes:**

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<sup>1</sup> Westpac New Zealand is a division of Westpac Banking Corporation, and is not the same as Westpac New Zealand Limited. 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.

<sup>2</sup> Cash earnings are a measure of performance used by the Westpac Group, which adjusts statutory profit for any material items that do not reflect ongoing operations, items that are not considered when dividends are recommended and accounting reclassifications between line items that do not impact reported results. Cash earnings are not presented in accordance with Generally Accepted Accounting Practice (‘GAAP’) and are not audited or reviewed in accordance with International Standards on Auditing (New Zealand).

<sup>3</sup> On 11 January 2019 Westpac New Zealand Operations Limited sold its 25% shareholding in Paymark Limited to Ingenico Group S.A.

<sup>4</sup> BT Funds Management (NZ) Limited is the scheme provider and Westpac New Zealand Limited is the 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](http://www.westpac.co.nz)

<sup>5</sup> Deposits are equal to deposits at amortised cost as disclosed in the Westpac New Zealand Limited Disclosure Statement.

<sup>6</sup> Accredited by Living Wage Aotearoa NZ

## Westpac New Zealand Summary Financials

Summary Profit & Loss NZ\$ millions	Six Months Ended	Six Months Ended	Six Months Ended	% Movement Mar	% Movement Mar
	31 Mar 19	30 Sep 18 <sup>1</sup>	31 Mar 18 <sup>1</sup>	19 vs. Sep 18	19 vs. Mar 18
Net Interest Income	1,000	994	964	1%	4%
Non-Interest Income	248	196	210	27%	18%
<b>Net operating income</b>	<b>1,248</b>	1,190	1,174	5%	6%
Operating expenses	(480)	(464)	(466)	3%	3%
<b>Core earnings</b>	<b>768</b>	726	708	6%	8%
Impairment (charges)/benefits	(14)	13	(38)	Large	(63%)
<b>Operating profit before tax</b>	<b>754</b>	739	670	2%	13%
Taxation	(199)	(205)	(188)	(3%)	6%
<b>Cash earnings<sup>2</sup></b>	<b>555</b>	534	482	4%	15%
Net Interest Margin (%) <sup>3</sup>	2.23%	2.25%	2.24%	(2 bps)	(1 bps)
<b>Reconciliation of cash earnings to statutory profit</b>					
Cash earnings of Westpac New Zealand	555	534	482	4%	15%
Structural differences between Westpac NZ and WNZL Banking Group <sup>4</sup>	(66)	(53)	(55)	25%	20%
Intergroup funding and notional charges <sup>5</sup>	1	0	(2)	Large	Large
Taxation	19	13	17	46%	12%
<b>Net profit of WNZL Banking Group (Statutory profit)<sup>6</sup></b>	<b>509</b>	494	442	3%	15%

Summary Balance Sheet NZ\$ billions	31 Mar 19	30 Sep 18	31 Mar 18	% Movement Mar	% Movement Mar
				19 vs. Sep 18	19 vs. Mar 18
<b>Total deposits<sup>7</sup></b>	<b>64.2</b>	61.9	61.6	4%	4%
<b>Net loans</b>	<b>82.1</b>	80.4	79.1	2%	4%
Mortgages	49.6	48.9	47.9	1%	4%
Business	30.9	29.8	29.5	4%	5%
Other	2.0	2.0	2.1	0%	(5%)
Provisions	(0.4)	(0.3)	(0.4)	33%	0%
<b>Deposit to loan ratio</b>	<b>78.2%</b>	77.0%	77.9%	121 bps	39 bps

<sup>1</sup> Comparative information has been restated to ensure consistency with the current period's presentation.

<sup>2</sup> Cash earnings are a measure of performance used by the Westpac Group, which adjusts statutory profit for any material items that do not reflect ongoing operations, items that are not considered when dividends are recommended and accounting reclassifications between line items that do not impact reported results. Cash earnings are not presented in accordance with Generally Accepted Accounting Practice ("GAAP") and are not audited or reviewed in accordance with International Standards on Auditing (New Zealand).

<sup>3</sup> Net interest margin is calculated on a cash earnings basis.

<sup>4</sup> Relates to results of entities included in Westpac NZ which do not form part of WNZL Banking Group and results of entities excluded in Westpac NZ but included in WNZL Banking Group.

<sup>5</sup> 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.

<sup>6</sup> Statutory profit 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.

<sup>7</sup> Total deposits in this table refers to total customer deposits.