



Media Release

04 November 2019

Westpac New Zealand delivers balanced full-year performance

Westpac New Zealand (Westpac NZ)ⁱ has delivered a balanced financial result, following a continued focus on achieving the best outcomes for its customers and New Zealanders.

Core earnings for the 12 months ended 30 September 2019 fell 1% on the same period last year, amid strong competition and increased investment in technology, risk and compliance systems.

However, a continued low level of impairments and the sale of Paymark supported a rise in cash earningsⁱⁱ.

Westpac NZ Chief Executive David McLean said low interest rates were providing opportunities for first home buyers and others looking to make a move in the property market.

“We’ve never seen interest rates this low in New Zealand. It helps with housing affordability and business investment, and presents a great opportunity for existing borrowers to pay down debt.”

Two-thirds of Westpac NZ customers were ahead in their mortgage repayments by a median average of eight months, or an average of \$8,652, at 30 September 2019.

However, low rates had also meant savers, many of whom rely on deposit interest to supplement their retirement income, saw their returns reduced.

Business conditions had deteriorated in the second half of the reporting period based largely on uncertainty about the outlook into next year, Mr McLean said.

“Although significant risks exist globally, the local economy remains in reasonable health, our business is fundamentally sound and our balance sheet continues to be well managed.”

Focus on customers

Mr McLean said a continued focus on innovation had increased the range of digital tools available to customers.

“Our biometric onboarding tool Easy ID allows people to open an account quickly, simply and securely using facial recognition technology. We’ve introduced Apple Pay which enables eligible customers with an iPhone or eligible Apple device to make contactless payments, and we’ve also created beContento – an app that keeps track of possessions and could help with insurance needs.”

Mr McLean said changes to an Agile structure for Westpac NZ’s technology, product and marketing teams meant they were better positioned to drive innovation forward.

“We’re now equipped to bring products and services to market more quickly, with a view to providing great outcomes for our customers.”

Westpac NZ had also become the first bank to launch a dedicated mortgage product aimed at helping Kiwis into prefabricated homes. “Prefabricated homes generally cost less and can be built quickly, helping with affordability and housing supply.”

Westpac NZ’s focus on customers saw it named Canstar’s Bank of the Year for Everyday Banking, winning the award for the fourth year in a row, while the Westpac KiwiSaver Schemeⁱⁱⁱ placed first-equal in a KiwiSaver customer satisfaction survey released by *Consumer* in April this year.

“Our ‘Value Me’ programme provides our customers with data-driven insights, to help them get greater value from their bank account, credit card or Westpac KiwiSaver Scheme fund, and even pay off their home loan quicker. During the past year we’ve proactively contacted more than 380,000 customers through this initiative,” Mr McLean said.

Westpac NZ had continued to focus on simplifying its business by reducing or removing 13 fees in the past year and removing five products from service or sale. It was also proactively identifying and remedying historical issues with some products and services.

“New complaints are being resolved faster and we’ve stepped up our training in achieving great outcomes for customers, with a second wave of mandatory workshops rolled out to employees – including non-customer facing roles – in the past few months.”

Mr McLean said Westpac NZ had continued to work constructively with the Financial Markets Authority and Reserve Bank of New Zealand, in relation to the regulators’ recent Conduct and Culture Reviews of the banking and life insurance sectors.

Mr McLean said he had received notification from the Reserve Bank in late October that Westpac New Zealand Limited (WNZL) had satisfied Section 95 requirements relating to internal credit model methodologies. As a result, WNZL would retain its accreditation to use the relevant internal capital models, and would no longer be subject to a two percentage point capital regulatory overlay.^{iv}

“We have worked constructively with the Reserve Bank on this issue in some detail and are pleased with the outcome.”

Key Financials

(All comparisons are for the 12-month period, ended 30 September 2019 versus the same period last year)

- Cash earnings of \$1,042m, up 3% (excluding notable items, up 4%)
- Core earnings of \$1,422m, down 1% (excluding notable items, flat)
- Net operating income of \$2,415m, up 2%
- Operating expenses of \$993m, up 7%
- Net Impairment benefit of \$10m, compared with impairment charge of \$25m in the prior comparative period
- Net interest margin 2.16%, down 8 basis points
- Notable items of \$24m after tax, up from \$13m in the prior comparative period, which includes remediation and associated administration and system improvement costs

Home loans and business lending had grown 5%, while customer deposits^v had grown 4% over the past year in a competitive market.

“Our commercial, corporate and institutional banking team have continued to build upon the good relationships they have in industry, to the benefit of our customers and our business. Our Agri book is also in solid shape. Continued favourable conditions on farms have seen Agri lending increase by 4% and deposits by 3% year-on-year.”

Funds in the Westpac KiwiSaver Scheme had increased by 15% year-on-year, from \$6.1 billion to \$7.0 billion at 30 September 2019. The average balance increased 16% to \$17,806.

Fees for Westpac KiwiSaver Scheme members would drop from 1 December 2019. The monthly administration fee would drop from \$2.25 to \$1 and the management fee on all open funds would be reduced by 0.1 percentage points.

Supporting New Zealand

During the year to 30 September 2019, Westpac NZ contributed to the New Zealand economy by paying:

- \$476 million in tax
- \$523 million in salaries and wages to staff and contractors
- \$597 million to suppliers
- \$9 million in sponsorships and contributions to the community

Mr McLean was particularly proud that during the year Westpac NZ had become the first New Zealand bank to become accredited as a Living Wage Employer^{vi}, reflecting a commitment to growing the financial wellbeing of New Zealanders.

“This change means 480 cleaners, security guards and other workers employed through suppliers and contractors are receiving a lift in their pay, so they enjoy similar pay conditions to our own staff. These workers help us in our daily operations and we really value their work.”

Another highlight was the launch of two reports investigating the issue of gender pay^{vii}.

“We have a strong focus on gender equality, and we wanted to look at this issue in detail and spark a national conversation by providing New Zealand organisations with greater clarity on the issue. The research confirmed we’re paying our men and women equally for doing equal work however the higher proportion of men in senior roles means we have a median pay gap of 30.3%.

“We’ve made immediate commitments towards closing this gap, but we acknowledge this will take time. We have had very positive feedback from the public about our push for more transparency and action in this area.”

Other achievements during the year included:

- Providing Managing Your Money workshops to a record 8,464 participants.
- Raising \$1.26 million through the annual Chopper Appeal for rescue helicopter services around New Zealand^{viii}.
- Increasing the proportion of electric vehicles in our car fleet to 30%.
- Becoming the first New Zealand bank to raise funding (\$860m) through the issuance of a green bond.

- Working with Stuff to deliver the biggest Women of Influence Awards programme yet, including a new speaker series in five centres.
- Gaining the Accessibility Tick, recognising Westpac NZ's commitment to becoming more accessible and inclusive of people with disabilities.
- Becoming the platinum sponsor of the inaugural Rainbow Excellence Awards.

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.

ⁱ Westpac New Zealand is a division of Westpac Banking Corporation and is not the same as Westpac New Zealand Limited (WNZL). The financial results of WNZL will be available in the WNZL Disclosure Statement, with a reconciliation between the two results also provided in the Westpac New Zealand Summary Financials section of this media release.

ⁱⁱ 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).

ⁱⁱⁱ BT Funds Management (NZ) Limited is the scheme provider and WNZL 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

^{iv} In June 2019, in response to a review under section 95 of the Reserve Bank of New Zealand Act 1989 of WNZL's compliance with advanced internal rating based aspects of the RBNZ's 'Capital Adequacy Framework (Internal Models Based Approach)' ('BS2B'), WNZL presented the RBNZ with a submission providing an overview of its credit risk rating system and activities undertaken to address compliance issues and enhance risk management practices. On 30 October 2019, the RBNZ informed WNZL that it had accepted the submission and measures undertaken by WNZL to achieve satisfactory compliance with BS2B, and that WNZL would retain its accreditation to use internal models for credit risk in the calculation of its regulatory capital requirements. It also advised WNZL that, with effect from 31 December 2019, the RBNZ will remove the requirement imposed on WNZL since 31 December 2017 to maintain minimum regulatory capital ratios which are two percentage points higher than the ratios applying to other locally incorporated banks.

^v Deposits are equal to deposits at amortised cost as disclosed in the WNZL Disclosure Statement.

^{vi} Accredited by Living Wage Aotearoa NZ.

^{vii} *Westpac NZ Gender Pay Analysis 2019* and *Bridging the gap: Westpac workplace gender pay report*. Both reports are available at www.westpac.co.nz/gender-pay-gap

^{viii} In addition to running the annual Chopper Appeal, Westpac NZ also supports rescue helicopter services throughout New Zealand through ongoing sponsorship.

Westpac New Zealand Summary Financials

Summary Profit & Loss NZ\$ millions	Year Ended 30 Sep 19	Year Ended 30 Sep 18 ¹	% Movement
Net interest income	1,967	1,958	0%
Non-interest income	448	406	10%
Net operating income	2,415	2,364	2%
Operating expenses	(993)	(930)	7%
Core earnings	1,422	1,434	(1%)
Impairment (charges)/benefits	10	(25)	Large
Operating profit before tax	1,432	1,409	2%
Taxation	(390)	(393)	(1%)
Cash earnings²	1,042	1,016	3%
Notable items	24	13	85%
Cash earnings excluding notable items	1,066	1,029	4%
Net interest Margin (%)³	2.16%	2.24%	(8 bps)
Reconciliation of cash earnings to statutory profit			
Cash earnings of Westpac New Zealand	1,042	1,016	3%
Structural differences between Westpac NZ and WNZL Banking Group ⁴	(113)	(107)	5%
Intergroup funding and notional charges ⁵	2	(3)	Large
Taxation	33	30	10%
Net profit of WNZL Banking Group ('Statutory profit')⁶	964	936	3%

Summary Balance Sheet NZ\$ billions	30 Sep 19	30 Sep 18	% Movement
Total deposits⁷	64.5	61.9	4%
Net loans	84.2	80.4	5%
Mortgages	51.5	48.9	5%
Business	31.1	29.8	4%
Other	1.9	2.0	(5%)
Provisions	(0.3)	(0.3)	0%
Deposit to loan ratio	76.60%	76.99%	(39 bps)

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

² 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).

³ Net interest margin is calculated on a cash earnings basis.

⁴ 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.

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.

⁶ 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.

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