Media Release

7th November 2016

**Westpac New Zealand: Balanced growth, investing in transformation**

Westpac New Zealand1 has posted cash earnings2 of $872 million for the year ended 30 September 2016, below the corresponding period last year while also investing significantly in a new customer service transformation programme.

Net interest income rose 2% to $1.7 billion driven by a 9% lift in total lending. The funding position continued to be strong with 92% of lending growth covered by increased deposits3. Focused risk management saw impairments remain low at $59 million which includes provisions for dairy customers. At the same time Westpac New Zealand further increased investment in service transformation which saw more than 200 initiatives implemented in the first year. The cost of that investment impacted core earnings4 by 2%.

Westpac New Zealand Chief Executive Officer, David McLean, said notwithstanding a challenging environment, the bank continued its significant investment in customer service transformation.

“Westpac New Zealand delivered a sound performance based on a disciplined approach to risk management and balanced growth,” Mr McLean said.

“We have focused on quality lending over volume, particularly in housing. This was evidenced by some risk policy changes we were prepared to make and lead the market in implementing policy changes ahead of regulation.”

“As well, we made a good start to implementing our service transformation to meet our customers rapidly evolving needs through their uptake of technology. Over the short to medium term this will significantly change the way our customers can manage their banking.”

“We have adjusted well to the challenges of the market and service transformation and are a business with momentum.” Mr McLean said.

**LENDING AND DEPOSIT GROWTH**

Business and Institutional lending grew 12% to $28.4b underpinned by 13% growth in Agri with Commercial lending up 12%. Westpac New Zealand is playing a key role in the future of New Zealand with the Institutional Bank the lead bank in five of the six Public-Private-Partnerships (PPPs) the Government has launched for key infrastructure projects.

Bankers were added to the Agri team which worked closely with dairy customers impacted by adverse market conditions. Support was also provided to the wider rural community with bank ambassador and mental health advocate Sir John Kirwan hosting forums across the country attended by more than 3,500 people.

Home lending lifted 7% to $45.1b, slightly below market growth. With historic low interest rates, strong customer preference for fixed home loans contributed to a net interest margin of 2.13%, down 12bps on the previous year. Margins stabilised in the second half, down 4bps. Focus remains on the first and next home buyer segments.

Deposits grew strongly up 11% to $57.5b and more than 40% of deposits were taken via Smart ATMs. Continued growth in Westpac KiwiSaver Scheme5 helped Funds under Management increase 15% to $7.5b while Funds under Administration were flat at $2b. The deposit to loan ratio was 76.6%.

**DELIVERING THE SERVICE STRATEGY**

Early last year Westpac New Zealand began work on a new service strategy as customers continue to drive change through their uptake of new technology. Staff put forward more than 1000 suggestions to deliver faster and easier service. These were tested with independent service experts and a Transformation Office was formed to deliver key priorities by 2019.

Mr McLean said the first year of implementation had been a good start with more than 200 initiatives implemented.

“Change is the new normal for any customer service business and we aspire to be one of the world’s great customer service companies. This is an exciting time for the business and we have established a good rhythm around the implementation of the service strategy.” Mr McLean said.

Some of the changes made in FY16 included:

**Customer benefits**

* Customer capability to sign, scan and send personal loan documentation. This not only saves the customer a visit to a branch but also 1000 hours every six months for our people
* Password reset online or by mobile. On average 130,000 customers call the contact centre per year to reset passwords. Being able to self-reset has cut those calls by 50% per year
* Posting a reminder to customers through Westpac One on missed payments saw 1000 payments made in 10 days saving late payment fees if paid during the grace period
* Giving customers the ability to identify themselves when they call the contact centre before a staff member answers has saved 50 seconds per call.

**Internal**

* Introducing Agile work methods in Technology has increased efficiency from 28% to 50% and has slashed the time to market of new products and services
* Providing new tools to frontline bankers has enabled them to deliver customers faster decisions on loan applications.

**OUTLOOK**

Economic conditions for FY17 are expected to be similar to FY16. The forecast for economic growth last year was 3.1% and is predicted to be 3.3% this year with the drivers remaining largely the same: high construction activity, historic low interest rates and continued population growth. Challenges will also remain similar, particularly externally with subdued global demand and the high NZD creating challenging conditions for many exporters.

In terms of regulation, with inflation low, the Reserve Bank of New Zealand (RBNZ) has cut the Official Cash Rate to a record low of 2%, and is likely to cut rates again later this year. With low interest rates adding to housing market pressures, the RBNZ has announced new lending restrictions, targeted mainly at investors. These changes will dampen housing demand, though the effects maybe short lived. Some additional tightening in macro-prudential policies is expected over the coming year in the form of debt-to-income limits on borrowing.

With investor activity significantly impacted by new regulations last year, the market is opening up to first and next home buyers. How any debt-to-income limits might impact first home buyers in particular will no doubt be carefully considered by the RBNZ.

**ENDS**

**FACT BOX:**

**Westpac New Zealand – The Topline Numbers**

|  |  |  |  |
| --- | --- | --- | --- |
| **Summary P&L and metrics ($m)** | **FY16** | **Change  FY16 - FY15** | **Change  2H16 - 1H16** |
|  |  |  |  |
| Net interest income | 1,706 | *2%* | *3%* |
| Non-interest income | 482 | *(2%)* | *(2%)* |
| **Total income** | **2,188** | ***1%*** | ***2%*** |
| Operating expenses | (919) | *5%* | *1%* |
| **Core earnings** | **1,269** | ***(2%)*** | ***3%*** |
| Impairment charges | (59) | *26%* | *large* |
| **Cash earnings** | **872** | ***(4%)*** | ***(4%)*** |
|  |  |  |  |
| Net interest margin (%) | 2.13% | *(12bps)* | *(4bps)* |

|  |  |  |  |
| --- | --- | --- | --- |
| **Summary Balance Sheet ($b)** | **FY16** | **Change  FY16 - FY15** | **Change  2H16 - 1H16** |
|  |  |  |  |
| **Total deposits** | **57.5** | ***11%*** | ***5%*** |
|  |  |  |  |
| **Net loans** | **75.1** | ***9%*** | ***5%*** |
| Mortgage | 45.1 | *7%* | *4%* |
| Non-housing | 30.0 | *11%* | *6%* |
|  |  |  |  |
| **Deposit to loan ratio** | **76.6%** | ***134bps*** | ***(1bps)*** |

**1** Westpac New Zealand is a management divisional view only, and is not the same as Westpac New Zealand

Limited. The financial results of Westpac New Zealand Limited will be available in the Disclosure Statement

and a reconciliation between the two results is provided in conjunction with the publishing of the Disclosure

Statement.

**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 is not a measure of cash flow or net profit determined on a cash accounting basis, as it includes noncash items reflected in statutory profit determined in accordance with IFRS. Westpac New Zealand's cash

earnings result for the full year ended 30 September 2016, as reflected in the Westpac Group Full Year Results

Announcement, is equal to statutory profit as none of these cash earnings adjustments impact on Westpac

New Zealand's reported results. A reconciliation between Westpac New Zealand’s cash earnings result and

Westpac New Zealand Limited’s statutory profit result is provided in conjunction with the publishing of the

Westpac New Zealand Limited Disclosure Statement.

**3** Deposits are equal to deposits at amortised cost as disclosed in the Westpac New Zealand Limited Disclosure

Statement.

**4** Core earnings are a measure of performance used by the Westpac Group which is operating income less

operating expenses.

**5** 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.

**For further questions please contact:**

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