



Media Release

04 May 2020

Westpac NZ prepares for challenging period ahead

Westpac New Zealand (Westpac NZ)ⁱ is committed to supporting customers through the impact of COVID-19 and helping the economy recover, Chief Executive David McLean says.

“In our 159 year history, Westpac NZ has supported customers and communities through wars, depressions, pandemics and natural disasters, and we will continue to do so through the current crisis.

“Despite the very serious financial impact that will be felt by many as a result of COVID-19, we’re confident New Zealand is well positioned for recovery, having entered the crisis in a sound economic position and having responded to the pandemic very well.

“Westpac NZ has both the financial strength and the commitment to New Zealand to help support the economy to recover. Nevertheless, the COVID-19 impact on the economy will be felt in banks’ financial performance,” Mr McLean said.

Westpac NZ’s financial results released today for the six months ended 31 March 2020 showed a 47% decrease in cash earningsⁱⁱ, compared with the same period last year, driven by a significant increase in expected loan impairments.

Although the impact of COVID-19 occurred late in the half year reporting period, it had a significant impact, Mr McLean said.

“Our entire outlook changed in the space of a couple of weeks as the country went into lockdown. This half year result reflects only the early impacts of COVID-19, and our initial assessment of the lending losses we’re likely to see as a result.

“I’m immensely proud of how our teams worked tirelessly to deliver banking as an essential service as the country went into lockdown, often in trying circumstances.”

Westpac NZ has introduced a range of measures to support customers and communities, including:

- Six-month repayment deferrals for mortgages and personal loans;
- Lending through new Business Support Loans, in partnership with the Government, as well as emergency overdrafts and other support;
- Waiving contactless debit fees for eligible existing customers for six months;
- Temporarily waiving minimum monthly merchant service fees for all businesses; and
- An extra \$1 million donation to rescue helicopters, to address the fundraising deficit caused by COVID-19.

As at 30 April 2020ⁱⁱⁱ, Westpac NZ has:

- Granted mortgage or personal loan repayment relief to 22,118 customers on loans totalling \$7.0 billion;
- Provided \$1.4 billion of new lending to 1,129 business customers;
- Converted \$1.4 billion of business loans for 1,560 business customers to interest-only or reduced repayments; and
- Received more than 600 applications for Business Support Loans, which are offered through the Government's Business Finance Guarantee Scheme.

Looking ahead

Early and bold action by the Government and regulators, supported by banks, has helped reduce the immediate impact of COVID-19 on customers and the economy, Mr McLean said.

"Interest rates remain at all-time lows, which will help soften the impact on borrowers whose incomes have been reduced, and wage subsidies and mortgage deferrals give households and businesses time to regroup.

"However low interest rates will make it harder for depositors who depend on their investment income, and will continue to compress bank lending margins."

Despite the disruption caused by COVID-19, work continues on improving processes and systems at Westpac NZ to benefit customers. In some cases this had been accelerated by the lock down period and the uptake in digital banking, Mr McLean said.

"We remain firmly focussed on delivering new and innovative products and experiences, aligning the bank to our customers' and regulators' expectations, and remediating any historical issues.

"COVID-19 is forcing us, and many others, to work in a completely different way and it's exciting seeing how our teams are responding to the challenge. I'm confident our organisation will be more agile and resilient when we emerge from the COVID-19 era."

Key Financials

(All comparisons are for the six-month period, ended 31 March 2020 versus the same period last year)

- Cash earnings of \$295m, down 47%
- Core earnings of \$621m, down 19%
- Net operating income of \$1,162m, down 7%
- Operating expenses of \$541m, up 13%
- Impairment charges of \$211m, up from \$14m
- Net interest margin 2.06%, down 17 basis points

Home loans have grown by 7% and business lending by 5% year-on-year, while customer deposits^{iv} have grown 8%. Agri lending has grown by 3% and deposits by 4% year-on-year.

Funds under management in the Westpac KiwiSaver Scheme^v increased by 7% year-on-year, to \$6.8 billion as at 31 March 2020. The average Westpac KiwiSaver Scheme balance increased 8% over the same period to \$17,451.

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

“We know some people have been tempted to switch to a different fund when they’ve seen the market dropping lately. The main thing is to choose the right fund for your life stage, adapted to your tolerance of investment risk, and then stick with it,” Mr McLean said.

“While share market volatility is likely to continue for a while as a result of COVID-19, the good news is that markets generally recover with time.”

Supporting New Zealand

Mr McLean said Westpac NZ had taken several bold steps to help improve the wellbeing of New Zealanders.

“One of the highlights this year has been announcing that Westpac is New Zealand’s first Toitū carbonzero certified bank. This means we’ve been assessed as carbon neutral by a third party verification process and have a clear reduction plan in place.”

Westpac NZ had also announced new interest-free loans of up to \$10,000, known as Westpac Warm Up, for home loan customers to improve energy efficiency through the purchase of heat pumps, solar panels, ventilation, double glazing or insulation. The initiative was delayed by the Level 4 lockdown, but will be available later this month.

“We’ve been focussing for a number of years on what we can do to improve sustainability at the bank. This initiative brings customers along on the journey by empowering them to make their home healthier to live in and more energy efficient. It will also support small businesses that provide or install these features.”

Westpac NZ has also pledged to transition 100% of its car fleet to electric vehicles by 2025 and had completed its first ‘sustainability-linked loan’ with Contact Energy.

“We’ve also partnered with Kiwibank to assist Sir John Kirwan to release his Mentemia mental health app to New Zealanders for free, and we’ve been actively working with our charity partners to see how we can support them at a time of disruption from COVID-19.”

Mr McLean said many businesses would currently be focussing on getting from one week to the next, but urged leaders to also think about the possibilities for sustainable transformation.

“There’s an opportunity here for the business community to use COVID-19 as a catalyst to rebuild our operations in a way that is more sustainable and resilient in future.”

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 This data provided is from the period 26 March 2020 to 30 April 2020.

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

^v 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

Westpac New Zealand Summary Financials

Summary Profit & Loss NZ\$ millions	Six Months	Six Months	Six Months	% Movement Mar	% Movement Mar
	Ended 31 Mar 20	Ended 30 Sep 19	Ended 31 Mar 19	20 vs. Sep 19	20 vs. Mar 19
Net interest income	987	967	1,000	2%	(1%)
Non-interest income	175	200	248	(13%)	(29%)
Net operating income	1,162	1,167	1,248	-	(7%)
Operating expenses	(541)	(513)	(480)	5%	13%
Core earnings	621	654	768	(5%)	(19%)
Impairment (charges)/benefits	(211)	24	(14)	Large	Large
Operating profit before tax	410	678	754	(40%)	(46%)
Taxation	(115)	(191)	(199)	(40%)	(42%)
Cash earnings¹	295	487	555	(39%)	(47%)
Add back notable items	5	24	-	(79%)	-
Cash earnings excluding notable items	300	511	555	(41%)	(46%)
Net interest Margin (%) ²	2.06%	2.09%	2.23%	(3 bps)	(17 bps)
Reconciliation of cash earnings to statutory profit					
Cash earnings of Westpac New Zealand	295	487	555	(39%)	(47%)
Structural differences between Westpac NZ and WNZL Banking Group ³	(42)	(47)	(66)	(11%)	(36%)
Intergroup funding and notional charges ⁴	(10)	1	1	Large	Large
Taxation	13	14	19	(7%)	(32%)
Net profit of WNZL Banking Group ('Statutory profit')⁵	256	455	509	(44%)	(50%)

Summary Balance Sheet NZ\$ billions	31 Mar 20	30 Sep 19	31 Mar 19	% Movement Mar	% Movement Mar
				20 vs. Sep 19	20 vs. Mar 19
Total deposits⁶	69.1	64.5	64.2	7%	8%
Net loans	87.0	84.2	82.1	3%	6%
Mortgages	53.3	51.5	49.6	3%	7%
Business	32.5	31.1	30.9	5%	5%
Other	1.7	1.9	2.0	(11%)	(15%)
Provisions	(0.5)	(0.3)	(0.4)	67%	25%
Deposit to loan ratio	79.4%	76.6%	78.9%	283 bps	123 bps

¹ 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).

² Net interest margin is calculated on a cash earnings basis.

³ 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.

⁴ 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.

⁵ 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.

⁶ Total deposits in this table refers to total customer deposits.