4 November 2019

Westpac announces 2019 Full Year Result

Financial highlights Full Year 2019 compared to Full Year 2018[1]

- Statutory net profit $6,784 million, down 16%
- Cash earnings $6,849 million, down 15%
- Cash earnings per share 198.2 cents, down 16%
- Net interest margin 2.12%, down 10 bps
- Return on equity (ROE) 10.75%, down 225 bps
- Common equity Tier 1 (CET1) capital ratio of 10.7%, above APRA's unquestionably strong benchmark
- Excluding notable items[2], cash earnings $7,979 million, down 4%
- Excluding notable items[2], ROE 12.52%, down 94 bps
- Final fully franked dividend 80 cents per share, down 15% from 94 cents per share

Re-setting for new environment

- Seeking to raise approximately $2.5 billion in capital which on a pro-forma basis is expected to increase our 30 September 2019 CET1 capital ratio by ~58 bps
- 2H19 dividend reduced to bring payout ratio to a more sustainable range
- Preparing for our digital future by investing in a new digital-only banking platform
- Group-wide goal to have the highest major bank Net Promoter Score across each division

Westpac Group CEO, Mr Brian Hartzer, said: "2019 has been a disappointing year. Financial results are down significantly in a challenging, low-growth, low interest rate environment.

"Our result was impacted by customer remediation costs and the reset of our Wealth business. Excluding these notable items[2], cash earnings were down 4% on FY18, which was mainly due to a reduction in wealth and insurance income from the exit of our financial planning business, higher insurance claims, and the impact of regulatory changes on revenue.

"Importantly, 2019 has also been a watershed year where we've acted decisively to respond to the challenging conditions. We've progressed the implementation of a number of recommendations from the Royal Commission and our Culture, Governance and Accountability (CGA) self-assessment, and continued our focus on putting things right for customers.

[1] Reported on a cash earnings basis unless otherwise stated. For an explanation of cash earnings and reconciliation to reported results refer to Section 1.3.4 and Section 5, Note 8 of Westpac Group's 2019 Full Year Financial Results Announcement.
[2] References to notable items in this release include provisions for estimated customer refunds, payments, associated costs and litigation ($958m after tax), and costs associated with the restructuring of the Wealth business ($172m after tax).

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"This year our productivity savings increased 33% to $405 million, and we reduced our FTE by 5%, or approximately 1,700 people.

"We established a remediation hub to speed up the process of refunding customers, and since 2017 have paid out around $350 million in refunds to more than 500,000 customers as part of our get it right, put it right initiative.

"Credit quality remains sound and impairment charges remain low at 11 basis points of loans. Nevertheless, we have seen a small rise in 90 day mortgage delinquencies over the year, in part due to low wage growth and slowing economic activity. 70% of our Australian home loan customers are ahead on their repayments including offset accounts.

"We have delivered innovations to make it easier for customers to do their banking, including our virtual assistant chatbot 'Red', which has had almost 1 million interactions with customers and resolved more than 70% of queries without escalation to a banker.

"We have also invested in a range of fintech partnerships that open up opportunities in an increasingly digitised world.

"With our mix of businesses that are number one or two in market share across all our major segments, we have a franchise that is in good shape."

Mr Hartzer said re-setting the company for the future was a priority, in particular further strengthening Westpac's balance sheet in a low interest rate environment and dealing with potential uncertainties.

"We expect $500 million of productivity savings in FY20 as well as another $200 million from the Wealth reset, including the exit of our financial planning business. This will be partly offset by incremental spend on improving risk management over the next two years."

Capital raising and dividend cut

"Given our priority for balance sheet strength and our goal to support customers' growth, we are seeking to raise approximately $2.5 billion in capital to provide an increased buffer above APRA's unquestionably strong benchmark. The raising also creates flexibility for changes in capital rules and for potential litigation or regulatory action.

"The decision to reduce our second half dividend to 80 cents per share was not easy, as we know many of our shareholders rely on our dividends for income. However, we felt it was necessary to bring the dividend payout ratio to a more sustainable medium-term range given the capital raising and lower return on equity."

Positioning for a digital future

"We're preparing for our digital future by investing in a new digital-only banking platform that will complement our existing banking businesses.

"This will initially operate a 'bank-as-a-service' model and we intend to bring new digital products and services to market through fintech and institutional partners. This will allow Westpac to reach a new group of customers as well as create value for our partners by enhancing the service offering to their own customers.

"As part of this initiative, Westpac expects to make a minority equity investment in UK-based cloud banking technology provider, 10x Future Technologies Holdings Limited.

"This initiative builds on the significant investment we have made – and will continue to make – in modernising our platforms, including the Customer Service Hub and Panorama. Together this will mean we have the right systems to meet changing customer needs now and in the future."

Number one in customer service

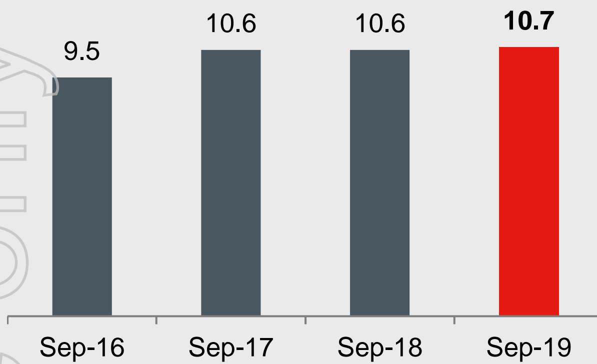
"Westpac is committed to service leadership and has made significant progress in improving the service we provide customers. We're pleased to hold the #1 position in Net Promoter Score (NPS)[3] for our Business division, including commercial, SME and micro business. For most of the year we were #2 for Consumer.

"We know we can do better in serving our customers and growing our business. That's why we have set the goal of being number one on NPS across each of our divisions, and where we're already number one, to extend our lead.

"While it's an ambitious goal, we think it's achievable given the significant investment we have made in service and our track record over a long period of time," Mr Hartzer said.

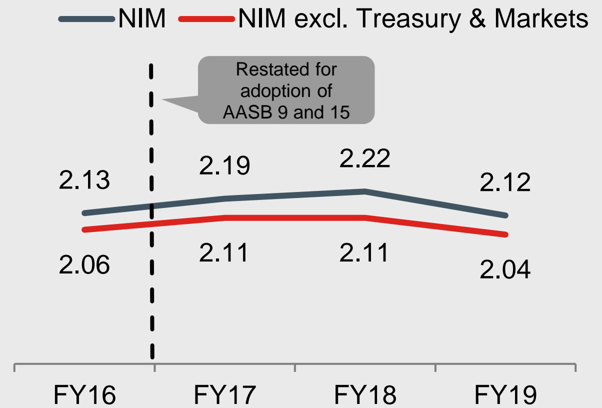
[3] Source: DBM Consultants Business Financial Services Monitor for Business results and Consumer Atlas for Consumer results, 6 months to August 2019, Westpac Group MFI customers. Commercial businesses with annual turnover $5m-$100m (excl. Agri); SME businesses with annual turnover $1m-$5m (excl. Agri) and Micro businesses with annual turnover under $1m (excl. Agri).

Balance sheet strength a priority



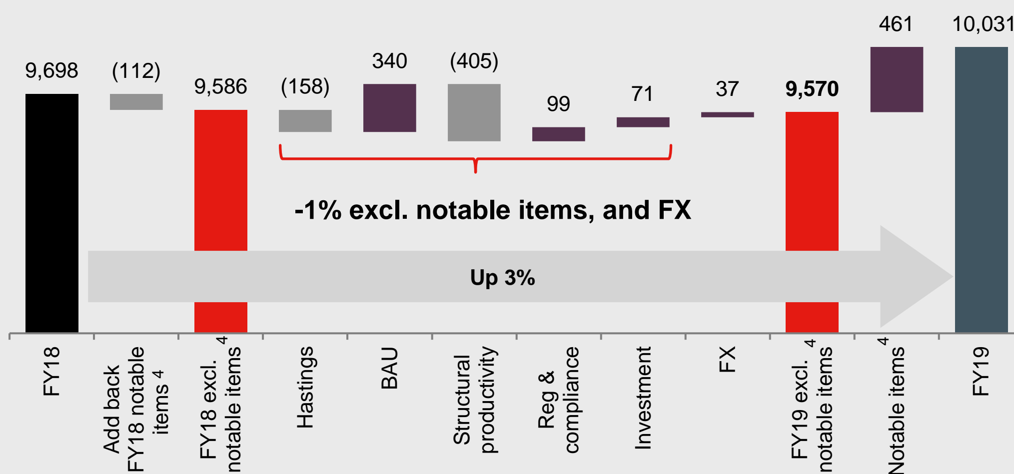
- CET1 capital ratio little changed.
- Liquidity ratios comfortably above regulatory minimums:
  - Liquidity coverage ratio 127%.
  - Net stable funding ratio 112%.
- Approx. $2.5 bn capital raising expected to add ~58 bps to CET1 capital ratio.

Margins well managed



- Net interest margin down 10bps over the year.
- Of the decline, 3 bps was due to notable items which had a larger impact on net interest income in FY19 relative to FY18.
- Treasury and markets revenue lower (3 bps).
- Competition for loans and deposits and high liquidity also impacted margins.

Expenses FY18 to FY19 ($m) down 1% excl. notable items and FX movements



- Operating expenses increased $333 million or 3% compared to FY18.
- Productivity savings of $405 million, up 33% on FY18, with full time equivalent staff decreasing 1,741 or 5%.
- Excluding the increase of notable items of $349 million and the impact of foreign exchange movements, operating expenses were $53 million or 1% lower.
- We remain focused on medium to long term cost-to-income ratio of less than 40% given our significant investment in digital.
- We anticipate that investment in strengthening risk and compliance will see expenses increase in 2020 and remain high in 2021, before decreasing as the benefits from these programs and other productivity initiatives are delivered.

4. Notable items include provisions for estimated customer refunds, payments, associated costs and litigation, and costs associated with the restructuring of the Wealth business.

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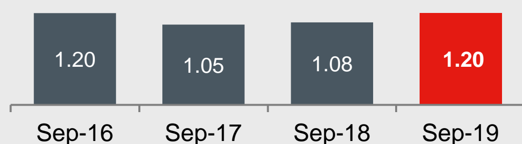
Credit quality

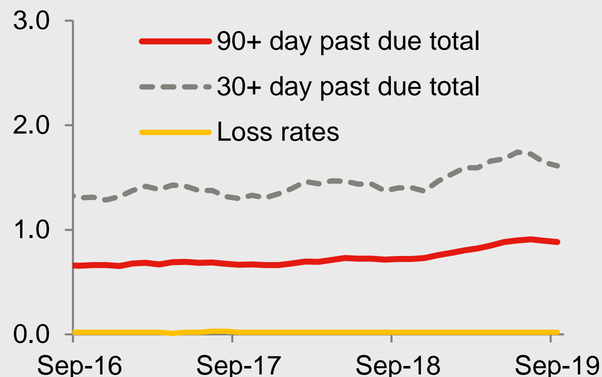
Stressed assets to total committed exposures (TCE) (%)



- Asset quality remained sound through FY19.
- Stressed exposures to TCE increased by 12bps to 1.20% due to higher impaired and higher 90+ days but not impaired facilities.
- Given modest change in asset quality, impairment charges have remained low at $794 million in FY19, equal to 11 bps of gross loans.

Mortgage quality

Australian mortgage portfolio delinquencies (%)



- Mortgage book fundamentally sound.
- 90+ day delinquencies up 16bps over the year.
- The main driver of the increase has been the softening economic conditions and low wages growth.
- Australian properties in possession increased over the year by 162 to 558.

Divisional performance – cash earnings

Division	FY19 ($m)	% change FY18	% change 1H19 – 2H19	Highlights (FY19 – FY18)
Consumer	3,288	(4)	5	Cash earnings were 4% lower due to a decline in non-interest income and increased impairment charges. Mortgage lending increased 1% and deposits rose 2%. Net interest margin was down 3bps due to lower mortgage spreads from increased competition and lower interest only lending.
Business	2,431	(12)	(8)	Performance was impacted by notable items ($270 million after tax). Excluding these items, cash earnings were $60 million or 2% lower from a reduction in non-interest income and higher regulatory related costs. Deposits rose by 3% over the year. Non-interest income was down 11%, mainly due to provisions as well as lower wealth income from new platform pricing and product mix changes.
Westpac Institutional Bank	1,014	(7)	(14)	Lower cash earnings were primarily due to a $78 million movement in derivative valuation adjustments, no contribution from Hastings and a $62 million turnaround in impairment charges. (2019 impairment charge of $46 million). In FY18, Hastings contributed $203 million to non-interest income, $158 million to expenses and $29 million to tax.
Westpac New Zealand ($NZ)	1,042	3	(12)	Cash earnings growth was supported by a gain on the sale of Paymark and a $10 million impairment benefit. Loans increased 5% with growth evenly spread across mortgage and business lending, while deposits also grew 4%.

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Dividends

The Board has determined a final, fully franked dividend of 80 cents per share to be paid on 20 December 2019. Total dividends for 2019 were 174 cents per share representing a payout ratio of 88.1% of cash earnings.

The dividend reinvestment plan (DRP) will continue to operate and there will be no discount to the market price. Shares will be issued to satisfy the DRP.

Outlook

Mr Hartzer said that growth in the Australian economy will continue to be subdued with GDP growth to remain below trend at around 2.4% in 2020.

He said consumers remain cautious with flat wage growth constraining consumer spending.

"We expect the Australian economy will lift somewhat supported by lower interest rates, improved housing sentiment and targeted income tax cuts.

"We also expect the recent recovery in house prices, particularly in Sydney and Melbourne, to extend into 2020. This will provide some boost to households which, nevertheless, are likely to remain cautious on further increasing debt levels. However, the contraction in the residential construction cycle will extend well into 2020.

"We expect system credit growth in the year to September 2020 to lift from 2.7% this year to 3%. That will be largely driven by housing where we expect a lift from 3.1% to 3.5%, although business credit growth is expected to slow somewhat from 3.3% to 3%.

"Progress in dealing with trade disputes, particularly between the US and China, will be important for the outlook for the global economy and the flow on effect on business confidence and investment plans in Australia."

Mr Hartzer said Westpac was dealing decisively with outstanding issues in a tough operating environment, including remediating customers as quickly as possible.

"At the same time we are keeping our balance sheet strong, digitising our business, modernising our platforms and becoming more efficient.

"Although 2020 will continue to be challenging, we believe our service led strategy, disciplined growth and solid portfolio of businesses will deliver for shareholders and customers," he said.

For more information on the outlook for Westpac, refer to the 2019 Presentation and Investor Discussion Pack.

To view Mr Hartzer's FY19 results video on Westpac Wire, please visit our website.

For further information

David Lording
Head of Media Relations
M. 0419 683 411

Andrew Bowden
Head of Investor Relations
T. 02 8253 4008
M. 0438 284 863

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