For personal use only

Westpac GROUP

ASX Release

Level 18, 275 Kent Street
Sydney, NSW, 2000

2 November 2020

Westpac 2020 Full Year Financial Results Announcement (incorporating the requirements of Appendix 4E)

Westpac Banking Corporation ("Westpac") today provides the attached Westpac 2020 Full Year Financial Results Announcement (incorporating the requirements of Appendix 4E).

For further information:

David Lording
Group Head of Media Relations
0419 683 411

Andrew Bowden
Head of Investor Relations
0438 284 863

This document has been authorised for release by Tim Hartin, General Manager & Company Secretary.

For personal use only

Full Year Financial Results

2020

INCORPORATING THE REQUIREMENTS OF APPENDIX 4E

WESTPAC BANKING CORPORATION
ABN 33 007 457 141

Fix Simplify Perform

Westpac GROUP

Results Announcement to the market

ASX Appendix 4E

Results for announcement to the market[1]

Report for the full year ended 30 September 2020[2]

Revenue from ordinary activities[3,4] ($m)	down	2%	to	$20,183
Profit from ordinary activities after tax attributable to equity holders[4] ($m)	down	66%	to	$2,290
Net profit for the year attributable to equity holders[4] ($m)	down	66%	to	$2,290

Dividend Distributions (cents per ordinary share)	Amount per security	Franked amount per security
Final Dividend	31	31
Interim Dividend[5]	NIL	n/a

Record date for determining entitlements to the dividends	12 November 2020 (Sydney) 10 November 2020 (New York)

1. This document comprises the Westpac Group 2020 Full Year Financial Results, and is provided to the Australian Securities Exchange under Listing Rule 4.3A.
2. This report should be read in conjunction with the 2020 Westpac Group Annual Report and any public announcements made in the period by the Westpac Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.
3. Comprises reported interest income, interest expense and non-interest income.
4. All comparisons are with the reported results for the twelve months ended 30 September 2019.
5. The Board did not declare an interim dividend and no dividend was paid.

For personal use only

Results Announcement to the market

Index

1.0	**Group results**	1
	1.1 Reported results	1
	1.2 Key financial information	2
	1.3 Cash earnings results	3
	1.4 Market share and system multiple metrics	9
2.0	**Review of Group operations**	10
	2.1 Performance overview	14
	2.2 Review of earnings	21
	2.3 Credit quality	33
	2.4 Balance sheet and funding	36
	2.5 Capital and dividends	41
	2.6 Sustainability performance summary	48
3.0	**Divisional results**	50
	3.1 Consumer	51
	3.2 Business	54
	3.3 Westpac Institutional Bank	57
	3.4 Westpac New Zealand	59
	3.5 Specialist Businesses	63
	3.6 Group Businesses	67
4.0	**2020 Full Year Financial Report**	69
	4.1 Significant developments	70
	4.2 Consolidated income statement	78
	4.3 Consolidated statement of comprehensive income	79
	4.4 Consolidated balance sheet	80
	4.5 Consolidated statement of changes in equity	81
	4.6 Consolidated cash flow statement	83
	4.7 Notes to the consolidated financial statements	84
	4.8 Statement in relation to the audit of the financial statements	115
5.0	**Cash earnings financial information**	116
6.0	**Other information**	129
	6.1 Disclosure regarding forward-looking statements	129
	6.2 References to websites	130
	6.3 Credit ratings	130
	6.4 Dividend reinvestment plan	130
	6.5 Information on related entities	130
	6.6 Financial calendar and Share Registry details	131
	6.7 Exchange rates	135
7.0	**Glossary**	136

For personal use only

Results Announcement to the market

In this Full Year Financial Results Announcement (Results Announcement) references to 'Westpac', 'WBC', 'Westpac Group', 'the Group', 'we', 'us' and 'our' are to Westpac Banking Corporation and its controlled entities, unless it clearly means just Westpac Banking Corporation.

All references to $ in this Results Announcement are to Australian dollars unless otherwise stated.

Financial calendar

Final Results Announcement released	2 November 2020
Ex-dividend date for final dividend	11 November 2020
Record date for final dividend (Sydney)	12 November 2020
Annual General Meeting	11 December 2020
Final dividend payable	18 December 2020

For personal use only

Group results

1.0 Group results

1.1 Reported results

Reported net profit attributable to owners of Westpac Banking Corporation (WBC) is prepared in accordance with the requirements of Australian Accounting Standards (AAS) and regulations applicable to Australian Authorised Deposit-taking Institutions (ADIs). During the Full Year 2020, Westpac adopted AASB 16 *Leases* (AASB 16). As the Group applied the standards prospectively, comparatives have not been restated.

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net interest income	7,696	9,000	(14)	16,696	16,907	(1)
Net fee income	837	755	11	1,592	1,655	(4)
Net wealth management and insurance income	286	465	(38)	751	1,029	(27)
Trading income	435	460	(5)	895	929	(4)
Other income	325	(76)	large	249	129	93
Net operating income before operating expenses and impairment charges	**9,579**	**10,604**	**(10)**	**20,183**	**20,649**	**(2)**
Operating expenses	(6,558)	(6,181)	6	(12,739)	(10,106)	26
Net profit before impairment charges and income tax expense	**3,021**	**4,423**	**(32)**	**7,444**	**10,543**	**(29)**
Impairment charges	(940)	(2,238)	(58)	(3,178)	(794)	large
Profit before income tax	**2,081**	**2,185**	**(5)**	**4,266**	**9,749**	**(56)**
Income tax expense	(980)	(994)	(1)	(1,974)	(2,959)	(33)
Net profit for the period	**1,101**	**1,191**	**(8)**	**2,292**	**6,790**	**(66)**
Profit attributable to non-controlling interests (NCI)	(1)	(1)	-	(2)	(6)	(67)
Net profit attributable to owners of WBC	**1,100**	**1,190**	**(8)**	**2,290**	**6,784**	**(66)**

Net profit attributable to owners of Westpac Banking Corporation for Full Year 2020 was $2,290 million, a decrease of $4,494 million or 66% compared to Full Year 2019. Full Year 2020 net profit included a significant increase in impairment charges due to the economic impact of the COVID-19 pandemic, costs associated with the AUSTRAC proceedings, asset impairments and revaluations, and estimated customer refunds, payments, associated costs and litigation. These items are further discussed in Section 1.3.2, Section 2.1, Section 2.2.9 and in Note 10 and Note 14 of this Announcement.

Net interest income decreased $211 million compared to Full Year 2019 predominantly due to a decrease in net interest margin of 9 basis points to 2.03%. The movement in net interest income is attributable to the impact of:

- lower rates on average interest earning assets exceeding benefits from the decrease in the Group's funding costs, which includes movements in economic hedges; and
- lower charges for estimated customer refunds and payments than in Full Year 2019.

Net interest income, loans, deposits and other borrowings, and net interest margin are discussed further in Sections 2.2.1 to 2.2.4.

In aggregate, non-interest income decreased $255 million compared to Full Year 2019 mainly due to:

- a decrease in net wealth and insurance income due to lower rates, asset impairment, and severe weather events resulting in higher claims; and
- a decrease in net fee income from lower customer activities and fee waivers; partially offset by
- a lower charge for estimated customer refunds and payments compared to Full Year 2019; and
- the realisation of a gain upon the derecognition of an associate.

Non-interest income is discussed further in Section 2.2.5.

Operating expenses increased $2,633 million or 26% compared to Full Year 2019. The rise was mainly due to:

- costs associated with AUSTRAC proceedings including a provision for penalty;
- customer service costs associated with responding to COVID-19,
- asset impairments, and an increase in amortisation and impairment of capitalised software; partially offset by provisions for Wealth restructuring in Full Year 2019.

Operating expenses are discussed further in Section 2.2.8.

Impairment charges were $2,384 million higher compared to Full Year 2019 mostly reflecting the deterioration in the economy as a result of the COVID-19 pandemic which has led to a significant increase in the expected credit losses. Asset quality deteriorated, with stressed exposures as a percentage of total committed exposures at 1.91%, up 71 basis points compared to Full Year 2019. Impairment charges are discussed further in Section 2.2.9 and Note 10 of this Announcement.

The effective tax rate of 46.3% was higher than the Full Year 2019 effective tax rate of 30.4% predominantly due to both the provision for the AUSTRAC penalty and goodwill impairment being non deductible. Income tax expense is discussed further in Section 2.2.10.

For personal use only

Group results

1.2 Key financial information[1]

	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Shareholder value						
Earnings per ordinary share (cents)	30.5	33.2	(8)	63.7	196.5	(68)
Weighted average ordinary shares (millions)[2]	3,606	3,574	1	3,590	3,450	4
Fully franked dividends per ordinary share (cents)[3]	31	-	-	31	174	(82)
Dividend payout ratio[3]	101.65%	-	large	48.87%	88.83%	large
Return on average ordinary equity	3.22%	3.52%	(30 bps)	3.37%	10.65%	large
Average ordinary equity ($m)	68,403	67,625	1	68,014	63,714	7
Average total equity ($m)	68,454	67,678	1	68,066	63,764	7
Net tangible asset per ordinary share ($)	15.67	15.43	2	15.67	15.36	2
Business performance						
Interest spread	1.73%	2.08%	(35 bps)	1.90%	1.94%	(4 bps)
Benefit of net non-interest bearing assets, liabilities and equity	0.12%	0.13%	(1 bps)	0.13%	0.18%	(5 bps)
Net interest margin	1.85%	2.21%	(36 bps)	2.03%	2.12%	(9 bps)
Average interest-earning assets ($m)	830,465	812,971	2	821,718	798,924	3
Expense to income ratio	68.46%	58.29%	large	63.12%	48.94%	large
Capital, funding and liquidity						
Common equity Tier 1 capital ratio						
- APRA Basel III	11.13%	10.81%	32 bps	11.13%	10.67%	46 bps
- Internationally comparable	16.50%	15.81%	69 bps	16.50%	15.85%	65 bps
Credit risk weighted assets (credit RWA) ($m)	359,389	369,142	(3)	359,389	367,864	(2)
Total risk weighted assets (RWA) ($m)	437,905	443,905	(1)	437,905	428,794	2
Liquidity coverage ratio (LCR)	150%	154%	large	150%	127%	large
Net stable funding ratio (NSFR)	122%	117%	large	122%	112%	large
Asset quality						
Gross impaired exposures to gross loans	0.40%	0.30%	10 bps	0.40%	0.25%	15 bps
Gross impaired exposures to equity and total provisions	3.74%	2.93%	81 bps	3.74%	2.54%	120 bps
Gross impaired exposure provisions to gross impaired exposures	41.45%	50.09%	large	41.45%	44.92%	(347 bps)
Total committed exposures (TCE) ($bn)	1,060	1,082	(2)	1,060	1,050	1
Total stressed exposures as a % of TCE[4]	1.91%	1.32%	59 bps	1.91%	1.20%	71 bps
Total provisions to total gross loans	88 bps	80 bps	8 bps	88 bps	54 bps	34 bps
Mortgages 90+ day delinquencies	1.50%	0.87%	63 bps	1.50%	0.82%	68 bps
Other consumer loans 90+ day delinquencies	2.09%	1.94%	15 bps	2.09%	1.69%	40 bps
Collectively assessed provisions to credit RWA	154 bps	140 bps	14 bps	154 bps	95 bps	59 bps
Balance sheet ($m)						
Loans	693,059	719,678	(4)	693,059	714,770	(3)
Total assets	911,946	967,662	(6)	911,946	906,626	1
Deposits and other borrowings	591,131	582,920	1	591,131	563,247	5
Total liabilities	843,872	900,016	(6)	843,872	841,119	-
Total equity	68,074	67,646	1	68,074	65,507	4
Wealth Management						
Average Group Funds ($bn)	200.2	224.6	(11)	212.4	214.6	(1)
Life insurance in-force premiums (Australia) ($m)	953	1,208	(21)	953	1,212	(21)
General insurance gross written premiums (Australia) ($m)	282	273	3	555	538	3

1. Averages are based on six months for the halves and twelve months for the full year.
2. Weighted average number of fully paid ordinary shares listed on the ASX for the relevant period less average Westpac shares held by the Group ("Treasury shares").
3. The Board did not declare an interim dividend.
4. Stressed exposures include program managed loans 90 days plus and non-performing transaction managed loans.

For personal use only

Group results

1.3 Cash earnings results

Throughout this Results Announcement, reporting and commentary of financial performance refers to 'cash earnings results', unless otherwise stated. Section 4 is prepared on a reported basis. A reconciliation of cash earnings to reported results is set out in Section 5, Note 8.

Certain commentary throughout this Results Announcement refers to performance excluding "notable items". Details on notable items are discussed in Section 1.3.2.

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net interest income	8,420	8,666	(3)	17,086	16,953	1
Non-interest income	1,865	1,675	11	3,540	3,702	(4)
Net operating income	**10,285**	**10,341**	**(1)**	**20,626**	**20,655**	**-**
Operating expenses	(6,540)	(6,160)	6	(12,700)	(10,031)	27
Core earnings	**3,745**	**4,181**	**(10)**	**7,926**	**10,624**	**(25)**
Impairment charges	(940)	(2,238)	(58)	(3,178)	(794)	large
Operating profit before income tax	**2,805**	**1,943**	**44**	**4,748**	**9,830**	**(52)**
Income tax expense	(1,189)	(949)	25	(2,138)	(2,975)	(28)
Net profit for the period	**1,616**	**994**	**63**	**2,610**	**6,855**	**(62)**
Net profit attributable to non-controlling interests	(1)	(1)	-	(2)	(6)	(67)
Cash earnings	**1,615**	**993**	**63**	**2,608**	**6,849**	**(62)**
Add back notable items	1,220	1,399	(13)	2,619	1,047	150
Cash earnings excluding notable items	**2,835**	**2,392**	**19**	**5,227**	**7,896**	**(34)**

For personal use only

Group results

1.3.1 Key financial information – cash earnings basis

	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Shareholder value						
Cash earnings per ordinary share (cents)	44.7	27.7	61	72.5	198.2	(63)
Economic profit/(losses) ($m)[1]	(1,433)	(2,146)	(33)	(3,579)	1,619	large
Weighted average ordinary shares (millions)[2]	3,612	3,579	1	3,595	3,456	4
Dividend payout ratio[3]	69.33%	-	large	42.93%	88.09%	large
Cash earnings return on average ordinary equity (ROE)	4.72%	2.94%	178 bps	3.83%	10.75%	large
Cash earnings return on average tangible ordinary equity (ROTE)	5.49%	3.42%	207 bps	4.46%	12.66%	large
Average ordinary equity ($m)	68,403	67,625	1	68,014	63,714	7
Average tangible ordinary equity ($m)[4]	58,818	58,024	1	58,421	54,114	8
Business performance						
Interest spread	1.92%	1.99%	(7 bps)	1.96%	1.94%	2 bps
Benefit of net non-interest bearing assets, liabilities and equity	0.11%	0.14%	(3 bps)	0.12%	0.18%	(6 bps)
Net interest margin	2.03%	2.13%	(10 bps)	2.08%	2.12%	(4 bps)
Average interest earning assets ($m)	830,465	812,971	2	821,718	798,924	3
Expense to income ratio	63.59%	59.57%	large	61.57%	48.56%	large
Full time equivalent employees (FTE)	36,849	34,199	8	36,849	33,288	11
Revenue per FTE ($ '000's)	285	309	(8)	593	608	(2)
Effective tax rate	42.39%	48.84%	large	45.03%	30.26%	large
Impairment charges						
Impairment charges to average loans annualised	27 bps	62 bps	(35 bps)	45 bps	11 bps	34 bps
Net write-offs to average loans annualised	15 bps	12 bps	3 bps	14 bps	14 bps	-

1. Refer to Section 5, Note 9 for further details.
2. Weighted average ordinary shares – cash earnings: represents the weighted average number of fully paid ordinary shares listed on the ASX for the relevant period.
3. The Board did not declare an interim dividend.
4. Average tangible ordinary equity is calculated as average ordinary equity less intangible assets (excluding capitalised software).

For personal use only

Group results

1.3.2 Impact of notable items

In Full Year 2020 a number of large items have impacted results that do not reflect underlying performance. We have called these items "notable items". Notable items do not include COVID-19 impacts (apart from revaluations partly due to weaker activity) despite the significant effect on our results this year. Notable items can be divided into four categories:

Category	Cash earnings impact FY20 $m	Detail
1. AUSTRAC proceedings	$1,442	• Provision for $1.3 billion penalty. • Legal costs, including AUSTRAC's costs. • Costs linked to Westpac's response plan.
2. Refunds, payments, costs and litigation	$440	• Additional provisions for estimated refunds in FY20 including for : – business customers provided with a business loan instead of a consumer loan regulated by the National Consumer Credit Protection Act and the National Credit Code; – refunds to superannuation and investment customers not advised of certain corporate actions; – refunds to some BT customers where certain wealth fees were inadequately disclosed; and. – net increase in provisions for the refund of Advice fees. • Costs associated with implementing the remediation programs. • Cost of settling legal actions, including settlement of two US class actions.
3. Write-down of intangibles	$614	• Following a review, the valuation of our Life insurance business did not support its goodwill so it has been written down. • Lower returns in the Auto business has resulted in a write-down in its goodwill. • Write-down and impairment of capitalised software.
4. Asset sales and revaluations	$123	• Gain on revaluation of shareholding in Zip Co Limited • Write-down of Life insurance deferred acquisition costs, along with a loss on the liabilities associated with our disability insurance. • Accounting loss on the sale of our Vendor Finance business, sold at a discount to book value (recorded loss), with potential earn-out payments on performance over next 3 years (to be recognised in future years).

For personal use only

Group results

Half Year Sept 2020

$m	AUSTRAC proceedings	Refunds, payments, costs, and litigation	Write-down of intangibles	Asset sales and revaluations	Total
Net interest income	-	(37)	-	-	(37)
Non-interest income	-	(78)	-	43	(35)
Net operating income	**-**	**(115)**	**-**	**43**	**(72)**
Operating expenses	(420)	(142)	(602)	(119)	(1,283)
Core earnings	**(420)**	**(257)**	**(602)**	**(76)**	**(1,355)**
Impairment charges	-	-	-	-	-
Operating profit before income tax	**(420)**	**(257)**	**(602)**	**(76)**	**(1,355)**
Income tax benefit	5	75	34	21	135
Net profit attributable to non-controlling interests	-	-	-	-	-
Cash earnings	**(415)**	**(182)**	**(568)**	**(55)**	**(1,220)**

Half Year March 2020

$m	AUSTRAC proceedings	Refunds, payments, costs, and litigation	Write-down of intangibles	Asset sales and revaluations	Total
Net interest income	-	(106)	-	-	(106)
Non-interest income	-	(131)	-	(97)	(228)
Net operating income	**-**	**(237)**	**-**	**(97)**	**(334)**
Operating expenses	(1,058)	(132)	(66)	-	(1,256)
Core earnings	**(1,058)**	**(369)**	**(66)**	**(97)**	**(1,590)**
Impairment charges	-	-	-	-	-
Operating profit before income tax	**(1,058)**	**(369)**	**(66)**	**(97)**	**(1,590)**
Income tax benefit	31	111	20	29	191
Net profit attributable to non-controlling interests	-	-	-	-	-
Cash earnings	**(1,027)**	**(258)**	**(46)**	**(68)**	**(1,399)**

Full Year Sept 2020

$m	AUSTRAC proceedings	Refunds, payments, costs, and litigation	Write-down of intangibles	Asset sales and revaluations	Total
Net interest income	-	(143)	-	-	(143)
Non-interest income	-	(209)	-	(54)	(263)
Net operating income	**-**	**(352)**	**-**	**(54)**	**(406)**
Operating expenses	(1,478)	(274)	(668)	(119)	(2,539)
Core earnings	**(1,478)**	**(626)**	**(668)**	**(173)**	**(2,945)**
Impairment charges	-	-	-	-	-
Operating profit before income tax	**(1,478)**	**(626)**	**(668)**	**(173)**	**(2,945)**
Income tax benefit	36	186	54	50	326
Net profit attributable to non-controlling interests	-	-	-	-	-
Cash earnings	**(1,442)**	**(440)**	**(614)**	**(123)**	**(2,619)**

Full Year Sept 2019

$m	AUSTRAC proceedings	Refunds, payments, costs, and litigation	Write-down of intangibles	Asset sales and revaluations	Wealth Reset	Total
Net interest income	-	(344)	-	-	-	(344)
Non-interest income	-	(820)	-	83	-	(737)
Net operating income	**-**	**(1,164)**	**-**	**83**	**-**	**(1,081)**
Operating expenses	-	(220)	-	-	(241)	(461)
Core earnings	**-**	**(1,384)**	**-**	**83**	**(241)**	**(1,542)**
Impairment charges	-	-	-	-	-	-
Operating profit before income tax	**-**	**(1,384)**	**-**	**83**	**(241)**	**(1,542)**
Income tax benefit	-	426	-	-	69	495
Net profit attributable to non-controlling interests	-	-	-	-	-	-
Cash earnings	**-**	**(958)**	**-**	**83**	**(172)**	**(1,047)**

For personal use only

Group results

1.3.3 Cash earnings policy

In assessing financial performance, including divisional results, Westpac Group uses a measure of performance referred to as 'cash earnings'. Cash earnings is viewed as a measure of the level of profit that is generated by ongoing operations and is therefore typically considered in assessing distributions, including dividends. Cash earnings is neither a measure of cash flow nor net profit determined on a cash accounting basis, as it includes both cash and non-cash adjustments to statutory net profit.

Management believes this allows the Group to more effectively assess performance for the current period against prior periods and to compare performance across business divisions and across peer companies.

To determine cash earnings, three categories of adjustments are made to reported results:

- Material items that key decision makers at the Westpac Group believe do not reflect the Group's operating performance;
- Some items that are not typically considered when dividends are recommended, such as the amortisation of intangibles, impact of Treasury shares and economic hedging impacts; and
- Accounting reclassifications between individual line items that do not impact reported results.

A full reconciliation of reported results to cash earnings is set out in Section 5, Note 8.

Reconciliation of reported results to cash earnings and cash earnings excluding notable items

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net profit attributable to owners of WBC	**1,100**	**1,190**	**(8)**	**2,290**	**6,784**	**(66)**
Fair value (gain)/loss on economic hedges	581	(219)	large	362	35	large
Ineffective hedges	(37)	(24)	54	(61)	(20)	large
Adjustments related to Pendal	(32)	63	large	31	45	(31)
Treasury shares	3	(17)	large	(14)	5	large
Total cash earnings adjustment (post-tax)	**515**	**(197)**	**large**	**318**	**65**	**large**
Cash earnings	**1,615**	**993**	**63**	**2,608**	**6,849**	**(62)**
Add back notable items	1,220	1,399	(13)	2,619	1,047	150
Cash earnings excluding notable items	**2,835**	**2,392**	**19**	**5,227**	**7,896**	**(34)**

Outlined below are the cash earnings adjustments to the reported result:

- Fair value (gain)/loss on economic hedges (which do not qualify for hedge accounting under AAS) comprise:
  - The unrealised fair value (gain)/loss on hedges of accrual accounted term funding transactions are reversed in deriving cash earnings as they may create a material timing difference on reported results but do not affect the Group's cash earnings over the life of the hedge; and
  - The unrealised fair value (gain)/loss on foreign exchange hedges of future New Zealand earnings impacting non-interest income is reversed in deriving cash earnings as they may create a material timing difference on reported results but do not affect the Group's cash earnings over the life of the hedge. Westpac has ceased this activity, and as a result, at this stage, no further adjustments will be recognised in future periods.
- Ineffective hedges: The unrealised (gain)/loss on ineffective hedges is reversed in deriving cash earnings because the gain or loss arising from the fair value movement in these hedges reverses over time and does not affect the Group's profits over time;
- Adjustments related to Pendal: Consistent with prior periods' treatment, this item has been treated as a cash earnings adjustment given its size and that it does not reflect ongoing operations. The adjustment relates to the mark to market of the shares and separation costs related to the original sell down. Westpac disposed of its holdings in Full Year 2020. As a result, no further adjustments will be recognised in future periods.
- Treasury shares: Under AAS, Westpac shares held by the Group in the managed funds and life businesses are deemed to be Treasury shares and the results of holding these shares cannot be recognised in the reported results. In deriving cash earnings, these results are included to ensure there is no asymmetrical impact on the Group's profits because the Treasury shares support policyholder liabilities and equity derivative transactions which are re-valued in determining income. As at 30 September 2020, there are no Treasury shares; and
- Accounting reclassifications between individual line items that do not impact reported results comprise:
  - Operating leases: Under AAS rental income on operating leases is presented gross of the depreciation of the assets subject to the lease. These amounts are offset in deriving non-interest income and operating expenses on a cash earnings basis; and
  - Policyholder tax recoveries: Income and tax amounts that are grossed up to comply with the AAS covering Life Insurance Business (policyholder tax recoveries) are reversed in deriving income and taxation expense on a cash earnings basis.

For personal use only

Group results

Full Year 2020 Revisions

In 2020, Westpac implemented a change to the presentation of its divisional financial information. The change related to:

- the creation of the Specialist Businesses division, which includes the following businesses: Auto and Vendor Finance, Australian insurance businesses, Superannuation, Platforms and Investments, and Westpac Pacific; and
- the movement of certain small to medium size enterprise customer, and products between the Consumer and Business division to better reflect our new line of business operating structure.

This change has no impact on the Group's overall results or balance sheet but impacts divisional results and balance sheets. Comparative divisional financial information has been restated for this change.

During the period Westpac has revised the classification of notable items. Some items that in prior periods were not classified as notable items are now included in the revised classification.

This Results Announcement is unaudited

PricewaterhouseCoopers has audited the financial statements contained within the 2020 Westpac Group Annual Report and has issued an unmodified audit report. This 2020 Full Year Results Announcement has not been subject to audit by PricewaterhouseCoopers. The financial information contained in this Results Announcement includes information extracted from the audited financial statements together with information that has not been audited. The cash earnings disclosed as part of this Results Announcement has not been separately audited by PricewaterhouseCoopers.

For personal use only

Group results

1.4 Market share and system multiple metrics

1.4.1 Market share

	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	As at 31 March 2019
Australia				
Banking system (Australian Prudential Regulation Authority (APRA))[1]				
Housing credit[2]	23%	23%	24%	24%
Cards	22%	23%	23%	23%
Household deposits	21%	22%	22%	23%
Business deposits	19%	20%	20%	20%
Financial system (Reserve Bank of Australia (RBA))[1]				
Housing credit[2]	22%	22%	23%	23%
Business credit	16%	16%	17%	18%
Retail deposits[3]	21%	21%	22%	21%
New Zealand (Reserve Bank of New Zealand (RBNZ))[4]				
Consumer lending	19%	18%	18%	18%
Deposits	18%	19%	18%	19%
Business lending	17%	17%	16%	17%
Australian Wealth Management[5]				
Platforms (includes Wrap and Corporate Super)	18%	18%	18%	18%
Retail (excludes Cash)	17%	18%	17%	17%
Corporate Super	14%	15%	14%	13%

1.4.2 System multiples

	Half Year Sept 2020	Half Year March 2020	Half Year Sept 2019	Half Year March 2019
Australia				
Banking system (APRA)[1]				
Housing credit[2,6]	n/a	n/a	0.6	0.5
Cards[6]	n/a	n/a	n/a	n/a
Household deposits	0.6	0.3	0.6	0.1
Business deposits	0.7	0.6	2.6	0.1
Financial system (RBA)[1]				
Housing credit[2,6]	n/a	n/a	0.6	0.5
Business credit[6]	n/a	0.2	n/a	n/a
Retail deposits[3,6]	0.4	0.3	0.7	n/a
New Zealand (RBNZ)[4]				
Consumer lending	1.3	1.0	1.1	0.4
Deposits	0.3	1.6	0.2	1.4

1. From March 2019 certain statistical data has been restated as a result of APRA's implementation of the new Economic and Financial Statistics (EFS) collection requirements. APRA's EFS collection requirements have clarified and revised a number of key reporting definitions including residency, industry sectors, and loan purpose. In addition, the EFS collection coverage has been expanded to include credit unions and building societies. The restated balances are reported in APRA's new Monthly Authorised Deposit-taking Institutional Statistics (MADIS) publication, which replaces APRA's Monthly Banking Statistics (MBS) publication. Westpac's market share and growth multiples from Second Half 2019 onwards have been calculated based on APRA's MADIS publication, with prior period comparative balances prepared on the previous MBS publication approach. As a result of this change, market share and system multiples are not comparable to reporting periods prior to Second Half 2019.
2. Includes securitised loans.
3. Retail deposits as measured by the RBA, financial system includes financial corporations' deposits.
4. New Zealand comprises New Zealand banking operations.
5. Market Share Australian Wealth Management based on market share statistics from Strategic Insight as at 30 June 2020 (for Second Half 2020), as at 31 December 2019 (for First Half 2020), as at 30 June 2019 (for Second Half 2019) and as at 31 December 2018 (for First Half 2019).
6. n/a indicates that system growth or Westpac growth was negative.

For personal use only

Review of Group operations

2.0 Review of Group operations

Divisional cash earnings summary

Half Year Sept 2020 $m	Consumer	Business	Westpac Institutional Bank	Westpac New Zealand[1] (A$)	Specialist Businesses	Group Businesses	Group
Net interest income	4,313	2,019	506	892	247	443	8,420
Non-interest income	247	249	626	152	334	257	1,865
Net operating income	**4,560**	**2,268**	**1,132**	**1,044**	**581**	**700**	**10,285**
Operating expenses	(2,141)	(1,230)	(697)	(482)	(1,128)	(862)	(6,540)
Core earnings	**2,419**	**1,038**	**435**	**562**	**(547)**	**(162)**	**3,745**
Impairment (charges) / benefits	(599)	(674)	(111)	(102)	(95)	641	(940)
Operating profit before income tax	**1,820**	**364**	**324**	**460**	**(642)**	**479**	**2,805**
Income tax (expense) / benefit	(546)	(108)	(139)	(129)	44	(311)	(1,189)
Net profit	**1,274**	**256**	**185**	**331**	**(598)**	**168**	**1,616**
Net profit attributable to NCI	-	-	-	-	(1)	-	(1)
Cash earnings	**1,274**	**256**	**185**	**331**	**(599)**	**168**	**1,615**
Add back notable items	19	100	-	4	820	277	1,220
Cash earnings excluding notable items	**1,293**	**356**	**185**	**335**	**221**	**445**	**2,835**

Half Year March 2020 $m	Consumer	Business	Westpac Institutional Bank	Westpac New Zealand[1] (A$)	Specialist Businesses	Group Businesses	Group
Net interest income	4,234	2,144	605	940	287	456	8,666
Non-interest income	326	311	556	167	428	(113)	1,675
Net operating income	**4,560**	**2,455**	**1,161**	**1,107**	**715**	**343**	**10,341**
Operating expenses	(2,035)	(1,068)	(619)	(516)	(420)	(1,502)	(6,160)
Core earnings	**2,525**	**1,387**	**542**	**591**	**295**	**(1,159)**	**4,181**
Impairment (charges) / benefits	(416)	(697)	(293)	(200)	(160)	(472)	(2,238)
Operating profit before income tax	**2,109**	**690**	**249**	**391**	**135**	**(1,631)**	**1,943**
Income tax (expense) / benefit	(637)	(212)	(102)	(110)	(41)	153	(949)
Net profit	**1,472**	**478**	**147**	**281**	**94**	**(1,478)**	**994**
Net profit attributable to NCI	-	-	-	-	(1)	-	(1)
Cash earnings	**1,472**	**478**	**147**	**281**	**93**	**(1,478)**	**993**
Add back notable items	20	88	-	5	102	1,184	1,399
Cash earnings excluding notable items	**1,492**	**566**	**147**	**286**	**195**	**(294)**	**2,392**

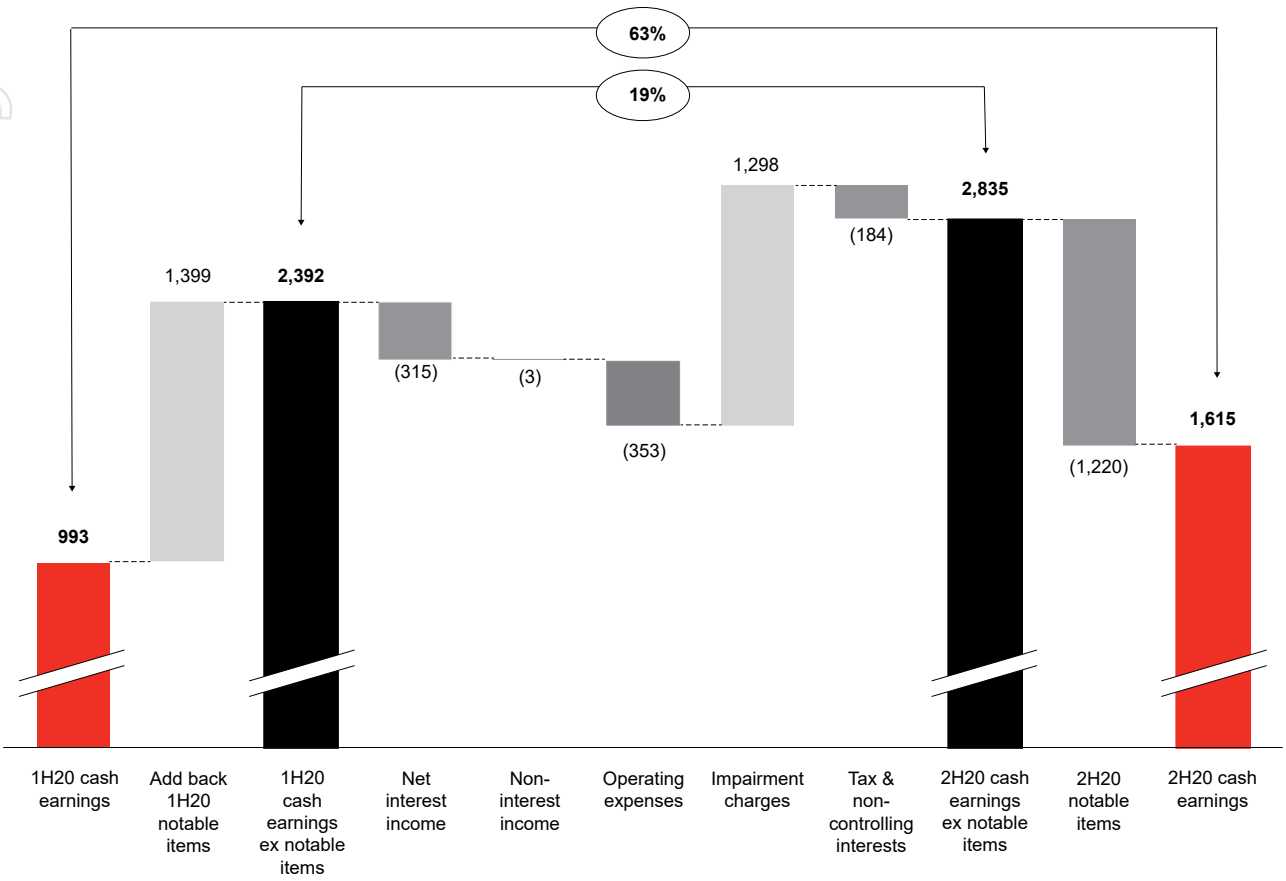
Mov't Sept 20 - March 20 %	Consumer	Business	Westpac Institutional Bank	Westpac New Zealand[1] (A$)	Specialist Businesses	Group Businesses	Group
Net interest income	2	(6)	(16)	(5)	(14)	(3)	(3)
Non-interest income	(24)	(20)	13	(9)	(22)	large	11
Net operating income	**-**	**(8)**	**(2)**	**(6)**	**(19)**	**104**	**(1)**
Operating expenses	5	15	13	(7)	169	(43)	6
Core earnings	**(4)**	**(25)**	**(20)**	**(5)**	**large**	**(86)**	**(10)**
Impairment (charges) / benefits	44	(3)	(62)	(49)	(41)	large	(58)
Operating profit before income tax	**(14)**	**(47)**	**30**	**18**	**large**	**large**	**44**
Income tax (expense) / benefit	(14)	(49)	36	17	large	large	25
Net profit	**(13)**	**(46)**	**26**	**18**	**large**	**large**	**63**
Net profit attributable to NCI	-	-	-	-	-	-	-
Cash earnings	**(13)**	**(46)**	**26**	**18**	**large**	**large**	**63**
Add back notable items	(5)	14	-	(20)	large	(77)	(13)
Cash earnings excluding notable items	**(13)**	**(37)**	**26**	**17**	**13**	**large**	**19**

1. Refer to Section 3.4 for the Westpac New Zealand NZ$ divisional result.

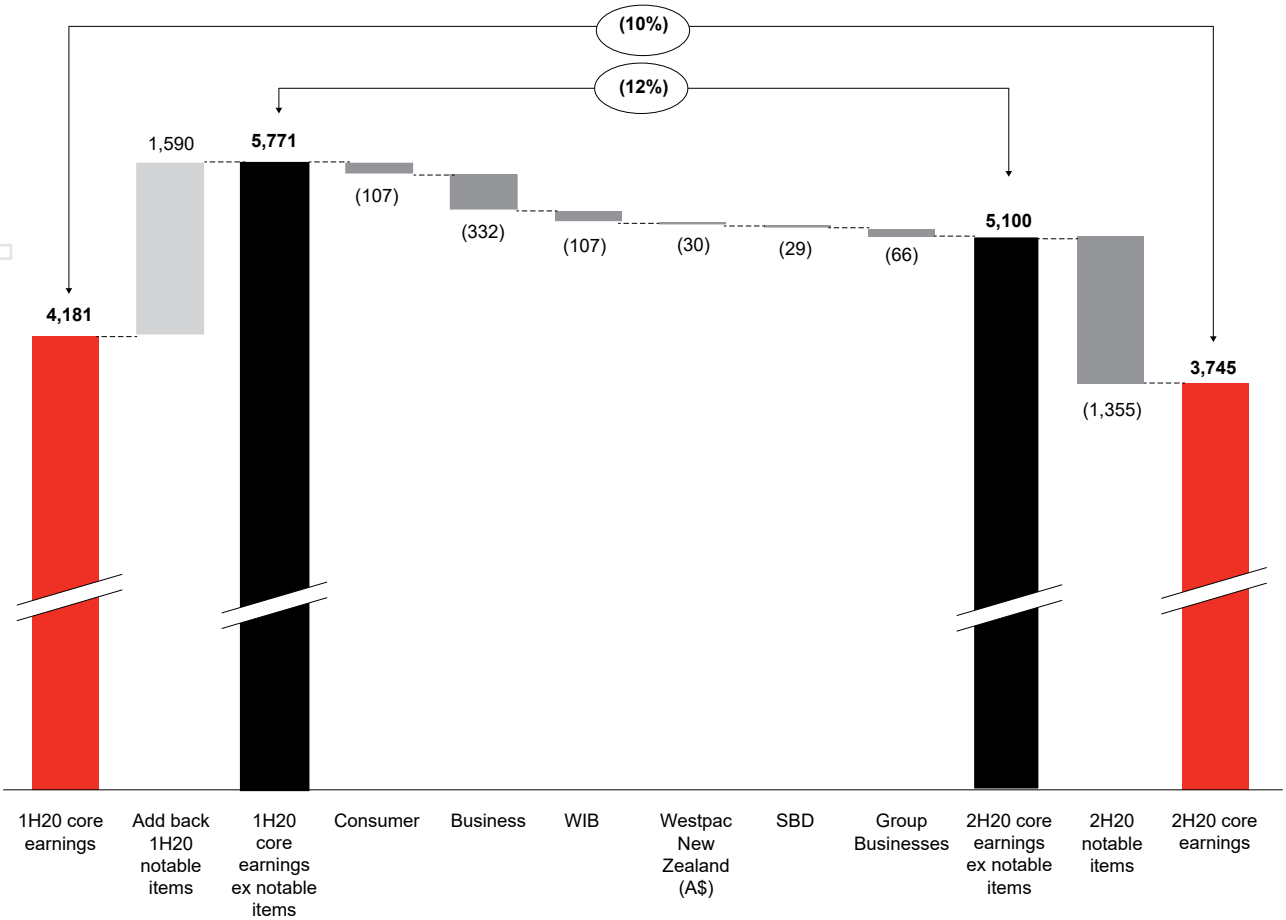
For personal use only

Review of Group operations

Movement in cash earnings ($m)
Second Half 2020 – First Half 2020



Movement in core earnings by division ($m)
Second Half 2020 – First Half 2020



For personal use only

Review of Group operations

Full Year Sept 2020 $m	Consumer	Business	Westpac Institutional Bank	Westpac New Zealand[1] (A$)	Specialist Businesses	Group Businesses	Group
Net interest income	8,547	4,163	1,111	1,832	534	899	17,086
Non-interest income	573	560	1,182	319	762	144	3,540
Net operating income	**9,120**	**4,723**	**2,293**	**2,151**	**1,296**	**1,043**	**20,626**
Operating expenses	(4,176)	(2,298)	(1,316)	(998)	(1,548)	(2,364)	(12,700)
Core earnings	**4,944**	**2,425**	**977**	**1,153**	**(252)**	**(1,321)**	**7,926**
Impairment (charges) / benefits	(1,015)	(1,371)	(404)	(302)	(255)	169	(3,178)
Operating profit before income tax	**3,929**	**1,054**	**573**	**851**	**(507)**	**(1,152)**	**4,748**
Income tax (expense) / benefit	(1,183)	(320)	(241)	(239)	3	(158)	(2,138)
Net profit	**2,746**	**734**	**332**	**612**	**(504)**	**(1,310)**	**2,610**
Net profit attributable to NCI	-	-	-	-	(2)	-	(2)
Cash earnings	**2,746**	**734**	**332**	**612**	**(506)**	**(1,310)**	**2,608**
Add back notable items	39	188	-	9	922	1,461	2,619
Cash earnings excluding notable items	**2,785**	**922**	**332**	**621**	**416**	**151**	**5,227**

Full Year Sept 2019 $m	Consumer	Business	Westpac Institutional Bank	Westpac New Zealand[1] (A$)	Specialist Businesses	Group Businesses	Group
Net interest income	8,130	4,456	1,337	1,860	555	615	16,953
Non-interest income	695	594	1,195	423	1,412	(617)	3,702
Net operating income	**8,825**	**5,050**	**2,532**	**2,283**	**1,967**	**(2)**	**20,655**
Operating expenses	(3,794)	(2,094)	(1,220)	(939)	(847)	(1,137)	(10,031)
Core earnings	**5,031**	**2,956**	**1,312**	**1,344**	**1,120**	**(1,139)**	**10,624**
Impairment (charges) / benefits	(582)	(172)	(31)	10	(111)	92	(794)
Operating profit before income tax	**4,449**	**2,784**	**1,281**	**1,354**	**1,009**	**(1,047)**	**9,830**
Income tax (expense) / benefit	(1,333)	(838)	(356)	(369)	(292)	213	(2,975)
Net profit	**3,116**	**1,946**	**925**	**985**	**717**	**(834)**	**6,855**
Net profit attributable to NCI	-	-	-	-	(5)	(1)	(6)
Cash earnings	**3,116**	**1,946**	**925**	**985**	**712**	**(835)**	**6,849**
Add back notable items	33	220	-	(15)	47	762	1,047
Cash earnings excluding notable items	**3,149**	**2,166**	**925**	**970**	**759**	**(73)**	**7,896**

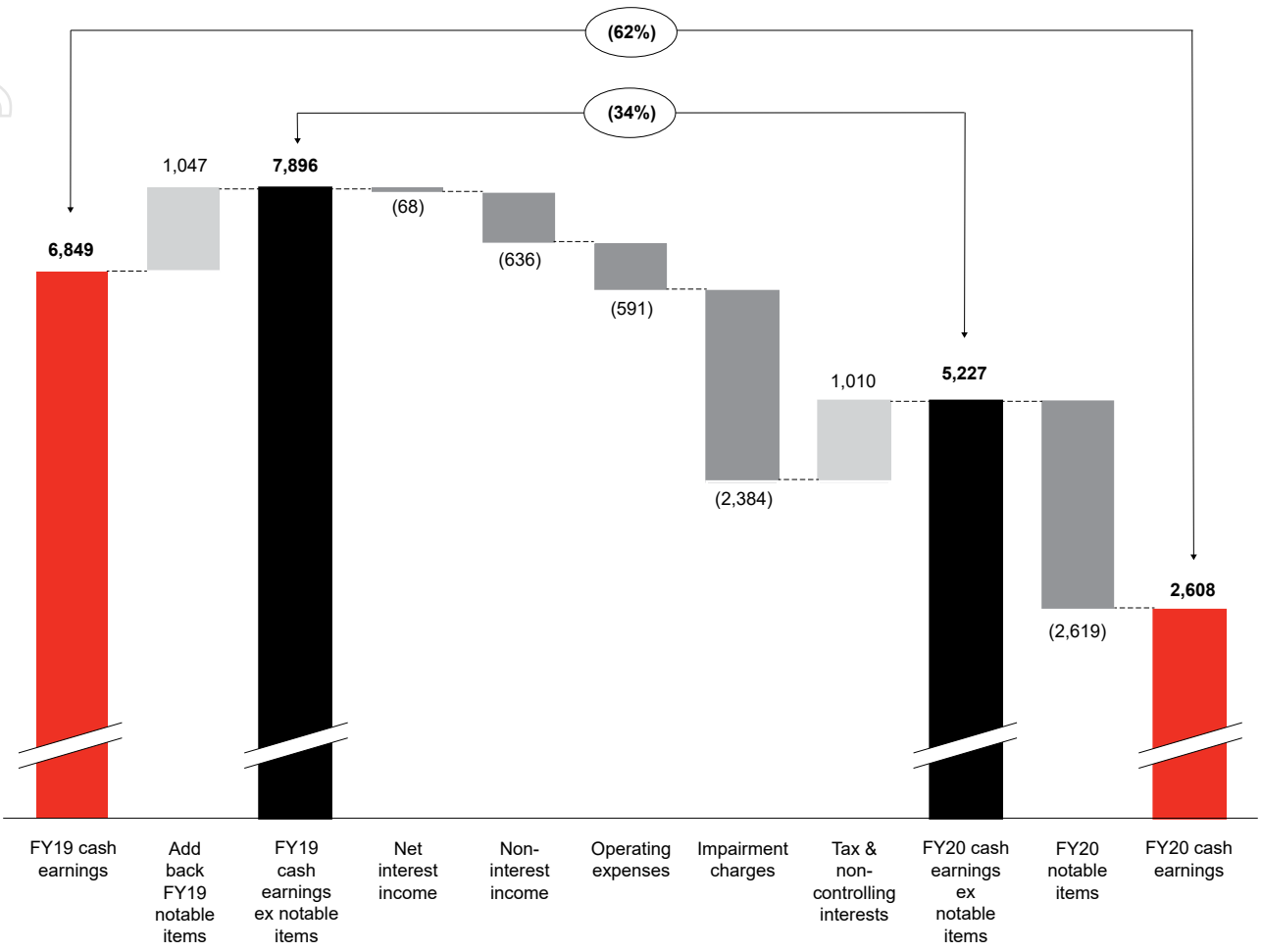
Mov't Sept 20 - Sept 19 %	Consumer	Business	Westpac Institutional Bank	Westpac New Zealand[1] (A$)	Specialist Businesses	Group Businesses	Group
Net interest income	5	(7)	(17)	(2)	(4)	46	1
Non-interest income	(18)	(6)	(1)	(25)	(46)	large	(4)
Net operating income	**3**	**(6)**	**(9)**	**(6)**	**(34)**	**large**	**-**
Operating expenses	10	10	8	6	83	108	27
Core earnings	**(2)**	**(18)**	**(26)**	**(14)**	**large**	**16**	**(25)**
Impairment (charges) / benefits	74	large	large	large	130	84	large
Operating profit before income tax	**(12)**	**(62)**	**(55)**	**(37)**	**large**	**10**	**(52)**
Income tax (expense) / benefit	(11)	(62)	(32)	(35)	large	large	(28)
Net profit	**(12)**	**(62)**	**(64)**	**(38)**	**large**	**57**	**(62)**
Net profit attributable to NCI	-	-	-	-	(60)	(100)	(67)
Cash earnings	**(12)**	**(62)**	**(64)**	**(38)**	**large**	**57**	**(62)**
Add back notable items	18	(15)	-	large	large	92	150
Cash earnings excluding notable items	**(12)**	**(57)**	**(64)**	**(36)**	**(45)**	**large**	**(34)**

1. Refer to Section 3.4 for the Westpac New Zealand NZ$ divisional result.

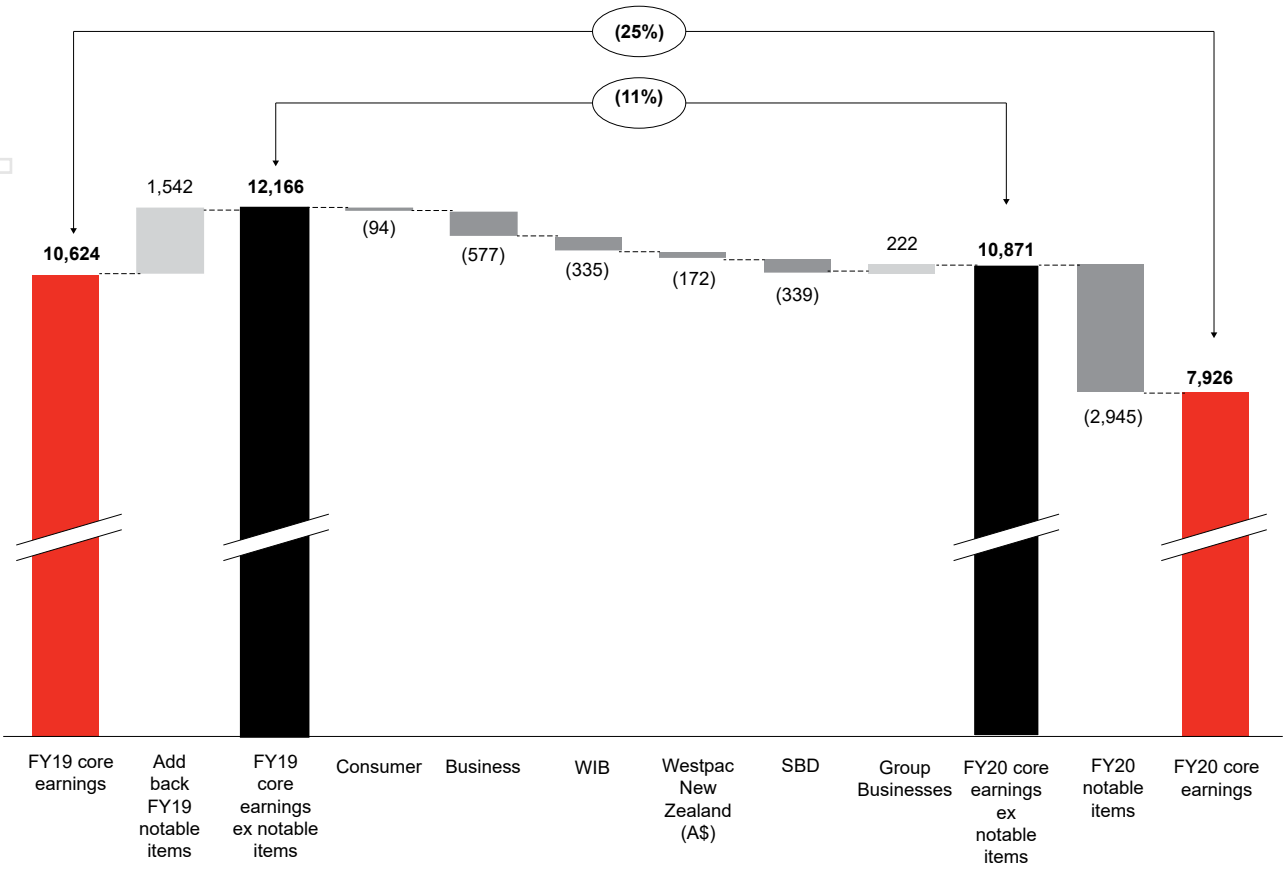
For personal use only

Review of Group operations

Movement in cash earnings ($m)
Full Year 2020 – Full Year 2019



Movement in core earnings by division ($m)
Full Year 2020 – Full Year 2019



For personal use only

Review of Group operations

2.1 Performance overview

Overview

The 2020 financial year has been disappointing for Westpac. The combined effect of COVID-19 and Westpac's own issues has had a significant impact on the company, on earnings and on our stakeholders, particularly shareholders. The AUSTRAC proceedings (described further below) uncovered a number of shortcomings across the Group, particularly in the management of financial crime, and has sparked major changes in our business and how we operate.

This year we appointed a new Chairman, a new CEO and adopted a more focused strategy. Westpac is concentrating on banking in our key markets of Australia and New Zealand and focused on supporting consumer, business, commercial, and institutional customers.

In addition we have set up a Specialist Businesses division to better manage our non-core activities, reorganised our operations around a Lines of Business operating model and commenced initiatives to materially enhance our management of risk and improve our risk culture. Our plans for the Group are structured around three priorities:

- **Fix**: our issues. This includes improving risk management and our risk culture, completing customer remediation and addressing IT complexity;
- **Simplify**: our businesses and the markets in which we operate, rationalise our products and transform using digital; and
- **Perform**: by enhancing returns on capital, restoring growth in major markets, particularly mortgages, and resetting the cost base. This priority is underpinned by delivering superior service by engaged employees.

Implementation of these priorities has impacted our results this year along with some other larger items. To help explain performance we have combined the larger items that do not reflect underlying performance and called them "notable items". Notable items in this result include:

- Provisions and costs related to the AUSTRAC proceedings;
- Provisions for estimated customer refunds and repayments, associated costs and litigation costs;
- The writedown of intangible items, including goodwill; and
- The impact of asset sales and revaluations.

Further detail on notable items is provided in Section 1.3.2 and Section 3.0. In aggregate, they reduced cash earnings in Full Year 2020 by $2.6 billion, compared to a $1.0 billion reduction in Full Year 2019.

At the same time, the impact of COVID-19 has been broad, affecting most line items in the financial statements. The largest has been materially higher credit impairment charges as we provisioned for the likelihood of rising customer loss. Interest margins have also declined, in a large part due to the fall in interest rates.

The combination of notable items and COVID-19 has led to Westpac's Full Year 2020 financial results being considerably lower. Cash earnings were $2,608 million in Full Year 2020, down $4,241 million or 62% over the year.

Excluding notable items, cash earnings for Full Year 2020 was $5,227 million, down $2,669 million or 34%. The primary reason for the decline was the $2,384 million increase in impairment charges along with a decline in non-interest income and higher expenses from spending more on risk management and responding to COVID-19 demands on the network and our employees.

While earnings were lower, our balance sheet remains strong, with our common equity tier 1 (CET1) capital ratio rising more than 46 basis points to 11.13%. The mix of our funding also improved with more deposits and less wholesale funding (particularly offshore wholesale funding) and our funding and liquidity metrics are all comfortably above regulatory minimums.

Consistent with the weakening economy, asset quality deteriorated over the year with higher stressed exposures (including impaired loans) and a large number of consumers and businesses remaining on repayment deferrals as we support them manage the impact of COVID-19 restrictions. Nevertheless, our balance sheet provisions have increased by more than 50% to $6,132 billion and our provision coverage ratios have significantly increased.

COVID-19

The global impact of the COVID-19 pandemic has had a significant impact on the economy, on the banking sector, on Westpac and on customers. The restrictions associated with the pandemic, combined with actions from governments and central banks, have broadly led to five impacts:

(1) The weaker economy has reduced loan demand and activity while very low interest rates has reduced margins. This has principally contributed to lower net interest income;

(2) The need to provide additional support for the community and customers. Westpac has provided repayment deferrals, special interest rates, fee waivers and special loans to support customers manage their cash flow. These measures have had an impact on net interest and non-interest income;

(3) The deteriorating economy and higher unemployment have contributed to a rise in customer stress. This increase, along with the likelihood that stress will increase in the future, has contributed to a material lift in impairment charges and impairment provision balances;

(4) Costs increased as we employed more staff to respond to higher customer demand for support, responded to restrictions at some of our offshore partners, and focused on protecting employees and customers; and

(5) A strengthening of the balance sheet with higher liquid assets and more customer deposits contributing to an increase in the proportion of lending supported by customer deposits (to 80.1% from 73.4%).

For personal use only

Review of Group operations

A significant focus over Second Half 2020 has been on customer loan deferrals. Around 175,000 mortgage customers and over 36,000 small businesses were supported across Australia and New Zealand, with a loan deferral. At the peak, around $60 billion in mortgages were in deferral, this has subsequently declined to $22 billion. Total small business loan deferrals peaked at around $12 billion and are now around $1.5 billion.

We have been contacting customers who have been on deferral for six months and will continue to provide support where needed. For those customers not in a position to return to their prior repayment schedule we can provide further support including extensions to loan deferrals of up to four months, or loans may be restructured. We are committed to working with these customers on an individual basis as their situations evolve.

Financial performance summary (Full Year 2020 compared to Full Year 2019)

Cash earnings for Full Year 2020 were $2,608 million, down 62% on Full Year 2019. The result was significantly affected by higher impairment charges along with notable items. The notable items are explained in Section 1.3.2 and Section 3.0.

The cash earnings impact of notable items was $2,619 million in Full Year 2020 (compared to $1,047 million in Full Year 2019). Excluding notable items, cash earnings were $5,227 million, down $2,669 million or 34% over Full Year 2019.

Net interest income

Net interest income was 1% higher over the year with a 3% increase in average interest earning assets and a decline in net interest margins. Excluding notable items, net interest income was relatively flat (down $68 million).

Most of the increase in average interest-earning assets was from liquid assets, which increased 23% while average loans declined 1% over the year.

On a spot basis, lending declined $21.7 billion (down 3%). While lower demand was a feature across the portfolio, the decline was due to lower Australian mortgage balances, a reduction in business and institutional lending from reduced working capital and investment requirements, a 24% decline in Australian cards and personal loans balances and a 47% reduction in our Asian exposure (mostly trade finance). Partially offsetting these declines was a $3.4 billion rise in New Zealand lending (in $A terms).

In Australian mortgages, the decline was concentrated in investment lending (particularly interest only) with owner occupied lending rising 2% over the year. In addition to increased run-off and our higher portfolio weighting to investor lending, our below system growth in total mortgages was due to issues in mortgage processing, implementing more detailed verification requirements and increased caution in response to COVID-19.

Customer deposits on the other hand increased 6%, lifting Westpac's customer deposit to loan ratio by over 6 percentage points. The rise is consistent with the increase in overall market liquidity provided by monetary stimulus. Most of the rise in deposits was in at call accounts, particularly transaction accounts, as customers chose to keep their funds more liquid rather than in term deposits.

Margins were down 4 basis points over the year to 2.08%, while the margin excluding Treasury and Markets and notable items was down 11 basis points to 1.97%. The decline was predominantly due to the reduction in interest rates with the cash rate falling by 75 basis points over the year to 0.25%. Low rates contributed to reduced spreads across our deposit portfolio and reduced returns on both capital and liquid assets. The mix impact of holding more liquid assets also contributed to the decline. At the same time, lower demand for lending has seen competition remain intense, contributing to lower rates on new lending and on existing lending as we repriced to retain customers.

Non-interest income

Non-interest income in Full Year 2020 declined $162 million, down 4%. Excluding notable items, non-interest income was $636 million lower, down 14%. Notable items in non-interest income were $263 million in Full Year 2020 compared to $737 million in Full Year 2019. The decline (excluding notable items) was predominantly due to:

- A decline in banking fee income from lower activity across cards (particularly international transactions) and institutional activity along with fee waivers (to support businesses affected by COVID-19);
- Lower insurance income from lower premiums and higher claims from severe storms and bushfires;
- Lower wealth income from declining platform fees (including from low interest rates) and lower superannuation income from pricing changes and a decline in funds (markets and early superannuation withdrawals);
- A decline in fees from exiting the personal financial Advice business in 2019; and
- A 4% decline in markets related income mostly from lower customer activity.

Expenses

Expenses were higher, up 27% over the year, with much of the increase due to notable items. Excluding notable items expenses were 6% higher from increased risk and compliance spending, costs of responding to COVID-19. COVID-19 related costs included resources for higher call centre and processing centre volumes, increasing working from home capacity, returning operations to Australia and more employee and customer safety measures. The rise in expenses was also reflected in an 11% increase in FTE employees including in risk, complaints handling, call centres and mortgage processing.

These increases were partially offset by a significant cut to short term employee incentives, lower restructuring costs and reduced travel. We have also continued to pursue productivity and realised over $400 million in savings over the year. Initiatives have included re-negotiating contracts, consolidating branches, and increasing the use of digital banking.

For personal use only

Review of Group operations

Asset quality and impairment charges

Consistent with the weakening in economic activity, asset quality metrics deteriorated through the year. Impaired assets to gross loans were 40 basis points at 30 September 2020 compared to 25 basis points at 30 September 2019. Stressed exposures to total committed exposures ended the year at 1.91% compared to 1.20% at 30 September 2019. Delinquencies were also higher with mortgage 90+ day delinquencies up 68 basis points to 1.50%[1].

The rise in stress and the weaker economic and industry outlook has led to a fourfold increase in impairment charges in Full Year 2020, up $2,384 million to $3,178 million. Most of the increase was due to higher collectively assessed provisions (up $2,020 million) as we increased expected credit losses for the likely impact of the COVID-19 outbreak.

The increase in impairment charges led to higher provision balances and contributed to a rise in provision coverage metrics. Our ratio of total provisions to credit risk weighted assets was 1.71% at 30 September 2020 up from 1.07% at 30 September 2019.

Tax

The Group booked a $2.1 billion tax expense in Full Year 2020 reflecting a significantly higher tax rate of 45.0%. The higher tax rate reflects the non-deductibility of the AUSTRAC penalty and intangible/asset write-downs.

ROE and EPS

Lower cash earnings combined with a 4% increase in average shares on issue led to a decline in return and per share metrics. The cash earnings return on equity was 3.83% in Full Year 2020 down from 10.75% for Full Year 2019. Cash earnings per ordinary share were 72.5 cents in Full Year 2020, down 63% over the prior year. Excluding notable items, cash earnings per share were 146 cents, down 36%.

Net tangible assets per share were $15.67 cents at 30 September 2020 up 2% relative to 30 September 2019, the rise principally reflects capital raised over the year.

Capital

The Group's capital position improved over the year with our CET1 ratio of 11.13% at 30 September 2020 up from 10.67% at 30 September 2019. The increase was due to the $2.8 billion capital raising early in the year, portfolio optimisation actions and from retained earnings. This increase, along with a lower Second Half 2019 dividend (and no First Half 2020 dividend), enabled us to absorb higher risk weighted assets, including from the deterioration in asset quality.

The Group's funding and liquidity also improved over the year with stimulatory monetary policy seeing more liquidity available in the economy. This has contributed to an increase in deposits and lifted our customer deposit to loan ratio to over 80%. As a result, funding and liquidity ratios remained comfortably above regulatory minimums with the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) ending the year at 150% and 122% respectively.

Dividends

The Board determined a final ordinary dividend of 31 cents per share, fully franked. The lower dividend reflects the decline in earnings and APRA guidance that dividend payments do not exceed 50% of statutory net profit. APRA has also indicated that banks should consider dividend reinvestment plans (DRP).

Westpac's payout ratio, based on Full Year 2020 reported profit, was 48.87%. The Group's payout ratio on a cash earnings basis was 42.93% and excluding notable items the payout ratio was 21.42%.

Using full year earnings for the pay out ratio is appropriate given we did not pay a First Half 2020 dividend. The Board decided not to pay a First Half 2020 dividend given the significant uncertainty at the time. Since then, while uncertainty remains, we have more confidence in the outlook given the decline in repayment deferrals from their peak and better economic fundamentals relative to early expectations. The Board has also decided to fully underwrite the DRP for the final 2020 dividend, neutralizing any impact on capital.

A 1.5 % discount will be applied to the market price used to determine the number of shares issued under the DRP for those participating. The market price used to determine the number of shares issued under the DRP will be set over the 15 trading days commencing 17 November 2020.

The final ordinary dividend is expected to be paid on 18 December 2020. After allowing for the final dividend, the Group's adjusted franking account balance was $3,448 million.

Bank Levy

Despite the lower earnings, Westpac paid the Government's Bank Levy of $408 million in Full Year 2020, similar to the $391 million in Full Year 2019. The Bank Levy in Full Year 2020 was equal to 11% of cash earnings and is equivalent to 8 cents per share and is included in net interest income where it reduced net interest margin by 5 basis points. In aggregate, taxes paid along with the Bank Levy give Westpac an adjusted effective tax rate of 53.6%.

1. Loans that have been granted a COVID-19 deferral package are not included in stress and delinquencies measures.

For personal use only

Review of Group operations

AUSTRAC Civil Proceedings

On 20 November 2019, AUSTRAC commenced civil proceedings against Westpac in relation to alleged contraventions of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) (AML/CTF Act)*. Westpac had previously disclosed that it had self-reported to AUSTRAC a failure to report a large number of international funds transfer instructions (IFTIs) and that AUSTRAC was also investigating a number of other areas relating to Westpac's processes, procedures and monitoring.

Throughout 2020, we indicated a preference to settle the matter and on 24 September 2020 AUSTRAC and Westpac reached an agreement to resolve the civil proceedings. Under this agreement Westpac and AUSTRAC jointly filed with the Federal Court a Statement of Agreed Facts and Admissions. On 21 October 2020, the Court approved the agreed penalty of $1.3 billion. The penalty has been fully provided for in our Full Year 2020 results along with costs of both the legal proceedings and our response plan.

Commencement of the civil proceedings has significantly impacted Westpac and contributed to the stepping down of the former CEO, the former Chair of the Board Risk Committee not seeking re-election and the early retirement of the former Chairman.

Progress on our response plan over the year included:

- Closing the relevant products involved in international funds transfers, reporting outstanding IFTIs to AUSTRAC, updating our transaction monitoring rules and enhancing oversight of the process;
- Putting in place new Board and management structures to elevate the management and oversight of financial crime;
- Establishing an independent Advisory Panel to review Board governance of AML/CTF obligations. The Panel's report was released on 4 June 2020 and we are committed to implementing its recommendations;
- Commissioning Promontory to provide assurance over Westpac's management accountability investigation, and an external review of our financial crime program;
- Applying remuneration consequences of approximately $20 million to 38 individuals. This included cancelling all short-term incentives for the CEO and Group Executives in Full Year 2020. Some individuals had already left the company with no deferred remuneration outstanding and so additional consequences could not be applied;
- Investing to reduce the human impact of financial crime, including the establishment of partnerships with Save the Children and The International Justice Mission, and the launch of a new grants program; and
- Established the Safer Children Safer Communities Roundtable of experts in human rights, child safety, online safety and law enforcement. Together with the Roundtable and a wider Advisory Group, we co-designed the Safer Children Safer Communities work program to help reduce the human impact of financial crime with a particular focus on child safeguarding.

Our priorities

Given the significant change underway at Westpac we have organised our plans under three priorities, **fix, simplify and perform**. Developments over the year under each priority have included:

Fix

This includes materially improving our risk management capability to rectify our shortcomings and seek to ensure issues do not occur again. Central to this is improving our risk culture to respond quickly to emerging risks. We are also focused on making it easier for customers to deal with us and completing customer remediation as quickly as possible. In addition to the AUSTRAC response plan indicated above, we have made progress on this priority through 2020 including:

- Commenced Customer Outcomes and Risk Excellence (CORE) program, to improve non-financial risk oversight, lift risk culture, and strengthen our risk management framework. The program comprises 14 streams of work, with a Group Executive responsible for each stream;
- Added over 400 people to our risk function, over 90% of the roles required are now filled;
- Processed $640million in refunds (to over 2.7 million customer accounts part of our remediation program);
- Changed our culture around complaint identification, capture and resolution. While more complaints are now logged, we have reduced the time to close complaints by over 20%, reduced the number of long dated (45+ days) complaints by almost 90% and we now solve over half our complaints on the same day;
- In addition to settling the AUSTRAC proceedings, we settled two class actions in the US related to our trading in the bank bill swap rate (BBSW) and to the AUSTRAC matter. The court process initiated by ASIC in relation to responsible lending was also concluded, finding in Westpac's favour while a responsible lending class action against Westpac has also been withdrawn. Additional legal actions were commenced over the year; and
- Developed a multi-year roadmap to fix Westpac's IT complexity. As part of this roadmap, in 2020 we improved IT stability and reliability while continuing the development and roll-out of the customer service hub that will serve as a core layer of our IT systems.

For personal use only

Review of Group operations

Simplify

This involves focusing on the businesses and markets we wish to operate in, streamlining our operating structure, and reducing the number of our products. We are also seeking to modernise and simplify our technology, use digital to streamline and automate processes and materially lift our data capabilities to support risk management and a better customer experience. Progress over the year has included:

- Setting up end-to-end accountability for six Lines of Business in our Consumer and Business divisions,
- Establishing the Specialist Businesses division to manage the Group's non-core assets and completed a strategic review to determine the best option for each activity. As part of our plans we have already agreed to sell our third party vendor finance business.
- Subsequent to 30 September 2020 we have sold our shareholding in Zip Co Limited.
- Announcing the consolidation of the Group's international operations into New York, London and Singapore, with plans to close our offices in Jakarta, Mumbai, Hong Kong, Beijing and Shanghai.
- Launching a new mobile banking app in Australia.
- Exiting 161 correspondent banking relationships.

Perform

This priority is focused on delivery, including improving accountability, speeding up decision making, enhancing service and optimising how we manage our business to generate appropriate returns. In part, this will be supported through our simplification initiatives but it also involves reviewing our distribution network, reassessing our workplace strategy and corporate office space and reviewing efficiency through our cost reset program.

A hallmark of Westpac for many years has been a strong balance sheet across capital, funding, liquidity, and credit quality – that will not change. Underpinning this priority is a highly motivated workforce who are capable, engaged and driven by our purpose and clear values. Some developments over the year included:

- Completed the change in our Executive Team with 5 new appointments and realigned performance targets for our updated priorities.
- Maintained position as the service leader on net promoter score in Business against the major banks, declined to fourth position on service in the Consumer division. In New Zealand, we have not improved our fourth ranking against our New Zealand peers but we have closed the gap.
- Significant support to consumers and businesses through bushfires, storms and COVID-19, including with repayment deferrals and fee waivers.
- Completed an end-to-end analysis of the mortgage process to identify weaknesses and commenced a program of over 30 enhancements.
- Employee engagement.

For personal use only

Review of Group operations

Financial performance Second Half 2020 – First Half 2020

Cash earnings of $1,615 million was up $622 million or 63% over First Half 2020. The increase was principally due to lower impairment charges and lower notable items. Excluding notable items, cash earnings were $2,835 million down $443 million, or 19%.

Notable items for the half reduced cash earnings by $1,220 million and included the increase in the AUSTRAC penalty provision and associated costs ($413 million), additional provisions for refunds, litigation costs and revaluations of the life business and Auto businesses and the write-down of some capitalised software. These costs were partially offset by a $213 million revaluation gain (after tax) on the Group's shareholding in Zip Co Limited.

Net interest income was 3% lower over the prior half, principally due to lower net interest margins which were 10 basis points lower. Average interest-earning assets were up 2% over the half with all of the increase due to an increase liquid assets acquired at the end of First Half 2020. Total lending was 3.7% lower over the half (down $26 billion) with the decline due to:

- Lower Australian lending split across mortgages (down $2.0 billion), business (down $2.2 billion) and other personal lending (down $2.8 billion);
- Reduced institutional lending due to lower trade finance lending in Asia (down $3.7 billion) and an appreciation in the $A relative to the $US; and
- Higher NZ lending, up $1 billion in $NZ terms but the appreciation of the $A saw its contribution decline $3.4 billion.

Customer deposits increased $11.7 billion lifting the customer deposit to loan ratio to over 80%. Most of the deposit increase was in at call Consumer and Business deposits which increased $10.9 billion and $9.7 billion respectively. These increases were partially offset by lower offshore deposits in Institutional and a small reduction in the NZ contribution (from a stronger $A).

Net interest margins were 10 basis points lower over the prior half with the margin, excluding Treasury and Markets and notable items, down 13 basis points. The low interest rates, strong competition and higher liquid assets were behind the decline.

Non-interest income was up 11% over the prior half and was little changed excluding notable items. The rise excluding notable items was mainly due to lower insurance claims and higher trading income from a $109 million movement in the derivative valuation adjustment.

Expenses were up 6% over the half predominantly from higher notable items. Excluding notable items, expenses were up 7%. The increase (excluding notable items) was due to higher risk and compliance spending and an increase in software amortisation. The increase was also due to putting on more temporary and permanent employees responding to additional COVID-19 related demands, including support with repayment deferrals and hardship assistance.

Asset quality deteriorated over the second half of the year from the easing in economic activity and rising unemployment linked to COVID-19 restrictions.

After increasing materially in the first half of the year, impairment charges were lower in Second Half 2020 at $940 million (but still more than double the prior corresponding period). Individually assessed provisions were lower mostly as new individually assessed provisions were low. With material increases in provisions early in the year, a large number of consumers retuning to repayment in the fourth quarter 2020 and an improving (albeit still weak) economic outlook the need for further significant top-ups to provision levels diminished through the half.

Divisional performance summary

The performance of each division is based on Full Year 2020 compared to Full Year 2019 and is discussed below. During the year the restructuring of the Group led to the creation of the Specialist Businesses division which has combined certain businesses previously held in the Consumer, Business and Westpac Institutional Bank divisions. For a description of each division see Section 3.

Consumer

Cash earnings of $2,746 million were $370 million (or 12%) lower than Full Year 2019, mostly from higher impairment charges, increased expenses and lower non-interest income. Notable items had a small net impact on the division's earnings over the year. Net interest income was up 5% with a 15 basis point rise in margins more than offsetting a 2% decline in lending. The increase in margins was mostly related to mortgage repricing, partially offset by the impact of competition and low interest rates on deposit spreads. Mortgage lending declined, predominantly in interest only investor lending. Owner occupied lending increased over the year. Non-interest income reflected lower activity, impacting fees on cards, ATMs and international transactions. Costs were also higher as we hired more staff to support customers through this challenging time. Impairment charges were higher with a rise in customers requesting hardship assistance and customers remaining on repayment deferrals.

For personal use only

Review of Group operations

Business

Cash earnings of $734 million were $1,212 million (or 62%) lower than Full Year 2019. Excluding notable items, cash earnings were $922 million down $1,244 million (or 57%), mostly from higher impairment charges. Net interest income was 7% lower, from a 4% decline in loans (across most forms of lending) and a 17 basis point decline in margins. The decline in net interest margins was primarily due to reduced spreads on deposits from low interest rates along with special interest rates on COVID-19 support packages. Non-interest income was also down, (6% excluding notable items) reflecting fee waivers along with the effect of lower activity on lending fees and markets related income. Expenses, excluding notable items, increased $131 million or 6% principally from applying more resources to supporting customers, increased risk and compliance spending along with additional investment in bankers. Annual salary increases were largely offset by productivity initiatives. Impairment charges were higher, mostly reflecting the top-up in provisions for COVID-19 related impacts.

Westpac Institutional Bank

Cash earnings of $332 million were $593 million or 64% lower than Full Year 2019, primarily driven by higher impairment charges (up $373 million) and a 26% decline in core earnings. Notable items did not impact WIB. Income was 9% lower, mostly from a 24 basis points decrease in net interest margin combined with lower lending. Most of the decline in lending was in trade finance in Asia. Non-interest income was a little lower (down $13 million) with lower activity-based fees (syndications, customer markets income) partially offset by higher non-customer markets income and a positive derivative valuation adjustment movement. Expenses were higher from a rise in risk management and compliance spending including financial crime. Restructuring costs were also higher linked to the consolidation of the division's offshore offices. Impairment charges were up $373 million, reflecting a 44 basis point increase in stressed exposures to 1.03% and higher COVID-19 related collective provisions.

Westpac New Zealand

Cash earnings of NZ$649 million were NZ$393 million (or 38%) lower than Full Year 2019. Notable items reduced cash earnings by NZ$9 million in Full Year 2020, but increased cash earnings by NZ$16 million in Full Year 2019. Net interest income was down 1% with a 5% increase in lending more than offset by a 19 basis point decline in net interest margins. The decline in margins was primarily due to the impact of low interest rates on deposit spreads. Non-interest income was also lower, down 24%, from continued fee simplification (reductions and elimination of some fees), lower insurance and wealth income, lower activity fees and COVID related fee waivers. Costs were up 7%, from COVID-19 related spending and preparations for the RBNZ's outsourcing restrictions. Impairment charges were up $320 million (after recording an impairment benefit of $10 million in Full Year 2019) as stressed exposures increased and we increased provisions for COVID-19 related impacts.

Specialist Businesses

The division recorded a cash earnings loss of $506 million compared to a profit of $712 million in Full Year 2019. This year the division incurred $922 million (after tax) of notable items, compared to $47 million (after tax) in Full Year 2019. Excluding notable items, cash earnings for Full Year 2020 were $416 million, $343 million lower than Full Year 2019. Results of the major business lines within the division included:

- Superannuation platforms and investments cash earnings were $111 million, compared to $285 million in Full Year 2019. Excluding notable items, cash earnings were $167 million, down $165 million on last year. The decline was predominantly due to lower margins and higher compliance costs.
- Insurance recorded a net loss of $480 million for Full Year 2020, excluding notable items cash earnings were $181 million down $80 million on last year. The $80 million decline in cash earnings (excluding notable items) was due to lower premiums, including from ceasing to provide group insurance and higher claims, mostly related to bushfires and storms.
- Westpac Pacific's cash earnings for Full Year 2020 was $11 million, a $58 million decline over the year. The fall was mostly due to a decline in loans, lower margins and higher impairment charges.
- Auto and Vendor Finance recorded a loss of $148 million, compared to a profit of $97 million in Full Year 2019, primarily due to $205 million of notable items. Excluding notable items, cash earnings were down $40 million from a 13% decline in lending and a significant lift in impairment charges.

Group Businesses

Group Businesses recorded a loss of $1,310 million in Full Year 2020, $475 million higher than the $835 million loss in Full Year 2019. Most of the loss in Full Year 2020 was due to notable items, including provisions for the AUSTRAC proceedings, additional provisions for customer refunds and payments and litigation costs, partially offset by the revaluation gains on our investment in Zip Co. Excluding notable items, cash earnings were $151 million which were up $224 million over the year. The increase was due to an improved contribution from Treasury of $259 million, and from the movement of centrally held impairment provision overlays to divisions. These gains were supported by lower costs following the exit of the Advice business in 2019.

For personal use only

Review of Group operations

2.2 Review of earnings

2.2.1 Net interest income[1]

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net interest Income ($m)						
Net interest income excluding Treasury & Markets	7,894	8,155	(3)	16,049	16,291	(1)
Treasury net interest income[2]	459	444	3	903	513	76
Markets net interest income	67	67	-	134	149	(10)
Net interest income	**8,420**	**8,666**	**(3)**	**17,086**	**16,953**	**1**
Add back notable items	37	106	(65)	143	344	(58)
Net interest income excluding notable items	**8,457**	**8,772**	**(4)**	**17,229**	**17,297**	**-**
Average interest earning assets ($m)						
Loans	664,871	675,273	(2)	670,072	674,960	(1)
Third party liquid assets[3]	135,441	115,771	17	125,606	102,519	23
Other interest-earning assets	30,153	21,927	38	26,040	21,445	21
Average interest earning assets	**830,465**	**812,971**	**2**	**821,718**	**798,924**	**3**
Net interest margin (%)						
Group net interest margin	2.03%	2.13%	(10 bps)	2.08%	2.12%	(4 bps)
Group net interest margin excluding Treasury & Markets[4]	1.90%	2.01%	(11 bps)	1.95%	2.04%	(9 bps)
Excluding notable items (%)						
Group net interest margin	2.04%	2.16%	(12 bps)	2.10%	2.16%	(6 bps)
Group net interest margin excluding Treasury & Markets[4]	1.91%	2.04%	(13 bps)	1.97%	2.08%	(11 bps)

Second Half 2020 – First Half 2020

Net interest income decreased $246 million or 3% compared to First Half 2020. Key features include:

- Average interest earning assets were higher from increased holdings of third party liquid assets, from a higher liquidity position driven by strong deposit inflow partly offset by Australian based lending;
- Other interest earning assets increased due to the deployment of excess liquidity to assets under reverse repurchase agreements, and higher collateral balances;
- Net interest margin excluding Treasury and Markets decreased due to the low rate environment, competition for lending and from higher liquid assets. Refer to Section 2.2.4 for further details on net interest margin; and
- Net interest income was impacted by provisions for estimated customer refunds and payments of $37 million in Second Half 2020 versus $106 million in First Half 2020.

Full Year 2020 – Full Year 2019

Net interest income increased $133 million or 1% compared to Full Year 2019. Key features include:

- Average interest earning assets were higher from increased holdings of third party liquid assets, from a higher liquidity position driven by strong deposit inflow partly offset by Australian based lending;
- Other interest earning assets increased due to the deployment of excess liquidity to assets under reverse repurchase agreements, and higher collateral balances;
- Net interest margin excluding Treasury and Markets decreased due to the low rate environment, competition for lending and from more liquid assets. Refer to Section 2.2.4 for further details on net interest margin;
- The contribution from Treasury increased primarily driven by interest rate risk management; and
- Net interest income was impacted by provisions for estimated customer refunds and payments of $143 million in Full Year 2020 versus $344 million in Full Year 2019.

1. Refer to Section 4, Note 3 for reported results breakdown. Refer to Section 5, Note 3 for cash earnings results breakdown. As discussed in Section 1.3, commentary is reflected on a cash earnings basis.
2. Treasury net interest income excludes capital benefit.
3. Refer to Glossary for definition.
4. Calculated by dividing net interest income excluding Treasury & Markets by total average interest earning assets.

For personal use only

Review of Group operations

2.2.2 Loans[1]

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Australia	**600,780**	**616,328**	**619,564**	**(3)**	**(3)**
Housing	440,933	445,663	449,201	(1)	(2)
Personal	17,081	19,854	21,247	(14)	(20)
Business	147,584	155,322	152,360	(5)	(3)
Provisions	(4,818)	(4,511)	(3,244)	7	49
New Zealand (A$)	**81,788**	**85,176**	**78,428**	**(4)**	**4**
New Zealand (NZ$)	**88,353**	**87,425**	**84,626**	**1**	**4**
Housing	55,231	53,411	51,504	3	7
Personal	1,469	1,652	1,844	(11)	(20)
Business	32,261	32,867	31,599	(2)	2
Provisions	(608)	(505)	(321)	20	89
Other overseas (A$)	**10,491**	**18,174**	**16,778**	**(42)**	**(37)**
Total loans	**693,059**	**719,678**	**714,770**	**(4)**	**(3)**

Second Half 2020 – First Half 2020

Total loans decreased $26.6 billion or 4% compared to First Half 2020. Excluding foreign currency translation impacts, total loans decreased $20.2 billion or 3%.

Key features of total loan movements were:

- Australian housing loans declined mostly from accelerated payments. The decline was in investor property lending, down $5.6 billion or 3% with owner occupied lending up $2.4 billion or 1%;
- Australian personal lending was lower across credit cards, personal loans and auto lending. This was consistent with the overall market trends in unsecured lending and auto finance with customers reducing debt and adopting other forms of finance;
- Australian business lending contracted as businesses reduced investment and working capital requirements. Institutional customers repaid facilities drawn down in First Half 2020;
- New Zealand lending increased in $NZ terms with higher housing lending, supported by housing price growth, partially offset by lower business and personal lending due to customer deleveraging and increasing competition; and
- Overseas lending decreased mostly due to lower trade finance in Asia.

Full Year 2020 – Full Year 2019

Total loans decreased $21.7 billion or 3% compared to Full Year 2019. Excluding foreign currency translation impacts, total loans decreased $20.8 billion or 3%.

Key features of total loan movements were:

- Australian housing loans declined mostly from accelerated payments. The decline was in investor property lending, down $10.6 billion or 6% with owner occupied lending up $5.3 billion or 2%;
- Australian personal lending decreased across credit cards, personal loans and auto lending. This was consistent with the overall market trends in unsecured lending and auto finance with customers reducing debt and adopting other forms of finance;
- Australian business lending contracted from lower demand for investment and working capital requirements along with higher institutional repayments;
- Most of the increase in New Zealand lending was in housing, with the property market continuing to grow with business lending also a little higher. This was partly offset by lower personal loans due to customer deleveraging and increased competition;
- Overseas lending decreased mostly due to lower trade finance in Asia; and
- Provision balances increased from changes in the economic scenarios and weightings used in AASB 9 provision models.

1. Spot loan balances.

For personal use only

Review of Group operations

2.2.3 Deposits and other borrowings[1,2]

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Customer deposits					
Australia	**478,884**	**460,561**	**449,066**	**4**	**7**
At call	304,761	274,071	247,161	11	23
Term	125,820	141,933	158,564	(11)	(21)
Non-interest bearing	48,303	44,557	43,341	8	11
New Zealand (A$)	**65,700**	**67,273**	**59,743**	**(2)**	**10**
New Zealand (NZ$)	**70,974**	**69,050**	**64,464**	**3**	**10**
At call	28,411	26,504	24,053	7	18
Term	30,992	32,768	33,540	(5)	(8)
Non-interest bearing	11,571	9,778	6,871	18	68
Other overseas (A$)	**10,869**	**15,967**	**15,707**	**(32)**	**(31)**
Total customer deposits	**555,453**	**543,801**	**524,516**	**2**	**6**
Certificates of deposit	**35,678**	**39,119**	**38,731**	**(9)**	**(8)**
Australia	25,647	21,029	26,259	22	(2)
New Zealand (A$)	2,773	3,452	1,058	(20)	162
Other overseas (A$)	7,258	14,638	11,414	(50)	(36)
Total deposits and other borrowings	**591,131**	**582,920**	**563,247**	**1**	**5**

Second Half 2020 – First Half 2020

Total customer deposits increased $11.7 billion or 2% compared to First Half 2020. Excluding foreign currency translation impacts, customer deposits increased $17.9 billion or 3%.

Key features of total customer deposits movements were:

- Australian customer deposits grew and the mix shifted from term deposits to at call products. Non-interest bearing deposits grew mainly due to $3.7 billion of higher mortgage offset balances;
- New Zealand customer deposits increased in NZ$ terms across both households and businesses. The trends in deposit growth were similar to Australia with term deposits declining and at call increasing; and
- Overseas deposits decreased as we continued to reduce our exposure to international regions.

Full Year 2020 – Full Year 2019

Total customer deposits increased $30.9 billion or 6% compared to Full Year 2019. Excluding foreign currency translation impacts, customer deposits increased $32.0 billion or 6%.

Key features of total customer deposits growth were:

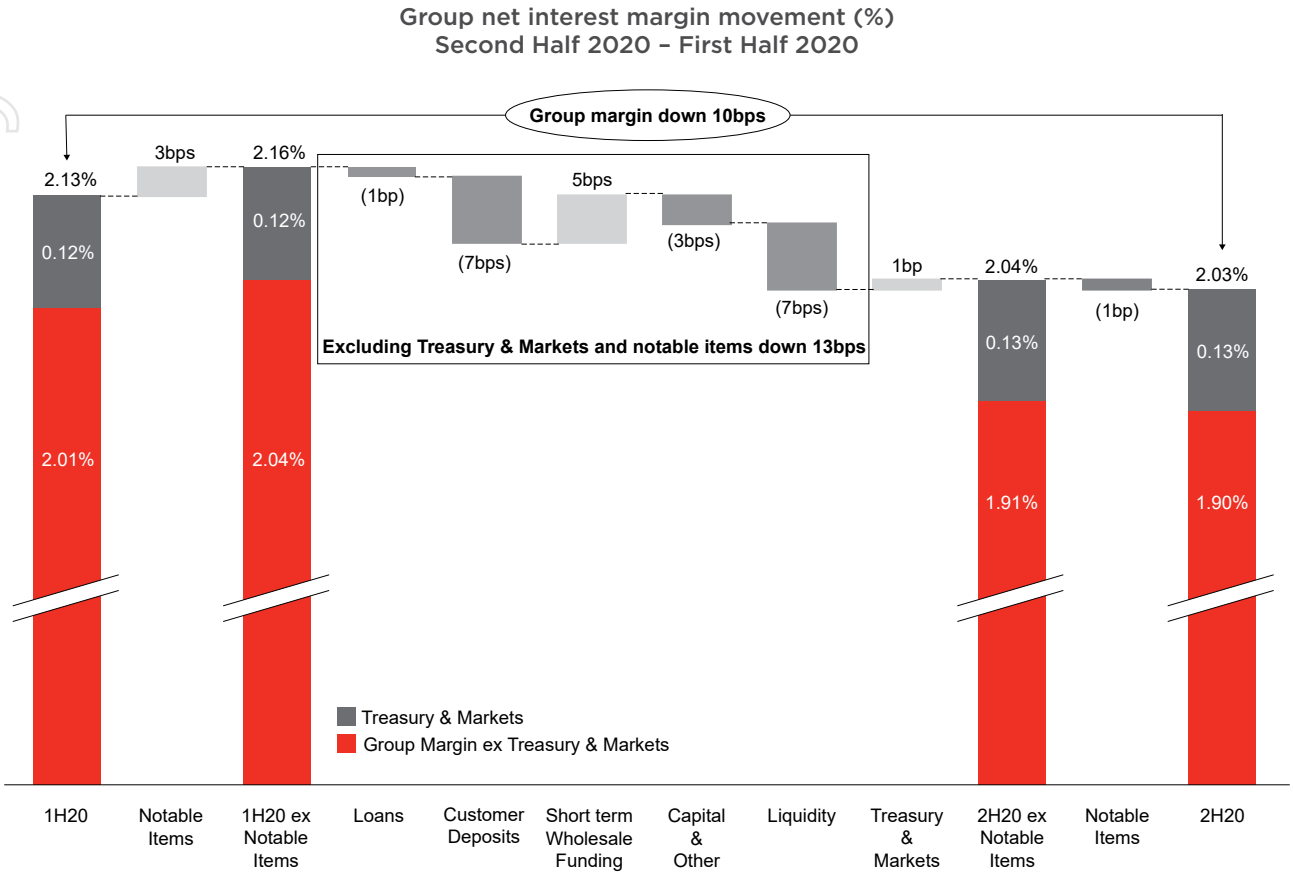
- Australian customer deposits grew and the mix shifted from term deposits to at call products. Non-interest bearing deposits grew mainly due to $4.9 billion of higher mortgage offset balances;
- New Zealand customer deposits increased across both households and businesses. The trends in deposit growth were similar to Australia with term deposits declining and at call increasing; and
- Overseas deposits decreased with all of the decline in the second half of the year as we continued to reduce our exposure to international regions.

1. Spot deposit balances.
2. Non-interest bearing relates to instruments which do not carry a rate of interest.

For personal use only

Review of Group operations

2.2.4 Net interest margin



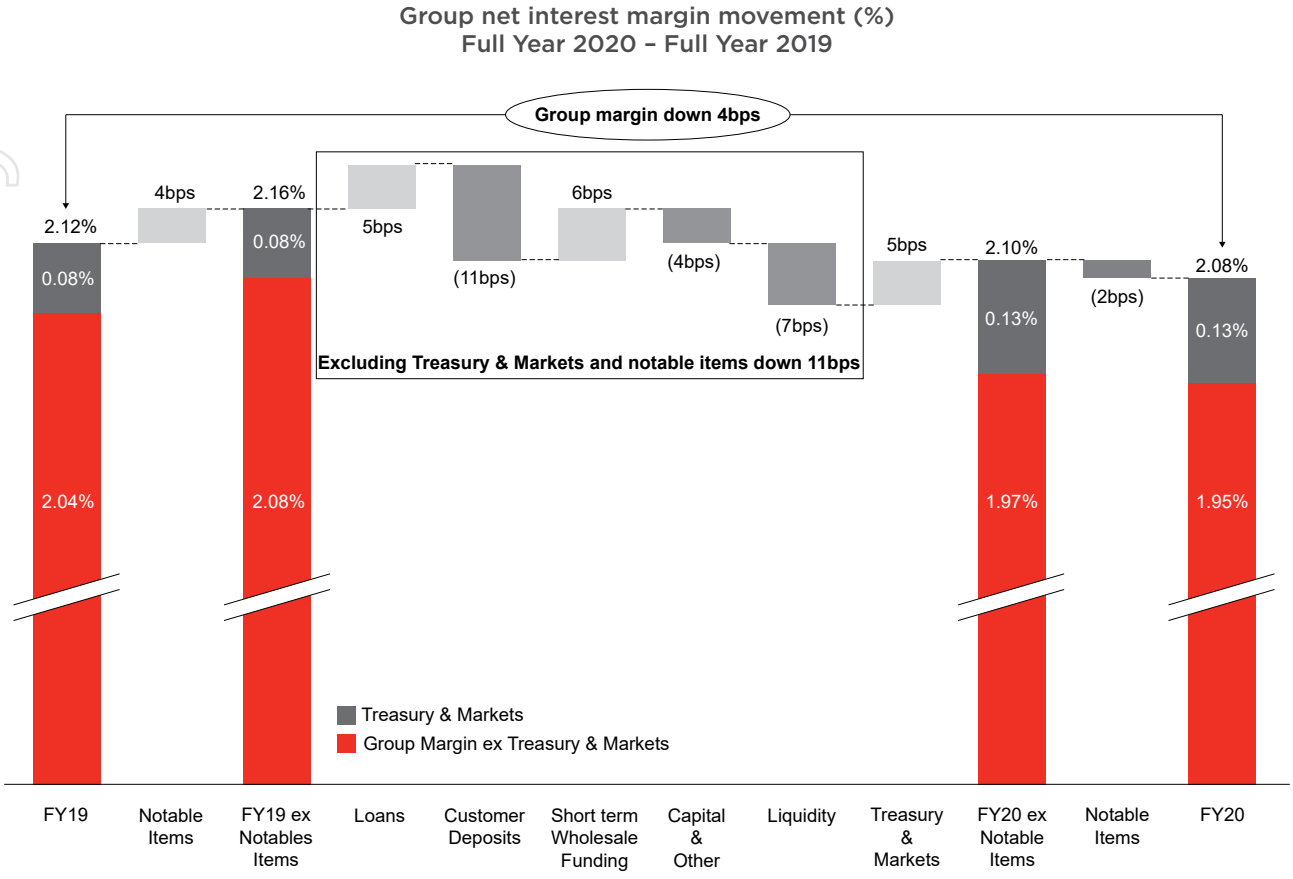
Second Half 2020 – First Half 2020

Group net interest margin of 2.03% decreased 10 basis points from First Half 2020, with lower notable items relating to provisions for estimated customer refunds and payments improving margin by 2 basis points.

- Group net interest margin excluding Treasury and Markets, and notable items decreased 13 basis points to 1.91% from:
  - 1 basis point decrease from loan spreads with pricing changes to Australian mortgages and business loans offset by increased competition driving lower rates on new lending and retention pricing, the impact of customers switching to lower spread fixed rate loans, and a change in portfolio mix with customers reducing their unsecured personal debt given current market conditions;
  - 7 basis point decrease from lower deposit spreads and hedges due to the low interest rate environment. This was partially offset by changes in the mix of the portfolio with customers moving to at call accounts from term deposits;
  - 5 basis point increase from lower short term funding costs;
  - 3 basis point decrease from capital and other primarily due to lower income earned on hedged balances; and
  - 7 basis point decrease from higher holdings of third party liquids assets due to the deployment of excess liquidity generated by strong deposit inflows and lower lending.

For personal use only

Review of Group operations



Full Year 2020 – Full Year 2019

Group net interest margin of 2.08% decreased 4 basis points from Full Year 2019, with lower notable items relating to provisions for estimated customer refunds and payments improving margin by 2 basis points.

- Group net interest margin excluding Treasury and Markets, and notable items decreased 11 basis points to 1.97% from:
  - 5 basis point increase from loan spreads with pricing changes to Australian mortgages and business loans partially offset by increased competition driving lower rates on new lending and retention pricing, and the impact of customers switching to lower spread fixed rate loans;
  - 11 basis point decrease from lower deposit spreads and hedges due to the low interest rate environment. This was partially offset by changes in the mix of the portfolio with customers moving to at call accounts from term deposits;
  - 6 basis point increase from lower short term funding costs;
  - 4 basis point decrease from capital and other primarily due to lower income earned on hedged balances; and
  - 7 basis point decrease from higher holdings of third party liquid assets due to the deployment of excess liquidity generated by strong deposit inflows and lower lending.
- Treasury and Markets contribution increased 5 basis points on Full Year 2019 driven by interest rate risk management.

For personal use only

Review of Group operations

2.2.5 Non-interest income[1]

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net fee income	837	755	11	1,592	1,655	(4)
Net wealth management and insurance income	278	481	(42)	759	1,023	(26)
Trading income	499	429	16	928	907	2
Other income	251	10	large	261	117	123
Total non-interest income	**1,865**	**1,675**	**11**	**3,540**	**3,702**	**(4)**
Add back notable items	35	228	(85)	263	737	(64)
Non-interest income excluding notable items	**1,900**	**1,903**	**-**	**3,803**	**4,439**	**(14)**

Second Half 2020 – First Half 2020

Non-interest income of $1,865 million increased $190 million or 11% compared to First Half 2020. Excluding notable items, non-interest income was little changed compared to First Half 2020. Notable items were $35 million in Second Half 2020 compared to $228 million in First Half 2020.

Net fee income

Net fee income increased $82 million or 11% due to:

- Notable items relating to provisions for estimated customer refunds and payments for financial planning (down $161 million); partially offset by
- The impacts of COVID-19 including fee waivers for customer support packages, lower interchange fees, a decline in international card volumes, and lower lending activity.

Net wealth management and insurance income

Net wealth management and insurance income decreased $203 million or 42% due to:

- Notable items (up $271 million) included $260 million life insurance asset impairment and $92 million relating to estimated customer refunds and payments for authorised representatives;
- Lower platform income (down $40 million) as customers migrated to lower margin products, a decline of funds under administration in line with lower markets and the impact of lower interest rates on managed cash balances;
- Lower superannuation income (down $37 million) from pricing changes, customer migration to lower margin products, the impact of Protecting Your Super legislation, and the early release of superannuation; partially offset by
- Increased general insurance income (up $105 million) due to lower claims than First Half 2020.

Trading income

Trading income increased $70 million or 16% primarily due to a movement in derivative valuation adjustments in Second Half 2020 compared to First Half 2020, partially offset by lower commodities income.

Other income

Other income increased $241 million due to a notable item relating to a gain on the revaluation of Zip Co Limited ($303 million) partially offset by the recognition of a foreign currency translation loss related to the closure of the Mumbai branch ($55 million).

Full Year 2020 – Full Year 2019

Non-interest income of $3,540 million decreased $162 million or 4% compared to Full Year 2019. Excluding notable items, non-interest income was $636 million lower compared to Full Year 2019. Notable items were $263 million in Full Year 2020 compared to $737 million in Full Year 2019.

Net fee income

Net fee income decreased $63 million or 4% due to:

- The impacts of COVID-19 including fee waivers for customer support packages, lower interchange fees, and a decline in international card volumes;
- A decline in institutional customer activity impacting syndication, arrangement, and structured finance fee income (down $79 million); partially offset by
- Notable items relating to provisions for estimated customer refunds and payments for financial planning (down $150 million).

Net wealth management and insurance income

1. Refer to Section 4, Note 4 for reported results breakdown. Refer to Section 5, Note 4 for cash earnings results breakdown. As discussed in Section 1.3, commentary is on a cash earnings basis.

For personal use only

Review of Group operations

Net wealth management and insurance income decreased $264 million or 26% due to:

- Notable items (down $104 million) included $260 million asset impairment and $97 million write-off of deferred acquisition costs related to life insurance and $76 million relating to estimated customer refunds and payments for authorised representatives;
- Lower general insurance income (down $105 million) due to elevated claims for bushfires and severe weather events;
- Lower platform income (down $93 million) as customers migrated to lower margin products, a decline of funds under administration in line with lower markets and the impact of lower interest rates on managed cash balances;
- Lower superannuation income (down $78 million) from pricing changes, customer migration to lower margin products, the impact of Protecting Your Super legislation, and the early release of superannuation.

Trading income

Trading income increased $21 million or 2% primarily due to:

- Higher non-customer income across fixed income and foreign exchange products benefiting from volatile markets; partially offset by
- Lower client demand impacting fixed income and foreign exchange sales.

Other income

Other income increased $144 million due to a notable item relating to a gain on the revaluation of Zip Co Limited ($303 million) partially offset by the recognition of a foreign currency translation loss related to the closure of the Mumbai branch ($55 million) in Full Year 2020 and the non-repeat of prior year assets sales and revaluations related to Paymark, Coinbase and 316 George Street.

2.2.6 Group funds

$bn	As at 30 Sept 2020	Inflows	Outflows	Net flows	Other Mov't	As at 30 Sept 2019	% Mov't Sept 20 - Sept 19	As at 31 March 2020	% Mov't Sept 20 - Mar 20
Superannuation	38.2	3.9	(5.7)	(1.8)	(0.6)	40.6	(6)	35.3	8
Platforms	117.8	27.8	(29.4)	(1.6)	(7.1)	126.5	(7)	109.0	8
Packaged Fund	41.0	9.5	(8.2)	1.3	(3.9)	43.6	(6)	38.8	6
Other[1]	-	-	-	-	(4.7)	4.7	(100)	2.8	(100)
Total Australia	**197.0**	**41.2**	**(43.3)**	**(2.1)**	**(16.3)**	**215.4**	**(9)**	**185.9**	**6**
Total NZ funds (A$)	**11.3**	**3.0**	**(2.7)**	**0.3**	**0.3**	**10.7**	**6**	**10.6**	**7**
Total Group funds	**208.3**	**44.2**	**(46.0)**	**(1.8)**	**(16.0)**	**226.1**	**(8)**	**196.5**	**6**
Total NZ funds (NZ$)	**12.2**	**3.1**	**(2.9)**	**0.2**	**0.5**	**11.5**	**6**	**10.9**	**12**

2.2.7 Markets related income[2]

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net interest income	67	67	-	134	149	(10)
Non-interest income	460	434	6	894	921	(3)
Total markets income	**527**	**501**	**5**	**1,028**	**1,070**	**(4)**
Customer income	363	420	(14)	783	893	(12)
Non-customer income	148	174	(15)	322	241	34
Derivatives valuation adjustment	16	(93)	large	(77)	(64)	20
Total markets income	**527**	**501**	**5**	**1,028**	**1,070**	**(4)**

Markets income comprises sales and risk management revenue derived from the creation, pricing and distribution of risk management products to the Group's consumer, business, corporate and institutional customers. Dedicated relationship specialists provide product solutions to these customers to help manage their interest rate, foreign exchange, commodity, credit and structured products risk exposures.

1. Other included investable capital and other amounts related to subsidiaries, which are not related to funds and therefore have been removed.
2. Markets income includes WIB Markets, Business division, Consumer division and Westpac New Zealand markets.

For personal use only

Review of Group operations

Second Half 2020 – First Half 2020

Total markets income increased by $26 million or 5% compared to First Half 2020, with derivative valuation adjustments increasing $109 million from a narrowing of credit spreads. This was partly offset by lower customer and non-customer income.

Customer income reduced $57 million in the Second Half 2020 from lower foreign exchange sales, with fixed income sales little changed.

Non-customer income decreased 15% due to lower foreign exchange and commodities trading income, partly offset by higher fixed income trading.

Full Year 2020 – Full Year 2019

Total markets income decreased by $42 million or 4% compared to Full Year 2019, primarily due to lower customer income and derivative valuation adjustments reducing $13 million. This was partly offset by higher non-customer income.

Customer income decreased 12% driven by lower fixed income and foreign exchange sales.

Non-customer income was up 34% compared to Full Year 2019, reflecting an increase in fixed income and foreign exchange trading result.

Markets Value at Risk (VaR)[1]

$m	Average	High	Low
Half Year September 2020	15.5	22.1	9.5
Half Year March 2020	7.0	33.4	3.3
Half Year September 2019	9.0	43.0	3.3

The Components of Markets VaR are as follows:

Average $m	Half Year Sept 2020	Half Year March 2020	Half Year Sept 2019
Interest rate risk	9.6	4.0	2.8
Foreign exchange risk	3.3	1.4	1.5
Equity risk	0.3	0.1	0.1
Commodity risk[2]	1.6	2.2	8.2
Credit and other market risks[3]	12.5	5.1	2.3
Diversification benefit	(11.8)	(5.8)	(5.9)
Net market risk	**15.5**	**7.0**	**9.0**

Market Value at Risk (VaR) is calculated using a one year history of market price movements. The market disruption caused by COVID-19 pandemic in March and April 2020 increased market volatility significantly, resulting in higher average VaR measurements.

1. The daily VaR presented above reflects a WIB divisional view of VaR. It varies from presentations of VaR in the 2020 Westpac Group Annual Report and Australian Prudential Standard (APS) 330 Prudential Disclosure under Basel III where market risk disclosures are segregated into trading and banking book. VaR measures the potential for loss using a history of price volatility.
2. Includes electricity risk. The lower VaR measures in 2020 were due to reduced risk, revised modelling and closure of electricity trading commenced in June 2020.
3. Includes pre-payment risk and credit spread risk (exposures to generic credit rating bonds).

For personal use only

Review of Group operations

2.2.8 Operating expenses[1]

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Staff expenses	(2,571)	(2,444)	5	(5,015)	(5,017)	-
Occupancy expenses	(484)	(493)	(2)	(977)	(969)	1
Technology expenses	(1,366)	(1,277)	7	(2,643)	(2,319)	14
Other expenses	(2,119)	(1,946)	9	(4,065)	(1,726)	136
Total operating expenses	**(6,540)**	**(6,160)**	**6**	**(12,700)**	**(10,031)**	**27**
Add back notable items	1,283	1,256	2	2,539	461	large
Total operating expenses excluding notable items	**(5,257)**	**(4,904)**	**7**	**(10,161)**	**(9,570)**	**6**

Full Time Equivalent (FTE) employees

Number of FTE	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Permanent employees	32,367	30,913	30,326	5	7
Temporary employees	4,482	3,286	2,962	36	51
FTE	**36,849**	**34,199**	**33,288**	**8**	**11**
Average FTE[2]	**36,117**	**33,433**	**33,648**	**8**	**7**

Second Half 2020 – First Half 2020

Operating expenses increased $380 million or 6% compared to First Half 2020. Notable items were $1,283 million in Second Half 2020 compared to $1,256 million in First Half 2020. Excluding notable items, operating expenses were $353 million or 7% higher.

Staff expenses increased $127 million or 5% from:

- Additional FTE (up 2,650) over the half as we responded to the operational requirements of higher volumes associated with COVID-19 activities, and additional resources for risk and compliance (including financial crime);
- Salary costs were higher as staff took less leave over the half; and
- Lower short-term incentives and productivity benefits partly offset these increases.

Occupancy expenses were $9 million or 2% lower from:

- Savings from onshore retail branch closures.

Technology expenses were $89 million or 7% higher. Notable items were $31 million higher over the half, mostly associated with write-downs of capitalised software. Excluding this impact, technology expenses were $58 million or 5% higher mainly from:

- Higher telecommunication and software licensing costs mainly due to increased capacity and capability to support our staff working from home.

Other expenses increased $173 million or 9%. Notable items in Second Half 2020 were $1,118 million, $8 million lower than First Half 2020. Notable items included:

- A lower provision for a penalty from AUSTRAC ($400 million in Second Half 2020; $900 million in First Half 2020);
- Lower AUSTRAC associated costs ($138 million);
- Partly offset by goodwill write-downs in Specialist Businesses ($490 million); and
- An accounting loss recognised on sale of Vendor Finance business ($112 million).

Excluding the impact of notable items, other expenses increased $181 million or 22% from:

- Increased spending on risk and compliance; and
- Costs associated with supporting COVID-19 activities, including the on-shoring of certain activities.

Full Year 2020 – Full Year 2019

Operating expenses increased $2,669 million or 27% compared to Full Year 2019. Notable items were $2,539 million in Full Year 2020 compared to $461 million in Full Year 2019. Excluding notable items, operating expenses were $591 million or 6% higher.

1. Refer to Section 4, Note 5 for reported results breakdown. Refer to Section 5, Note 5 for cash earnings breakdown. As discussed in Section 1.3, commentary is on a cash earnings basis.
2. Average is based on a six month period.

For personal use only

Review of Group operations

Staff expenses decreased $2 million. Notable items were $142 million lower mainly due to the non-repeat of provisions for the Group's Wealth reset in Full Year 2019. Excluding this impact, staff expenses increased $140 million or 3% from:

- Additional FTE (up 3,561) over the year as we responded to the operational requirements of higher volumes associated with COVID-19 activities, and additional resources for risk and compliance (including financial crime);
- Salary costs were higher as staff took less leave over the year; and
- Lower short-term incentives and productivity benefits partly offset these increases.

Occupancy expenses were $8 million or 1% higher from:

- Exit costs associated with reducing our branch footprint;
- Partly offset by savings from onshore retail branch closures.

Technology expenses were $324 million or 14% higher. Notable items were $134 million higher over the year, mostly associated with write-downs of capitalised software. Excluding this impact, technology expenses were $190 million or 8% higher mainly from:

- Higher amortisation, including the full year impact of the Customer Service Hub; and
- Higher telecommunication and software licensing costs mainly due to increased capacity and capability to support our staff working from home.

Other expenses increased $2,339 million or 136%. Notable items in Full Year 2020 were $2,244 million, $2,086 million higher than Full Year 2019. Notable items included:

- A provision for a penalty from AUSTRAC ($1,300 million);
- AUSTRAC associated costs ($178 million);
- Goodwill write-downs in Specialist Businesses ($490 million); and
- An accounting loss recognised on sale of Vendor Finance business ($112 million).

Excluding the impact of notable items, other expenses increased $253 million or 16% from:

- Increased spending on risk and compliance; and
- Costs associated with supporting COVID-19 activities, including the on-shoring of certain activities.

Investment spend

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Expensed	384	296	30	680	608	12
Capitalised software and fixed assets	608	432	41	1,040	898	16
Total	**992**	**728**	**36**	**1,720**	**1,506**	**14**
Growth and productivity	368	296	24	664	784	(15)
Risk and compliance	470	336	40	806	503	60
Other technology	154	96	60	250	219	14
Total	**992**	**728**	**36**	**1,720**	**1,506**	**14**

In Full Year 2020, the Group invested $1,720 million, an increase of $214 million (or 14%) on the prior year. This was due to a $303 million increase in risk and compliance projects and a $31 million increase in other technology, partly offset by an $120 million decline in productivity and growth projects.

Risk and compliance projects accounted for 47% of investment spend, an increase from 33% in the prior year, as we have continued to strengthen risk management across the group, and implement systems that improve our response to regulatory obligations. Productivity and growth projects accounted for 39% of investment spend, down from 52% in the prior year. Other technology projects accounted for 14% of investment spend, little changed from the prior year.

Investment over the year was skewed to the second half (consistent with patterns over recent years), with Second Half 2020 spending up 36% over First Half 2020. Across major investment categories the following progress was achieved in Second Half 2020.

Growth and Productivity

Platform Modernisation

- Customer Service Hub (CSH) is a major program creating multi-brand operating system. The system will ultimately provide a major improvement in functionality and productivity and create a better experience for both customers and bankers. The system went live for mortgages in 2019 and the rollout to Westpac home finance managers was completed in 2020. In Second Half 2020 we commenced the roll out to our regional brands and continued work to enable broker home loan applications to be originated in 2021;
- Further development of Panorama (wealth administration platform) including simplifying our products and processes to support the migration of BT Wrap to Panorama; and

For personal use only

Review of Group operations

- Installed a new complaints management system, creating a common system across the Group and supporting faster complaint resolution and improved consistency for customers. The system also provides better reporting and analysis on the root causes of complaints.

Digitising and simplifying the company

- The Group has continued to improve its digital capability, support customers to bank online, and to simplify and automate back office processes. Key initiatives delivered have included:
  - Enhanced a number of customer features while improving security such as: expanding the details of merchants details on transactions to improve transaction recognitions, enabling businesses to register for an ABN PayID to receive payments faster, and launching ApplePay on iPad and Mac;
  - Implemented enhanced scam-detection technology in branches, providing real-time analysis to flag high risk transactions. Banker alerts then allows them to determine if a suspect transaction should be paused or declined;
  - Completed development of a new Westpac Mobile Banking App for consumers providing more intuitive navigation, smarter searching and more streamlined payments. The app was launched to select customers in September 2020 and will be progressively rolled out over 2021;
  - Reducing complexity by simplifying fee structures on a range of products and migrating customers from deposit products no longer for sale to similar products that are for sale; and
  - Improving processes and controls, to accelerate customer remediation payments.

Risk and Compliance

- Enhancing financial crime risk management capability including updating our processes and systems and improving data quality and controls;
- Upgraded our integrated risk and compliance management system to better capture and manage incidents and strengthen controls.
- Updated a number of systems to meet new regulatory obligations including: The Banking Code of Practice, open banking, protecting your super legislation, and putting members' interest first legislation;
- Delivered a range of changes to support COVID-19 measures, including additional regulatory reporting, facilitating the early release of superannuation, and managing deferral packages; and
- Delivered new and updated APRA requirements including APRA's Residential Mortgage Review.

Other Technology

Major initiatives under this category included:

- Further investment in protecting customers against cyber risks, and data and privacy breaches;
- Strengthening system infrastructure to improve stability and speed. The number of major incidents halved over the year with increased bandwidth throughout the network. Bandwidth increased tenfold over the last 12 months in around 90% of our branches;
- Completed the migration to the Windows 10 evergreen desktop to standardise the operating for all employees and provide better support. At the same time we migrated shared mailboxes to Exchange Online; and
- Implemented a new service management platform to 6,000 users that will deliver improved efficiency to users.

Capitalised software

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Balance as at beginning of period	**2,335**	**2,365**	**(1)**	**2,365**	**2,177**	**9**
Total additions[1]	605	430	41	1,035	906	14
Amortisation expense	(406)	(393)	3	(799)	(694)	15
Impairment expense	(96)	(75)	28	(171)	(25)	large
Foreign exchange translation	(8)	8	large	-	1	(100)
Balance as at end of period	**2,430**	**2,335**	**4**	**2,430**	**2,365**	**3**

Capitalised software increased $65 million (or 3%) during the year. Additions increased by $129 million (or 14%) over the year, due to higher investment spend, with the level of capitalisation broadly in line (-60%) with the prior year.

Software amortisation expense increased $105 million (or 15%) compared to last year, as major investments became operational. As part of the Group's regular asset review, $171 million of capitalised software was impaired during the year.

In aggregate, the average amortisation period for our capitalised software assets is 3 years.

1. Includes capitalised borrowing costs and card scheme.

For personal use only

Review of Group operations

2.2.9 Impairment charges

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Individually assessed provisions (IAPs)						
New IAPs	(283)	(351)	(19)	(634)	(343)	85
Write-backs	54	70	(23)	124	148	(16)
Recoveries	93	100	(7)	193	172	12
Total IAPs write-backs and recoveries	**(136)**	**(181)**	**(25)**	**(317)**	**(23)**	**large**
Collectively assessed provisions (CAPs)						
Write-offs	(438)	(438)	-	(876)	(953)	(8)
Other changes in CAPs	(366)	(1,619)	(77)	(1,985)	182	large
Total new CAPs	**(804)**	**(2,057)**	**(61)**	**(2,861)**	**(771)**	**large**
Total impairment charges	**(940)**	**(2,238)**	**(58)**	**(3,178)**	**(794)**	**large**

Impairment charges significantly increased to $3,178 million in Full Year 2020, equivalent to 45 basis points of gross loans. Almost three quarters of the impairment charge for Full Year 2020 was recorded in First Half 2020, mostly related to the impacts of COVID-19 on expected credit losses. In First Half 2020 there was only a small deterioration in asset quality with the high impairment charge due to weaker forward-looking economic inputs used in our provision calculations, an increase in the weighting to our downside economic scenario, and increased overlays as we sought to estimate the impact of COVID-19 on higher risk industries.

In Second Half 2020, impairment charges remained relatively high at 27 basis points to gross loans, but were lower than First Half 2020 with the charge being predominantly due to a deterioration in the portfolio including higher 90+ day delinquencies and from credit downgrades. These factors were partially offset by a small improvement in our forward-looking economic inputs compared to First Half 2020.

The following table indicates the weightings applied by the Group to different economic scenarios:

Macroeconomic scenario weightings (%)	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	As at 31 March 2019
Upside	5	5	10	10
Base	55	55	62.5	65
Downside	40	40	27.5	25

The increase in weight to the downside scenario since 30 September 2019 reflects increased uncertainty around the base case economic assumptions particularly given the impact of COVID-19 is highly unpredictable.

Second Half 2020 – First Half 2020

Impairment charges for Second Half 2020 were $940 million, down $1,298 million compared to First Half 2020. Total new CAP charges were $1,253 million lower than First Half 2020.

The decline was predominately due to the material lift in provisions in First Half 2020 as we incorporated the potential impact of COVID-19 in our provision for expected credit losses. The Second Half 2020 CAP charge was due to:

- Higher CAP charges in the Business division as customers in particular segments (such as Accommodation, Tourism and certain property sectors) were downgraded due to the impact of COVID-19;
- Australian mortgages 90+ day delinquencies increased 68 basis points to 1.62%, mostly from a rise in customers in hardship, particularly those that did not take up a deferral package.

Total IAPs, write-backs and recoveries were $45 million lower than First Half 2020 principally due to:

- Lower new IAPs compared to First Half 2020 ($68 million); and
- Write-backs were $16 million lower compared to First Half 2020.

Full Year 2020 – Full Year 2019

Impairment charges of $3,178 million were up $2,384 million compared to Full Year 2019.

Total new CAP charges were $2,090 million higher due to a $2,167 million increase in CAPs partially offset by a $77 million decrease in write-offs.

The increase in other changes in CAP was driven by the following:

- Changes in forward-looking economic inputs, increased weighting of a downside economic scenario and increased overlay provisions from estimated impacts of COVID-19 pandemic, predominately within the First Half 2020; and
- A rise in 90+ day delinquencies in the mortgage portfolio; and the downgrade of certain customers in the Business division.

For personal use only

Review of Group operations

Total new IAPs, write-backs and recoveries were $294 million higher than Full Year 2019. This was predominately due to higher new IAPs for five large exposures (three WIB Asia, one Business and one New Zealand). The higher IAPs were partially offset by higher recoveries in the unsecured portfolio.

2.2.10 Income tax expense

Second Half 2020 – First Half 2020

The effective tax rate of 42.4% in Second Half 2020 was lower than the First Half 2020 effective tax rate of 48.8%. The effective tax rate is above the Australian corporate tax rate of 30%, with the key drivers being the non-deductible provision for the penalty relating to AUSTRAC proceedings, and non-deductible goodwill impairments.

Full Year 2020 – Full Year 2019

The effective tax rate of 45.0% in Full Year 2020 was also significantly higher than the 30.3% in Full Year 2019 due to the non-deductible provision for the penalty relating to AUSTRAC proceedings and the non-deductible goodwill impairments.

2.2.11 Non-controlling interests

Non-controlling interests represent results of non-wholly owned subsidiaries attributable to shareholders other than Westpac. These include profits attributable to the 10.1% shareholding in Westpac Bank-PNG-Limited and the 25% shareholding in St.George Motor Finance Limited that are not owned by Westpac.

2.3 Credit quality

The portfolio began the 2020 Financial Year performing well with stress in retail, business and Institutional rising modestly from the low base experienced in recent years. At 30 September 2019 stressed exposures to total committed exposures (TCE) were 1.20% rising to 1.32% by March 2020. Through Second Half 2020 stress gradually increased given the deterioration in economic activity and the rise in unemployment. As a result, stressed exposures to TCE increased to 1.91% with more businesses being downgraded and customers migrating through to 90+ day delinquencies.

The 71 basis point rise in stressed exposures to TCE comprised a 30 basis point rise in watchlist and substandard exposures, a 32 basis point rise in 90 days past due and not impaired exposures and a 9 basis point increase in impaired exposures.

The ratio of gross impaired exposures to gross loans increased 15 basis points to 0.40% compared to 30 September 2019.

The most impacted customers (across consumer, business and institutional) have been in industries impacted by social distancing, travel, supply chain disruption, and industries adjacent to these. These include: Hospitality; Travel related industries, Retail trade; Wholesale trade; Accommodation; Commercial property; Construction and Manufacturing.

Provision levels increased $2,239 million over Full Year 2020, as we increased impairment charges for the potential economic impact of COVID-19. Most of the increase was in collectively assessed provision with IAPs rising $199 million over the year.

The increase in provisions has led to an increase in provision coverage both on a gross basis and on a risk adjusted basis. Total loan provisions to gross loans increased to 88 basis points at September 2020, up from 54 basis points at 30 September 2019. The ratio of collectively assessed provisions to credit risk weighted assets increased 59 basis points over the year to 154 basis point at 30 September 2020.

For personal use only

Review of Group operations

Portfolio segments

The institutional segment has seen increases in stress with stressed exposures to TCE at 0.15% at 30 September 2020 up 12 basis points from September 2019. New stress has emerged in some of the high risk categories mentioned earlier. Stress in the commercial property sector gradually increased through the year, up 122 basis points to 2.83% at September 2020.

The Business division saw an increase in stressed exposures to TCE to 4.70% (an increase of 182 basis points compared to September 2019) as we completed our reviews of customers likely to be impacted by COVID-19. Customers re-rated down were spread across several sectors particularly retail trade, motor vehicle retailers and commercial property.

In New Zealand, stressed exposures to TCE was down 7 basis points over the year to 1.59% at 30 September 2020, predominantly due to balance sheet growth partially offset by an impaired exposure increase related to one name. During 2019, the methodology for reporting hardship was aligned to APRA's definition which has impacted delinquencies. These changes increased other consumer 90+ day delinquencies by 127 basis points and mortgage 90+ day delinquencies by 39 basis points. Excluding the impact of these changes, other consumer 90+ day delinquencies increased 42 basis points and mortgage 90+ day delinquencies increased 2 basis points.

Australian mortgage 90+ day delinquencies increased 74 basis points to 1.62% over Full Year 2020. The increase was more pronounced in Second Half 2020 due to customers placed in hardship in the early months of COVID-19 migrating through to 90+ day delinquent. Properties in possession decreased by 302 over the year to 256 at 30 September 2020. The fall was due to less properties moving into repossession.

Realised mortgage losses were $125 million for Full Year 2020, compared to $111 million in Full Year 2019.

Other consumer 90+ day delinquencies were 2.09% at September 2020, up 40 basis points over the year and 15 basis points higher than at March 2020. The contraction in the portfolio contributed around 42 basis points of the rise, offset by 2 basis point improvement in the underlying portfolio.

New Zealand other consumer 90+ day delinquencies were 2.09% at September 2020 up 127 basis points compared to September 2019 of which 42 basis points was due to balance sheet contraction and a change in the measurement of delinquencies for customers granted hardship assistance.

Provisioning

Over the Full Year 2020 provisions increased $2,239 million to $6,163 million where:

- CAPs on loans and credit commitments were $6,132 million at September 2020, $2,220 million higher compared to September 2019. The increase was mostly due to the use of deteriorating forward-looking economic inputs in our provision calculations, increased weighting to the downside economic scenario, and an increase in overlay provisions from estimated impacts of COVID-19 on high risk portfolios. In addition, CAP increased from rising delinquencies in mortgages and the re-rating (and subsequent downgrades) in the Business division.
- IAPs were $199 million higher at $611 million. This was due to an increase in IAPs for three WIB Asia exposures, one Business exposure and one New Zealand exposure,

For personal use only

Review of Group operations

2.3.1 Credit quality key metrics

	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	As at 31 March 2019
Stressed exposures by credit grade as a % of TCE:				
Impaired	0.26%	0.20%	0.17%	0.17%
90 days past due and not impaired	0.80%	0.50%	0.48%	0.43%
Watchlist and substandard	0.85%	0.62%	0.55%	0.50%
Total stressed exposures	**1.91%**	**1.32%**	**1.20%**	**1.10%**
Gross impaired assets to TCE for business and institutional:				
Business Australia	1.07%	0.71%	0.61%	0.59%
Business New Zealand	0.54%	0.59%	0.23%	0.41%
Institutional	0.15%	0.08%	0.03%	0.05%
Mortgage 90+ day delinquencies:				
Group	1.50%	0.87%	0.82%	0.75%
Australia	1.62%	0.94%	0.88%	0.82%
New Zealand	0.52%	0.27%	0.13%	0.14%
Other consumer loans 90+ day delinquencies:				
Group	2.09%	1.94%	1.69%	1.80%
Australia	2.09%	1.97%	1.77%	1.87%
New Zealand	2.09%	1.59%	0.82%	1.02%
Other[1]:				
Gross impaired exposures to gross loans	0.40%	0.30%	0.25%	0.24%
Gross impaired exposure provisions to gross impaired exposures	41.45%	50.09%	44.92%	45.74%
Total loan provisions to gross loans	88 bps	80 bps	54 bps	56 bps
Collectively assessed provisions to credit risk weighted assets	154 bps	140 bps	95 bps	98 bps
Total provisions to credit risk weighted assets	171 bps	157 bps	107 bps	110 bps
Impairment charges to average gross loans annualised	27 bps	62 bps	13 bps	9 bps
Net write-offs to average loans annualised	15 bps	12 bps	15 bps	12 bps

2.3.2 Movement in gross impaired exposures

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Balance as at beginning of period	**2,154**	**1,763**	**1,749**	**22**	**23**
New and increased - individually managed	864	897	550	(4)	57
Write-offs	(633)	(537)	(655)	18	(3)
Returned to performing or repaid	(488)	(516)	(447)	(5)	9
Portfolio managed - new/increased/returned/repaid	842	572	565	47	49
Exchange rate and other adjustments	40	(25)	1	large	large
Balance as at end of period	**2,779**	**2,154**	**1,763**	**29**	**58**

1. Averages are based on a six month period.

For personal use only

Review of Group operations

2.4 Balance sheet and funding

2.4.1 Balance sheet

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Assets					
Cash and balances with central banks	30,129	45,815	20,059	(34)	50
Collateral paid	4,778	5,339	5,930	(11)	(19)
Trading securities and other financial assets measured at fair value through income statement (FVIS) and investment securities	132,206	112,069	105,182	18	26
Derivative financial instruments	23,367	56,661	29,859	(59)	(22)
Loans	693,059	719,678	714,770	(4)	(3)
Life insurance assets	3,593	2,574	9,367	40	(62)
Other assets	24,814	25,526	21,459	(3)	16
Total assets	**911,946**	**967,662**	**906,626**	**(6)**	**1**
Liabilities					
Collateral received	2,250	12,728	3,287	(82)	(32)
Deposits and other borrowings	591,131	582,920	563,247	1	5
Other financial liabilities	40,925	33,996	29,215	20	40
Derivative financial instruments	23,054	48,089	29,096	(52)	(21)
Debt issues	150,325	185,835	181,457	(19)	(17)
Life insurance liabilities	1,396	604	7,377	131	(81)
Loan capital	23,949	25,807	21,826	(7)	10
Other liabilities	10,842	10,037	5,614	8	93
Total liabilities	**843,872**	**900,016**	**841,119**	**(6)**	**-**
Equity					
Total equity attributable to owners of WBC	68,023	67,590	65,454	1	4
NCI	51	56	53	(9)	(4)
Total equity	**68,074**	**67,646**	**65,507**	**1**	**4**

Second Half 2020 – First Half 2020

During Second Half 2020, our balance sheet composition shifted, with higher levels of liquid assets from higher inflows of deposits and utilisation of the Term Funding Facility (TFF) in place of debt issuance. Our lending portfolio also experienced net outflows during the period. This shift impacted our margins and profitability.

Key movements during the half included:

Assets

- Cash and balances with central banks decreased $15.7 billion or 34% reflecting lower liquid assets held in this form;
- Trading securities and financial assets measured at FVIS and investment securities increased $20.1 billion or 18% reflecting higher balances held in this form;
- Derivative assets decreased $33.3 billion or 59% mainly driven by movements in cross currency swaps and foreign currency forward contracts;
- Loans decreased $26.6 billion or 4%. Refer to Section 2.2.2 Loans for further information;
- Life insurance assets increased $1.0 billion or 40% mainly due to consolidation of new funds, partly offset by the transfer of assets to non-consolidated funds; and
- Other assets decreased $0.7 billion or 3% mainly due to impairment of intangible assets.

For personal use only

Review of Group operations

Liabilities

- Collateral received decreased $10.5 billion or 82% primarily due to the decrease in net collateralised derivative assets;
- Deposits and other borrowings increased $8.2 billion or 1%. Refer to Section 2.2.3 Deposits and other borrowings for further information;
- Other financial liabilities increased $6.9 billion or 20% mainly driven by higher securities sold under agreements to repurchase as the Group accessed the TFF, partly offset by lower securities purchased not delivered and interbank deposits;
- Derivative liabilities decreased $25.0 billion or 52% driven by movements in cross currency swaps and foreign currency forward contracts;
- Debt issues decreased $35.5 billion or 19% ($21.1 billion or 11% decrease excluding foreign currency impacts). Refer to Section 2.4.2 Funding and liquidity risk management for further information;
- Life insurance liabilities increased $0.8 billion or 131% mainly due to consolidation of new funds, partly offset by transfer of liabilities to non-consolidated funds;
- Loan capital decreased $1.9 billion or 7% mainly due to foreign currency translation and fair value hedging impacts; and
- Other liabilities increased $0.8 billion or 8% mainly due to higher provisions.

Equity attributable to owners of Westpac Banking Corporation increased $0.4 billion or 1% reflecting retained profits during the period.

Full Year 2020 – Full Year 2019

During Full Year 2020, our balance sheet composition shifted, with higher levels of liquid assets from higher inflows of deposits and utilisation of the Term Funding Facility (TFF) in place of debt issuance. Our lending portfolio also experienced net outflows during the period. This shift impacted our margins and profitability.

Key movements included:

Assets

- Cash and balances with central banks increased $10.1 billion or 50% reflecting higher liquid assets held in this form;
- Trading securities and financial assets measured at FVIS and investment securities increased $27.0 billion or 26% reflecting higher balances held in this form;
- Derivative assets decreased $6.5 billion or 22% mainly driven by movements in cross currency swaps and foreign currency forward contracts;
- Loans decreased $21.7 billion or 3%. Refer to Section 2.2.2 Loans for further information;
- Life insurance assets decreased $5.8 billion or 62% mainly due to transfer of assets to non-consolidated funds, partly offset by consolidation of new funds; and
- Other assets increased $3.3 billion or 16% mainly due to the adoption of AASB 16, higher deferred tax assets from the impact of provision for ECL, partly offset by impairment of intangible assets.

Liabilities

- Deposits and other borrowings increased $27.9 billion or 5%. Refer to Section 2.2.3 Deposits and other borrowings for further information;
- Other financial liabilities increased $11.7 billion or 40% mainly driven by higher securities sold under agreements to repurchase as the Group accessed the TFF and securities purchased not delivered, partly offset by lower accrued interest payable and interbank deposits;
- Derivative liabilities decreased $6.0 billion or 21% driven by movements in cross currency swaps and foreign currency forward contracts;
- Debt issues decreased $31.1 billion or 17% ($29.2 billion or 16% decrease excluding foreign currency impacts). Refer to Section 2.4.2 Funding and liquidity risk management for further information;
- Life insurance liabilities decreased $6.0 billion or 81% mainly due to transfer of liabilities to non-consolidated funds, partly offset by consolidation of new funds;
- Loan capital increased $2.1 billion or 10% mainly due to the issuance of US$1.5 billion Tier 2 capital instruments; and
- Other liabilities increased $5.2 billion or 93% mainly due to the adoption of AASB 16 and higher provisions.

Equity attributable to owners of Westpac Banking Corporation increased $2.6 billion or 4% reflecting $2.8 billion of new shares issuances, 2019 final dividend reinvestment plan and retained profits, partly offset by 2019 final dividends paid in First Half 2020.

For personal use only

Review of Group operations

2.4.2 Funding and liquidity risk management

Liquidity risk is the risk that the Group will be unable to fund assets and meet obligations as they become due. This type of risk is inherent for all banks as intermediaries between depositors and borrowers. The Group has a liquidity risk management framework which seeks to meet cash flow obligations under a wide range of market conditions, including name specific and market-wide stress scenarios, as well as meeting the regulatory requirements of the LCR and NSFR.

The challenges presented by COVID-19 to the global economy have highlighted the speed and extent to which financial markets can become dislocated and the critical importance of banks maintaining sufficient liquidity at all times.

We believe the Group is well positioned for these challenges, having maintained funding and liquidity metrics comfortably above regulatory minimums. At 30 September 2020, the Group's LCR was 150% and its NSFR was 122% compared to regulatory minimums of 100% for both.

During 2020, the Reserve Bank introduced extensive measures to support the economy, including lowering the cash rate, injecting extra liquidity into the financial system through daily market operations, the purchasing of Australian Government bonds in the secondary market, increasing the interest rate on Exchange Settlement Balances, and the introduction of the Term Funding Facility (TFF). Through the TFF, funding is provided to eligible ADIs at a fixed interest rate of 25 basis points, for a maximum of three years.

Westpac's total TFF allowance as at 30 September 2020 was $19.7 billion and Westpac had drawn down $17.9 billion from its total TFF allowance. Westpac has included the full amount of its TFF Allowance in the LCR and NSFR calculations for 30 September 2020.

A Supplementary Allowance of $11.9 billion will be available to Westpac from 1 October 2020.

Liquidity

The Group has a number of sources of liquidity that provide a buffer against periods of liquidity stress. These include High Quality Liquid Assets (HQLA) and the Committed Liquidity Facility (CLF), both of which are used to meet the Group's LCR requirements. The Group also has access to non-HQLA and other assets that are eligible for re-purchase with a central bank under certain conditions.

- At 30 September 2020, Westpac held $131.7 billion in HQLA (31 March 2020: $121.0 billion). HQLA includes cash, deposits with central banks, government securities and other high quality securities that are repo-eligible with the RBA. The HQLA portfolio is managed within the Group's risk appetite and within regulatory requirements.
- Westpac's CLF allocation for the 2020 calendar year, as approved by APRA, is $52 billion (2019 calendar year: $54 billion). The fee to access the CLF was increased by the RBA on 1 January 2020 to 17 basis points (from 15 basis points) and will increase to 20 basis points on 1 January 2021.
- The Group also holds a portfolio of non-HQLA liquid assets that are repo-eligible with the Reserve Bank of Australia. These include private securities and self-originated AAA-rated mortgage backed securities.

The Group's total unencumbered liquid assets were $221.2 billion as at 30 September 2020 (31 March 2020: $199.9 billion).

LCR

The LCR enhances banks' short-term resilience, requiring them to hold sufficient HQLA, as defined, to withstand 30 days under a regulator-defined acute stress scenario. In addition to HQLA, Australian ADIs including Westpac also have access to the CLF, as set out above, to meet the requirements of the LCR.

Westpac's LCR for 30 September 2020 calculated on a spot basis was 150% (31 March 2020: 154%). Movements in the Group's LCR reflect the drawdown of the TFF allowance during the half, an increase in HQLA by $10.6 billion over the half, while net cash outflows (NCOs) remained relatively flat (decreased by $0.3 billion).

NSFR

The NSFR is designed to encourage banks' longer-term funding resilience. To comply, banks are required to maintain an NSFR of at least 100% at all times. Westpac had an NSFR of 122% at 30 September 2020 (31 March 2020: 117%). Movements in the Group's NSFR over the half reflect the inclusion of the TFF of $19.7 billion, a $3.6 billion decrease in available stable funding, due to wholesale funding (down $19billion) offset by deposits (up $14 billion) and equity (up $1 billion). Required stable funding decreased by $23.9 billion.

Funding

The Group monitors the composition and stability of its funding so that it remains within the Group's funding risk appetite. This includes compliance with both the LCR and NSFR.

Customer deposits

Customer deposits increased by 232 basis points to 65.0% of the Group's total funding at 30 September 2020. Customer deposits increased by $11.7 billion over the half reflecting Government stimulus payments, a reduction in consumer spending and a higher household savings ratio, the early release of superannuation and an increase in Government and corporate cash balances.

For personal use only

Review of Group operations

Long term wholesale funding

Long term funding with a residual maturity greater than 12 months decreased 60 basis points or $7.2 billion to 15.7%. The reduction in long term funding reflects strong growth in customer deposits and a contraction in lending which have reduced the bank's wholesale funding needs. The Group did not access term wholesale funding markets in the Second Half following the introduction of the TFF. Funding from securitisation decreased by 16 basis points to 0.9% of total funding.

Short term wholesale funding

Wholesale funding with a residual maturity less than 12 months decreased by 174 basis points to 10.4%. High levels of liquidity from customer deposits and access to the TFF enabled the bank to reduce its outstanding short-term funding. The Group's short-term funding portfolio (including long term to short term scroll) of $88.5 billion had a weighted average maturity of 127 days and is more than covered by the $221.2 billion of unencumbered repo-eligible liquid assets and cash held by the Group.

Equity

Funding from equity increased by 18 basis points to 8.0% of total funding.

Liquidity coverage ratio

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
High Quality Liquid Assets (HQLA)[1]	131,664	121,017	89,883	9	46
Committed Liquidity Facility (CLF)[1]	52,000	52,000	54,000	-	(4)
Term Funding Facility (TFF)[1]	1,764	17,897	-	(90)	-
Total LCR liquid assets	**185,428**	**190,914**	**143,883**	**(3)**	**29**
Cash outflows in a modelled 30-day APRA defined stressed scenario					
Customer deposits	86,283	85,922	74,860	-	15
Wholesale funding	13,494	12,639	14,544	7	(7)
Other flows[2]	23,569	25,036	23,986	(6)	(2)
Total	**123,346**	**123,597**	**113,390**	**-**	**9**
LCR[3]	**150%**	**154%**	**127%**	**large**	**large**

Net stable funding ratio

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Available stable funding	624,097	627,676	606,774	(1)	3
Required stable funding	512,656	536,601	543,958	(4)	(6)
Net stable funding ratio	**122%**	**117%**	**112%**	**large**	**large**

1. Refer to Glossary for definition.
2. Other flows include credit and liquidity facilities, collateral outflows and inflows from customers.
3. Calculated on a spot basis.

For personal use only

Review of Group operations

Funding by residual maturity

	As at 30 Sept 2020		As at 31 March 2020		As at 30 Sept 2019	
	$m	Ratio %	$m	Ratio %	$m	Ratio %
Wholesale funding						
Less than 6 months	43,543	5.1	49,097	5.7	45,334	5.4
6 to 12 months	5,445	0.7	17,301	2.0	25,566	3.1
Long term to short term scroll[1]	39,489	4.6	38,539	4.4	30,255	3.6
Wholesale funding - residual maturity less than 12 months	**88,477**	**10.4**	**104,937**	**12.1**	**101,155**	**12.1**
Securitisation	8,000	0.9	9,523	1.1	8,190	1.0
Greater than 12 months	133,732	15.7	140,974	16.3	139,328	16.6
Wholesale funding - residual maturity greater than 12 months	**141,732**	**16.6**	**150,497**	**17.4**	**147,518**	**17.6**
Customer deposits	**555,453**	**65.0**	**543,801**	**62.7**	**524,516**	**62.5**
Equity[2]	**68,199**	**8.0**	**67,604**	**7.8**	**65,785**	**7.8**
Total funding	**853,861**	**100.0**	**866,839**	**100.0**	**838,974**	**100.0**

Deposits to net loans ratio

	As at 30 Sept 2020		As at 31 March 2020		As at 30 Sept 2019	
	$m	Ratio %	$m	Ratio %	$m	Ratio %
Customer deposits	555,453		543,801		524,516	
Net customer loans	693,059	80.1	719,678	75.6	714,770	73.4

Funding view of the balance sheet

$m	Total liquid assets	Customer deposits	Wholesale funding	Customer franchise	Market Inventory	Total
As at 30 September 2020						
Total assets	221,176	-	-	637,880	52,890	911,946
Total liabilities	-	(555,453)	(230,210)	-	(58,209)	(843,872)
Total equity	-	-	-	(68,199)	125	(68,074)
Total	**221,176**	**(555,453)**	**(230,210)**	**569,681**	**(5,194)**	**-**
Net loans[3]	**71,616**	**-**	**-**	**621,443**	**-**	**693,059**
As at 31 March 2020						
Total assets	199,949	-	-	673,994	93,719	967,662
Total liabilities	-	(543,801)	(255,434)	-	(100,781)	(900,016)
Total equity	-	-	-	(67,604)	(42)	(67,646)
Total	**199,949**	**(543,801)**	**(255,434)**	**606,390**	**(7,104)**	**-**
Net loans[3]	**63,189**	**-**	**-**	**656,489**	**-**	**719,678**
As at 30 September 2019						
Total assets	169,871	-	-	670,261	66,494	906,626
Total liabilities	-	(524,516)	(248,673)	-	(67,930)	(841,119)
Total equity	-	-	-	(65,785)	278	(65,507)
Total	**169,871**	**(524,516)**	**(248,673)**	**604,476**	**(1,158)**	**-**
Net loans[3]	**59,278**	**-**	**-**	**655,492**	**-**	**714,770**

1. Scroll represents wholesale funding with an original maturity greater than 12 months that now has a residual maturity less than 12 months.
2. Includes total share capital, share based payments reserves and retained profits.
3. Liquid assets in net loans include internally securitised assets that are eligible for repurchase agreements with the RBA/RBNZ.

For personal use only

Review of Group operations

2.5 Capital and dividends

	As At 30 Sept 2020	As At 31 March 2020	As At 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Level 2 Regulatory capital structure					
Common equity Tier 1 capital (CET1) after deductions ($m)	48,733	47,982	45,752	2	7
Risk weighted assets (RWA) ($m)	437,905	443,905	428,794	(1)	2
CET 1 capital ratio	**11.13%**	**10.81%**	**10.67%**	**32 bps**	**46 bps**
Additional Tier 1 capital ratio	2.10%	2.13%	2.17%	(3 bps)	(7 bps)
Tier 1 capital ratio	**13.23%**	**12.94%**	**12.84%**	**29 bps**	**39 bps**
Tier 2 capital ratio	3.15%	3.35%	2.79%	(20 bps)	36 bps
Total regulatory capital ratio	**16.38%**	**16.29%**	**15.63%**	**9 bps**	**75 bps**
APRA leverage ratio[1]	**5.78%**	**5.66%**	**5.68%**	**12 bps**	**10 bps**
Level 1 Regulatory capital structure					
CET 1 capital after deductions ($m)	49,453	48,482	46,380	2	7
Risk weighted assets ($m)	433,727	437,137	422,475	(1)	3
Level 1 CET1 capital ratio	11.40%	11.09%	10.98%	31 bps	42 bps

APRA announcements on capital

On 29 July 2020, APRA released further capital management guidance for ADIs[2]. This guidance included APRA's expectation that for 2020, ADIs will retain at least half of their earnings, actively use dividend reinvestment plans (DRPs) and/or other capital management initiatives to at least partially offset the diminution in capital from distributions and conduct regular stress testing to inform decision-making and demonstrate ongoing lending capacity. APRA also committed to ensuring that any rebuild of capital buffers, if required, will be conducted in a gradual manner. APRA noted that the implementation of the Basel III capital reforms, which will embed the 'unquestionably strong' level of capital in the framework, has been postponed to 1 January 2023.

Further details of APRA's regulatory changes are set out in the Significant Developments section of the 2020 Full Year Financial Results.

Capital management strategy

Westpac's approach to capital management seeks to ensure that it is adequately capitalised as an ADI. Westpac evaluates its approach to capital management through an Internal Capital Adequacy Assessment Process (ICAAP), the key features of which include:

- The development of a capital management strategy, including consideration of regulatory minimums, capital buffers and contingency plans;
- Consideration of both regulatory and economic capital requirements;
- A stress testing framework that challenges the capital measures, coverage and requirements including the impact of adverse economic scenarios; and
- Consideration of the perspectives of external stakeholders including rating agencies as well as equity and debt investors.

During the period of disruption caused by COVID-19, Westpac is operating with the following principles in relation to capital:

- Prioritise maintaining capital strength;
- Retain capital to absorb further downside on credit quality and acknowledge a high degree of uncertainty regarding the length and depth of this stress;
- Allow for capital flexibility to support lending to customers; and
- In line with APRA guidance, Westpac will seek to maintain a buffer above the regulatory minimum (currently at least 8% for D-SIBs including Westpac) and may utilise some of the "unquestionably strong" buffer.[3] At 30 September 2020 the CET1 buffer above the regulatory minimum of 8% is $13.7 billion.

These principles take into consideration:

- Current regulatory capital minimums and the capital conservation buffer (CCB), which together are the Total CET1 Requirement. In line with the above, the Total CET1 Requirement for Westpac is at least 8.0%, based upon an industry minimum CET1 requirement of 4.5% plus a capital buffer of at least 3.5% applicable to D-SIBs[4,5];
- Stress testing to calibrate an appropriate buffer against a downturn; and
- Quarterly volatility of capital ratios due to the half yearly cycle of ordinary dividend payments.

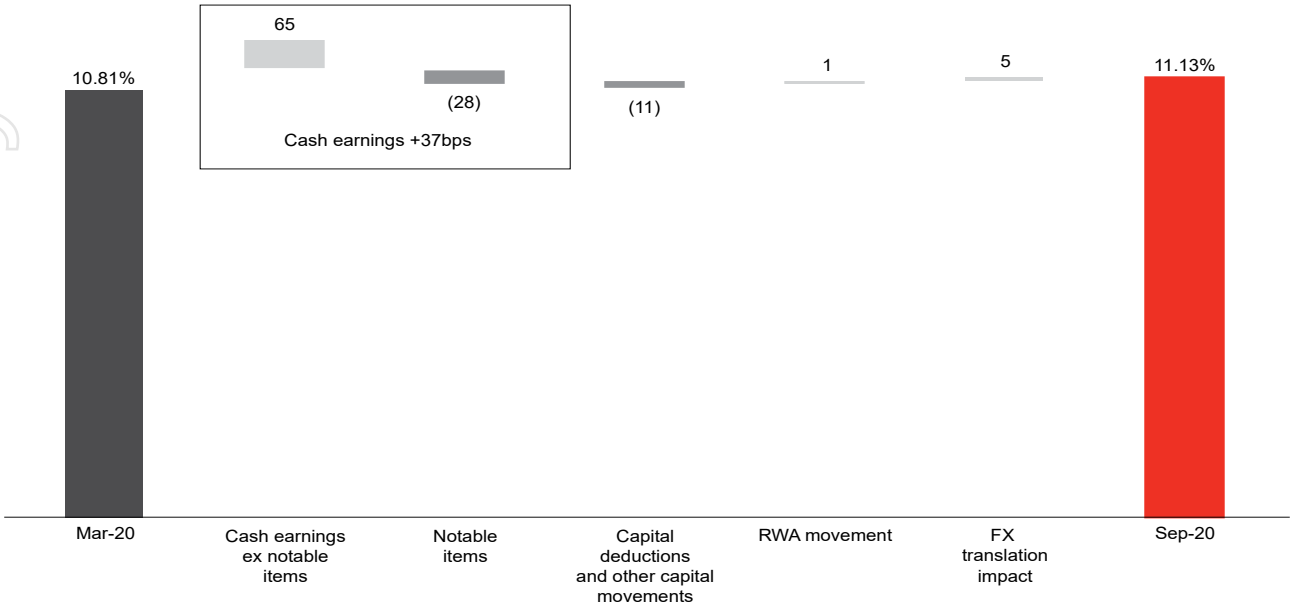
Westpac will revise its target capital levels once the medium to longer term impacts of COVID-19 are clearer and APRA's review of the capital adequacy framework is finalised.

1. Refer to Glossary for definition.
2. Letter to Authorised Deposit Taking Institutions – Capital Management, 29 July 2020.
3. APRA has set an "unquestionably strong" benchmark of a CET1 capital ratio of 10.5%.
4. Noting that APRA may apply higher CET1 requirements for an individual ADI.
5. If an ADI's CET1 ratio falls below the Total CET1 Requirement (at least 8%), they face restrictions on the distribution of earnings, such as dividends, distribution payments on AT1 capital instruments and discretionary staff bonuses.

For personal use only

Review of Group operations

CET1 capital ratio movement for Second Half 2020



Westpac's CET1 capital ratio was 11.13% at 30 September 2020, 32 basis points higher than 31 March 2020. This reflects cash earnings for the half taking into account notable items, a slight decline in RWAs and higher capital deductions.

Key movements in the CET1 capital ratio over the half were:

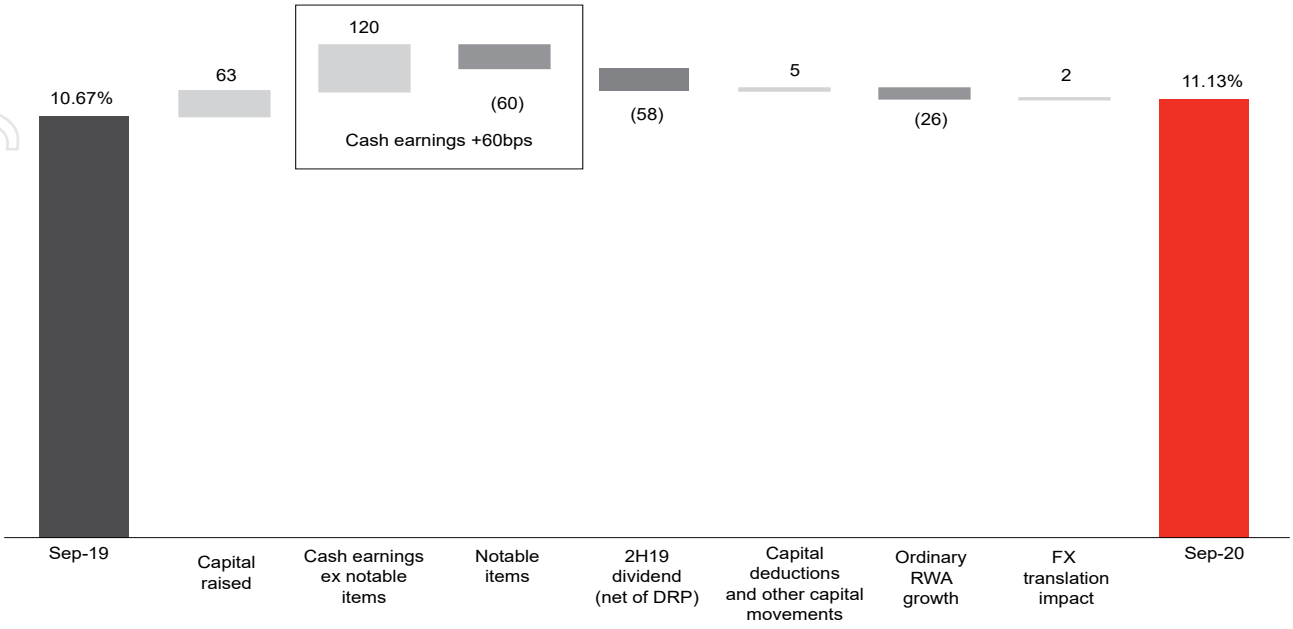
- Second Half 2020 cash earnings (37 basis point increase), which includes the impact of notable items;
- Capital deductions and other capital movements (11 basis point decrease). This mainly reflects movements in fair value on economic hedges recognised in net profit (13 basis point decrease), a higher deduction for deferred tax assets (8 basis point decrease) and a net increase in capital held in non-consolidated subsidiaries (3 basis point decrease). These were largely offset by a lower deduction for goodwill (12 basis point increase) and other movements (1 basis point increase);
- A decline in RWA (1 basis point increase), mainly driven by decreases in credit risk RWA which were partially offset by an increase in non-credit risk RWA; and
- Foreign currency impacts from the appreciation of the A$ against the NZ$ and US$ (5 basis point increase)[1].

1. Reflecting the net impact of movements in the foreign currency translation reserve and RWA.

For personal use only

Review of Group operations

CET1 capital ratio movement for Full Year 2020



Westpac's CET1 capital ratio was 11.13% at 30 September 2020, up 46 basis points from 30 September 2019. This reflects the institutional placement and share purchase plan (which together raised $2.8 billion of capital) and earnings for the Full Year, partially offset by payment of the final 2019 dividend and notable items.

Leverage ratio

The leverage ratio represents the amount of Tier 1 capital relative to exposure[1]. At 30 September 2020, Westpac's leverage ratio was 5.78%, up 12 basis points since 31 March 2020.

Internationally comparable capital ratios

The APRA Basel III capital adequacy requirements are more conservative than those of the Basel Committee on Banking Supervision (BCBS), leading to lower reported capital ratios when compared to international peers. APRA conducted a study in July 2015 outlining its methodology for measuring international comparable capital ratios. For details on the adjustments refer to Westpac's 2020 Full Year Investor Discussion Pack.

The table below calculates the Group's reported capital ratios consistent with this methodology.

%	As At 30 Sept 2020	As At 31 March 2020	As At 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Internationally comparable capital ratios					
CET1 capital ratio	16.50%	15.81%	15.85%	69 bps	65 bps
Tier 1 capital ratio	19.25%	18.55%	18.64%	70 bps	61 bps
Total regulatory capital ratio	23.19%	22.69%	22.08%	50 bps	111 bps
Leverage ratio	6.46%	6.28%	6.36%	18 bps	10 bps

1. As defined under Attachment D of APS110: Capital Adequacy.

For personal use only

Review of Group operations

Risk Weighted Assets (RWA)

$m	As At 30 Sept 2020	As At 31 March 2020	As At 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Credit risk:					
Corporate[1]	73,666	78,288	74,807	(6)	(2)
Business lending[2]	36,777	34,493	35,470	7	4
Sovereign[3]	2,376	2,192	2,068	8	15
Bank[4]	5,640	6,956	8,339	(19)	(32)
Residential mortgages	130,787	131,424	131,629	-	(1)
Australian credit cards	4,405	4,837	5,089	(9)	(13)
Other retail	10,174	11,594	12,395	(12)	(18)
Small business[5]	16,977	16,812	16,090	1	6
Specialised lending: Property and project finance[6]	57,019	56,004	55,262	2	3
Securitisation[7]	5,413	5,747	5,749	(6)	(6)
Standardised	8,853	9,506	9,653	(7)	(8)
Mark-to-market related credit risk	7,302	11,289	11,313	(35)	(35)
Total Credit risk	**359,389**	**369,142**	**367,864**	**(3)**	**(2)**
Market risk	8,761	8,396	9,350	4	(6)
Operational risk[8]	54,090	54,093	47,680	-	13
Interest rate in the banking book (IRRBB)	9,124	5,305	530	72	large
Other	6,541	6,969	3,370	(6)	94
Total risk weighted assets	**437,905**	**443,905**	**428,794**	**(1)**	**2**

Second Half 2020 - First Half 2020

Total RWA decreased $6.0 billion or 1.4% this half mainly driven by a reduction in credit risk RWA.

The $9.8 billion decline in credit risk RWA included:

- $3.1 billion from lower lending in corporate from reduced Trade Finance activity in Asia and a decrease in personal lending across credit cards and other retail;
- Foreign currency translation impacts which decreased RWA by $5.6 billion from the appreciation of the A$ against the NZ$ and US$;
- Modelling and methodology changes, which reduced RWA by $2.6 billion; and
- A decrease in credit RWA associated with derivative exposures (counterparty credit risk and mark-to-market related credit risk) of $3.9 billion mainly relating to currency and interest rate movements.

Partially offset by:

- A $5.4 billion increase from credit quality deterioration comprising:
  - Downgrades mainly across corporate, business and specialised lending which increased RWA by $3.4 billion; and
  - An overlay to the probability of default for corporate, business lending and specialised lending which led to a $2.0 billion increase in RWA and an associated increase in regulatory expected loss of $89 million. This overlay will be reviewed regularly as individual customers continue to be assessed and re-gradings are finalised.

Non-credit risk RWA increased by $3.8 billion from higher IRRBB (up $3.8 billion), an increase in market risk RWA (up $0.4 billion), partially offset by Other RWA down $0.4 billion.

During the half, APRA approved a new IRRBB model and the revised model has been implemented as at 30 September 2020. Westpac had included an IRRBB capital overlay of $500 million which has now been released with minimal net overall impact. The key driver for the increase this half is primarily credit spread risk from the higher liquids portfolio.

1. Corporate – typically includes exposure where the borrower has annual turnover greater than $50 million, and other business exposures not captured under the definitions of either Business lending or Small business.
2. Business lending – includes exposures not captured elsewhere where the borrower has annual turnover less than or equal to $50 million.
3. Sovereign – includes exposures to governments themselves and other non-commercial enterprises that are owned or controlled by them.
4. Bank – includes exposures to licensed banks and their owned or controlled subsidiaries, and overseas central banks.
5. Small business – program managed business lending exposures.
6. Specialised lending – property and project finance – includes exposures to entities created to finance and/or operates specific assets where, apart from the income received from the assets being financed, the borrower has little or no independent capacity to repay from other activities or assets.
7. Securitisation – exposures reflect Westpac's involvement in activities ranging from originator to investor and include the provision of securitisation services for clients wishing to access capital markets.
8. Operational risk – the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk but excluding strategic or reputational risk.

For personal use only

Review of Group operations

Full Year 2020 - Full year 2019

Total RWA increased $9.1 billion or 2.1% this year mainly driven by an increase in non-credit risk RWA of ($17.6 billion), partially offset by a decrease in credit risk RWA of $8.5 billion.

Non-credit risk over the year primarily related to Operational Risk capital overlay of $500 million imposed by APRA following AUSTRAC's Statement of Claim ($6.3 billion increase in RWA), an increase in IRRBB ($8.6 billion increase in RWA) and adoption of AASB 16 Leases methodology from 1 October 2019 in other assets risk calculation ($3.3 billion increase in RWA).

This increase was partially offset by a decline in credit RWA of $8.5 billion, which included:

- Lower lending primarily to corporates, which decreased RWA by $4.8 billion;
- Model and methodology changes which reduced RWA by $6.1 billion;
- Foreign currency translation impacts which decreased RWA by $1.5 billion from the appreciation of the A$ against the US$ and NZ$;
- A decrease in mark-to-market related credit risk and counterparty credit risk RWA of $2.9 billion; and
- Partially offset by a $6.8 billion increase in RWA from credit quality deterioration.

For personal use only

Review of Group operations

Capital adequacy

$m	As At 30 Sept 2020	As At 31 March 2020	As At 30 Sept 2019
Tier 1 capital			
CET1 capital			
Paid up ordinary capital	40,509	40,503	37,508
Treasury shares	(620)	(619)	(575)
Equity based remuneration	1,661	1,645	1,548
Foreign currency translation reserve	(309)	59	(199)
Accumulated other comprehensive income	126	(190)	(68)
Non-controlling interests - other	57	61	58
Retained earnings	26,533	25,985	27,188
Less retained earnings in life and general insurance, funds management and securitisation entities	(1,132)	(1,326)	(1,407)
Deferred fees	214	229	267
Total CET1 capital	**67,039**	**66,347**	**64,320**
Deductions from CET1 capital			
Goodwill (excluding funds management entities)	(8,532)	(8,673)	(8,648)
Deferred tax assets	(2,963)	(2,610)	(2,034)
Goodwill in life and general insurance, funds management and securitisation entities	(535)	(935)	(940)
Capitalised expenditure	(1,576)	(1,656)	(1,719)
Capitalised software	(2,137)	(2,029)	(2,019)
Investments in subsidiaries not consolidated for regulatory purposes	(1,941)	(1,633)	(1,540)
Regulatory expected loss in excess of eligible provisions	(40)	-	(1,106)
Defined benefit superannuation fund surplus	(71)	(80)	(73)
Equity investments	(492)	(327)	(425)
Regulatory adjustments to fair value positions	(18)	(407)	(63)
Other Tier 1 deductions	(1)	(15)	(1)
Total deductions from CET1 capital	**(18,306)**	**(18,365)**	**(18,568)**
Total CET1 capital after deductions	**48,733**	**47,982**	**45,752**
Additional Tier 1 capital			
Basel III complying instruments	9,206	9,473	9,299
Total Additional Tier 1 capital	**9,206**	**9,473**	**9,299**
Net Tier 1 regulatory capital	**57,939**	**57,455**	**55,051**
Tier 2 capital			
Basel III complying instruments	13,161	14,455	11,645
Basel III transitional instruments	494	567	519
Eligible general reserve for credit loss	397	79	62
Total Tier 2 capital	**14,052**	**15,101**	**12,226**
Deductions from Tier 2 capital			
Investments in subsidiaries not consolidated for regulatory purposes	(140)	(140)	(140)
Holdings of own and other financial institutions Tier 2 capital instruments	(121)	(102)	(115)
Total deductions from Tier 2 capital	**(261)**	**(242)**	**(255)**
Net Tier 2 regulatory capital	**13,791**	**14,859**	**11,971**
Total regulatory capital	**71,730**	**72,314**	**67,022**
Risk weighted assets	**437,905**	**443,905**	**428,794**
CET1 capital ratio	**11.13%**	**10.81%**	**10.67%**
Additional Tier 1 capital	2.10%	2.13%	2.17%
Tier 1 capital ratio	**13.23%**	**12.94%**	**12.84%**
Tier 2 capital	3.15%	3.35%	2.79%
Total regulatory capital ratio	**16.38%**	**16.29%**	**15.63%**

For personal use only

Review of Group operations

Dividends

Ordinary dividend (cents per share)	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Interim (fully franked)	-	-	-	-	94	(100)
Final (fully franked)	31	-	-	31	80	(61)
Total ordinary dividend	**31**	**-**	**-**	**31**	**174**	**(82)**
Payout ratio (reported)	101.65%	-	large	48.87%	88.83%	large
Payout ratio (cash earnings)	69.33%	-	large	42.93%	88.09%	large
Adjusted franking credit balance ($m)	3,448	2,881	20	3,448	1,558	121
Imputation credit (cents per share - NZ)	7	-	-	7.0	14.0	(50)

The Board has determined a final fully franked dividend of 31 cents per share, to be paid on 18 December 2020 to shareholders on the register at the record date of 12 November 2020[1]. The 2020 final dividend represents a Full Year payout ratio on a cash earnings basis of 42.93%. In addition to being fully franked, the dividend will also carry NZ$0.07 in New Zealand imputation credits that may be used by New Zealand tax residents.

The Board has determined to issue shares to satisfy the DRP for the 2020 final dividend and to apply a 1.5% discount to the market price used to determine the number of shares issued under the DRP. The market price used to determine the number of shares issued under the DRP will be set over the 15 trading days commencing 17 November 2020.

Westpac has also entered into an agreement to underwrite the DRP up to the full amount of the 2020 final dividend.

Capital deduction for regulatory expected credit loss

For capital adequacy purposes APRA requires the amount of regulatory expected credit losses in excess of eligible provisions to be deducted from CET1 capital. The table below shows the calculation of this capital deduction.

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019
Provisions associated with eligible portfolios			
Total provisions for expected credit losses (Section 4, Note 10)	6,163	5,791	3,924
plus provisions associated with partial write-offs	26	41	41
less ineligible provisions[2]	(118)	(129)	(89)
Total eligible provisions	**6,071**	**5,703**	**3,876**
Regulatory expected downturn loss	**5,801**	**5,540**	**4,982**
(Excess)/shortfall in eligible provisions compared to regulatory expected downturn loss	**(270)**	**(163)**	**1,106**
CET1 capital deduction for regulatory expected downturn loss in excess of eligible provisions[3]	**(40)**	**-**	**(1,106)**

1. Record date in New York is 10 November 2020.
2. Provisions associated with portfolios subject to the Basel standardised approach to credit risk are not eligible.
3. Regulatory expected loss is calculated for portfolios subject to the Basel advanced capital IRB approach to credit risk. The comparison between regulatory expected loss and eligible provisions is performed separately for defaulted and non-defaulted exposures.

For personal use only

Review of Group operations

2.6 Sustainability performance summary

Westpac's approach to sustainability

The Group's approach to operating sustainably is outlined in its Sustainability Strategy and is designed to anticipate, respond to and shape the most pressing emerging issues and opportunities that have the potential to materially impact customers, employees, suppliers, shareholders and communities.

As one of Australia's largest financial institutions, we recognise our role in helping to create positive social, economic and environmental impact.

Westpac is:

- a founding signatory to the United Nations Environment Programme Finance Initiative's Principles for Responsible Banking;
- a signatory to the Business Coalition Statement on Climate which highlights support for the Paris Agreement;
- a supporter of the United Nations Sustainable Development Goals (SDGs) and its agenda for action on improving the wellbeing of present and future generations; and
- guided by the United Nations Guiding Principles on Business and Human Rights.

Key developments against our 2020 Sustainability Strategy

Helping people make better financial decisions:

- Delivered a range of financial literacy programs reaching an estimated 1 million individuals, as well as businesses, not for-profit organisations and community groups through Westpac's Davidson Institute in Australia and the Managing Your Money program in New Zealand.

Helping people by being there when it matters most to them:

- Provided 176,000 consumer and 36,000 business relief packages in response to COVID-19;
- Helped customers experiencing financial hardship, issuing over 75,000 financial assistance packages;
- Donated over $1.4 million to community groups and charities, including Financial Counselling Australia, state-based volunteer fire services, Foundation for Rural and Regional Renewal (FRRR), The Salvation Army and Victorian Bushfire Appeal, as part of our Bushfire support; and
- Assisted over 24,000 customers, including those experiencing vulnerable circumstances such as domestic or family violence and financial abuse.

Helping people create a prosperous nation:

- Westpac Scholars Trust[1] awarded $3.9 million in educational scholarships to the next 64 Westpac Scholars, bringing the total cohort to 474;
- Westpac Foundation[2] job creation grants to social enterprises helped to create over 700 jobs[3] for vulnerable Australians;
- Increased lending to climate change solutions, taking total committed exposure to $10.1 billion, exceeding our 2020 target of $10 billion;
- Facilitated $4.8 billion in climate change solutions, exceeding our 2020 target of $3 billion;
- Maintained our share of renewable energy at 75% of our lending to the electricity sector;
- Remained the largest financier of greenfield renewable energy projects in Australia over the past three years[4];
- Updated our Position Statements and Action Plans on climate change and human rights; and
- Established the Safer Children, Safer Communities Roundtable of experts in human rights, child safety, online safety, and law enforcement, and developed a work program that focuses on our ambitions for impact and target areas, with associated funding principles which aims to support long lasting change for children and their communities, as one of the commitments in our Response Plan to the AUSTRAC proceedings.

A culture that is caring, inclusive and innovative:

- Reduced average time to resolution for complaints[5] to 6.5 days in Full Year 2020, from 9 days in Full Year 2019;
- Resolved 74% Australian Banking[6] complaints within five days in Full Year 2020, compared to 68% in Full Year 2019; and
- Hired 115 new Aboriginal or Torres Strait Islander employees and increased the regional footprint of our Aboriginal and Torres Strait Islander traineeship program.

1. Westpac Scholars Trust (ABN 35 600 251 071) is administered by Westpac Scholars Limited (ABN 72 168 847 041) as trustee for the Westpac Scholars Trust. Westpac Scholars Trust is a private charitable trust and neither the Trust nor the Trustee are part of Westpac Group. Westpac provides administrative support, skilled volunteering, and funding for operational costs of the Westpac Scholars Trust.
2. Westpac Foundation is administered by Westpac Community Limited (ABN 34 086 862 795) as trustee for Westpac Community Trust (ABN 53 265 036 982). The Westpac Community Trust is a Public Ancillary Fund, endorsed by the ATO as a Deductible Gift Recipient. None of Westpac Foundation, Westpac Community Trust Limited nor the Westpac Community Trust are part of Westpac Group. Westpac provides administrative support, skilled volunteering, donations and funding for operational costs of the Westpac Foundation.
3. Jobs created through the Westpac Foundation job creation grants to social enterprises are for the year ended 30 June 2020.
4. IJGlobal, September 2020.
5. Group Internal Dispute Resolution complaints excluding WIB.
6. Australian Banking includes Consumer Bank and Business Bank products, except wealth management and insurance.

For personal use only

Review of Group operations

Sustainability fundamentals:

- Maintained A+ rating for BT's sustainable investment strategy and governance through the UN Principles for Responsible Investment (PRI);
- Remained on track to achieve 100% of electricity supply from renewables by 2025;
- Sourced $19.1 million from diverse suppliers, including $5.9 million from Indigenous suppliers; and
- Contributed over $150 million to community investment excluding commercial sponsorships across the Group.

Further information

A summary of this information is available in Section 1 of Westpac's Annual Report and Continued sustainability commitment section of its Investor Discussion Pack.

Detailed disclosures can be found in the Group's 2020 Sustainability Performance Report.

For personal use only

Divisional results

3.0 Divisional results

Comparative divisional results have been restated. These changes have no impact on the overall Group's results or balance sheet. Refer Section 4, Note 2 for further detail.

Notable items

The table below shows the impact of notable items on the divisions by the relevant period. Notable items are discussed in Section 2.1.

$m	Consumer	Business	Westpac Institutional Bank	Westpac New Zealand (A$)	Specialist Businesses	Group Businesses	Group
Half Year Sept 2020							
Net interest income	-	(34)	-	(3)	-	-	(37)
Non-interest income	4	(3)	-	(4)	(305)	273	(35)
Operating expenses	(31)	(106)	-	1	(653)	(494)	(1,283)
Core earnings	**(27)**	**(143)**	**-**	**(6)**	**(958)**	**(221)**	**(1,355)**
Tax and NCI	8	43	-	2	138	(56)	135
Cash earnings	**(19)**	**(100)**	**-**	**(4)**	**(820)**	**(277)**	**(1,220)**
Half Year March 2020							
Net interest income	5	(107)	-	(4)	-	-	(106)
Non-interest income	-	5	-	(3)	(104)	(126)	(228)
Operating expenses	(33)	(24)	-	-	(41)	(1,158)	(1,256)
Core earnings	**(28)**	**(126)**	**-**	**(7)**	**(145)**	**(1,284)**	**(1,590)**
Tax and NCI	8	38	-	2	43	100	191
Cash earnings	**(20)**	**(88)**	**-**	**(5)**	**(102)**	**(1,184)**	**(1,399)**
Full Year 2020							
Net interest income	5	(141)	-	(7)	-	-	(143)
Non-interest income	4	2	-	(7)	(409)	147	(263)
Operating expenses	(64)	(130)	-	1	(694)	(1,652)	(2,539)
Core earnings	**(55)**	**(269)**	**-**	**(13)**	**(1,103)**	**(1,505)**	**(2,945)**
Tax and NCI	16	81	-	4	181	44	326
Cash earnings	**(39)**	**(188)**	**-**	**(9)**	**(922)**	**(1,461)**	**(2,619)**
Full Year 2019							
Net interest income	(85)	(246)	-	(13)	-	-	(344)
Non-interest income	(2)	(12)	-	34	(40)	(717)	(737)
Operating expenses	25	(57)	-	(15)	(30)	(384)	(461)
Core earnings	**(62)**	**(315)**	**-**	**6**	**(70)**	**(1,101)**	**(1,542)**
Tax and NCI	29	95	-	9	23	339	495
Cash earnings	**(33)**	**(220)**	**-**	**15**	**(47)**	**(762)**	**(1,047)**

For personal use only

Divisional results

3.1 Consumer

Consumer is responsible for sales and service of banking products, including mortgages, credit cards, personal loans, and savings and deposit products to consumer customers in Australia. Banking products are provided under the Westpac, St.George, BankSA, Bank of Melbourne, and RAMS brands. Consumer works with Business, WIB, and Specialist Businesses in the sales, service, and referral of certain financial services and products including general and life insurance, superannuation, platforms, auto lending and foreign exchange.

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net interest income	4,313	4,234	2	8,547	8,130	5
Non-interest income	247	326	(24)	573	695	(18)
Net operating income	**4,560**	**4,560**	**-**	**9,120**	**8,825**	**3**
Operating expenses	(2,141)	(2,035)	5	(4,176)	(3,794)	10
Core earnings	**2,419**	**2,525**	**(4)**	**4,944**	**5,031**	**(2)**
Impairment charges	(599)	(416)	44	(1,015)	(582)	74
Profit before income tax	**1,820**	**2,109**	**(14)**	**3,929**	**4,449**	**(12)**
Income tax expense and NCI	(546)	(637)	(14)	(1,183)	(1,333)	(11)
Cash earnings	**1,274**	**1,472**	**(13)**	**2,746**	**3,116**	**(12)**
Add back notable items	19	20	(5)	39	33	18
Cash earnings excluding notable items	**1,293**	**1,492**	**(13)**	**2,785**	**3,149**	**(12)**
Expense to income ratio	46.95%	44.63%	232 bps	45.79%	42.99%	280 bps
Net interest margin	2.41%	2.33%	8 bps	2.37%	2.22%	15 bps

$bn	As at 30 Sept 2020	As at 31 March 2020	% Mov't Sept 20 - Mar 20	As at 30 Sept 2020	As at 30 Sept 2019	% Mov't Sept 20 - Sept 19
Customer deposits						
Term deposits	47.5	50.0	(5)	47.5	55.9	(15)
Other	171.8	158.4	8	171.8	151.7	13
Total customer deposits	**219.3**	**208.4**	**5**	**219.3**	**207.6**	**6**
Net loans						
Mortgages	382.4	385.8	(1)	382.4	388.6	(2)
Other	9.3	11.4	(18)	9.3	12.1	(23)
Provisions	(1.9)	(1.6)	19	(1.9)	(1.4)	36
Total net loans	**389.8**	**395.6**	**(1)**	**389.8**	**399.3**	**(2)**
Deposit to loan ratio	**56.26%**	**52.68%**	**358 bps**	**56.26%**	**51.99%**	**large**
Total assets	398.3	404.3	(1)	398.3	407.0	(2)
TCE	460.4	464.2	(1)	460.4	469.3	(2)
Average interest earning assets[1]	358.2	363.6	(1)	360.9	365.9	(1)

Credit quality

%	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	As at 31 March 2019
Impairment charges to average loans annualised[2]	0.30%	0.21%	0.16%	0.14%
Mortgage 90+ day delinquencies	1.60%	0.94%	0.90%	0.84%
Other consumer loans 90+ day delinquencies	1.69%	1.96%	1.75%	1.67%
Total stressed exposures to TCE	1.38%	0.83%	0.79%	0.73%

1. Averages are based on a six month period for the halves and a twelve month period for the full year.
2. The presented ratios are based on a six month period.

For personal use only

Divisional results

Financial performance

Second Half 2020 – First Half 2020

Cash earnings of $1,274 million were $198 million or 13% lower than First Half 2020 from higher impairment charges, higher expenses and lower non-interest income. This was partly offset by an 8 basis point increase in net interest margin.

Net interest income up $79m, 2%	• Net loans decreased 1% (or $5.8 billion) over the half. Mortgage lending was $3.4 billion lower mostly from accelerated pay down. Other personal lending declined $2.1 billion (or 18%) from customers paying down this form of debt and lower spending; • Deposits increased 5% (or $10.9 billion), with growth in mortgage offset and at call balances partly offset by a decline in term deposits. The increase, along with a shift to at call funds, reflects consumer preference, lower spending and early releases of superannuation; and • Net interest margin was 8 basis points higher from mortgage repricing and lower funding costs (this benefit was partly offset by elevated retention pricing and lower spreads on new mortgages). Deposit spreads declined due to low interest rates.
Non-interest income down $79m, 24%	• Non-interest income was lower from the impact of COVID-19 restrictions on activity which has resulted in lower debit and credit card revenue including lower international travel spending.
Expenses up $106m, 5%	• Excluding the impact of notable items, expenses were up $108 million, or 5% from: – Costs associated with our COVID-19 response; – Increased restructuring costs; – Higher spend on risk and compliance programs; and – Increased costs associated with mortgage processing and bringing jobs onshore. • Cost increases from annual salary reviews and inflation were offset by productivity benefits from organisational redesign, the full period benefit from the 24 branches consolidated in First Half 2020, and further use of digital channels.
Impairment charges up $183m, 44%	• Mortgage 90+ day delinquencies of 1.60% were up 66 basis points since March 2020 (0.94%), mostly from an increase in hardship particularly for customers who were not eligible for the COVID-19 deferral package; and • Impairment charges were higher, driven by higher collectively assessed provisions related to increased mortgage delinquencies. The rise also included additional overlays and a transfer of existing overlays previously held centrally.

For personal use only

Divisional results

Financial performance

Full Year 2020 – Full Year 2019

Cash earnings of $2,746 million were $370 million or 12% lower than Full Year 2019 from higher impairment charges, higher expenses and lower non-interest income. This was partly offset by a 15 basis point increase in net interest margin.

Net interest income up $417m, 5%	• Net loans were 2% lower (or $9.5 billion) over the year. Mortgages decreased $6.2 billion (or 2%) with the decline mostly from accelerated pay down. Other personal lending was $2.8 billion (or 23%) lower as customers paid down debt and reduced spending; • Deposits increased 6% (or $11.7 billion), with most of the growth in the second half of the year from higher mortgage offset balances and increased at call deposits partly offset by a reduction in term deposits; and • Net interest margin was 15 basis points higher from mortgage repricing and lower funding costs (this benefit was partly offset by elevated retention pricing and lower spreads on new mortgages). Deposit spreads declined due to low interest rates.
Non-interest income down $122m, 18%	• Non-interest income was lower mostly from COVID-19 restrictions leading to reduced activity, lower credit and debit card revenue, while lower international travel contributed to reduced foreign currency conversion and foreign ATM fees.
Expenses up $382m, 10%	• Notable items increased expenses $89 million, excluding the impact of these items, expenses were $293 million higher, up 8% from: – Costs associated with our COVID-19 and bushfire response; – Increased restructuring costs; – Higher spend on risk and compliance programs; and – Increased costs associated with mortgage processing and bringing jobs onshore; • Increases from annual salary reviews, inflation, and the roll-out of the customer service hub, were offset by productivity benefits from organisational redesign, rationalisation of a further 24 branches in 2020 (on top of 57 branches closed in 2019), and further use of digital channels.
Impairment charges up $433m, 74%	• Mortgage 90+ day delinquencies of 1.60% were up 70 basis points since September 2019 (0.90%) predominately due to an increase in hardship, particularly for those customers who were not eligible for the COVID-19 deferral package. Other consumer 90+ day delinquencies of 1.69% were down 6 bps over the year; and • Impairment charges were higher, with collectively assessed provisions increasing significantly reflecting the rise in delinquencies and changes to the economic forecasts. Increased overlay provisions also contributed to the rise.

For personal use only

Divisional results

3.2 Business

Business provides business banking products and services for Australian SME and Commercial customers (including Agribusiness) generally up to $200 million in exposure. The division also serves Private Wealth. SME includes relationship managed and non-relationship managed SME customers. The division offers a wide range of banking products and services to support their borrowing, payments and transaction needs. In addition, specialist services are provided for cash flow finance, trade finance, equipment finance and property finance. Business operates under the Westpac, St.George, BankSA, and Bank of Melbourne brands. Business works with Consumer, WIB, and Specialist Businesses in the sale, referral and service of select financial services and risk management products (including corporate superannuation, foreign exchange and interest rate hedging).

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net interest income	2,019	2,144	(6)	4,163	4,456	(7)
Non-interest income	249	311	(20)	560	594	(6)
Net operating income	**2,268**	**2,455**	**(8)**	**4,723**	**5,050**	**(6)**
Operating expenses	(1,230)	(1,068)	15	(2,298)	(2,094)	10
Core earnings	**1,038**	**1,387**	**(25)**	**2,425**	**2,956**	**(18)**
Impairment charges	(674)	(697)	(3)	(1,371)	(172)	large
Profit before income tax	**364**	**690**	**(47)**	**1,054**	**2,784**	**(62)**
Income tax expense and NCI	(108)	(212)	(49)	(320)	(838)	(62)
Cash earnings	**256**	**478**	**(46)**	**734**	**1,946**	**(62)**
Add back notable items	100	88	14	188	220	(15)
Cash earnings excluding notable items	**356**	**566**	**(37)**	**922**	**2,166**	**(57)**
Expense to income ratio	54.23%	43.50%	large	48.66%	41.47%	large
Net interest margin	2.93%	3.05%	(12 bps)	2.99%	3.16%	(17 bps)

$bn	As at 30 Sept 2020	As at 31 March 2020	% Mov't Sept 20 - Mar 20	As at 30 Sept 2020	As at 30 Sept 2019	% Mov't Sept 20 - Sept 19
Customer deposits						
Term deposits	51.7	57.3	(10)	51.7	63.4	(18)
Other	100.2	84.9	18	100.2	79.2	27
Total customer deposits	**151.9**	**142.2**	**7**	**151.9**	**142.6**	**7**
Net loans						
Mortgages	58.5	59.9	(2)	58.5	60.8	(4)
Business	83.9	86.1	(3)	83.9	86.6	(3)
Other	0.5	0.7	(29)	0.5	0.7	(29)
Provisions	(2.2)	(1.7)	29	(2.2)	(1.2)	83
Total net loans	**140.7**	**145.0**	**(3)**	**140.7**	**146.9**	**(4)**
Deposit to loan ratio	**107.96%**	**98.07%**	**large**	**107.96%**	**97.07%**	**large**
Total assets	145.8	150.1	(3)	145.8	151.6	(4)
TCE	182.6	184.0	(1)	182.6	184.3	(1)
Average interest earning assets[1]	137.6	140.5	(2)	139.1	140.8	(1)

Credit quality

%	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	As at 31 March 2019
Impairment charges to average loans annualised[2]	0.93%	0.95%	0.20%	0.04%
Mortgage 90+ day delinquencies	1.72%	0.93%	0.84%	0.72%
Other consumer loans 90+ day delinquencies	1.46%	1.29%	1.38%	1.03%
Business: impaired exposures to TCE	1.08%	0.71%	0.63%	0.60%
Total stressed exposures to TCE	4.70%	3.07%	2.88%	2.49%

1. Averages are based on a six month period for the halves and a twelve month period for the full year.
2. The presented ratios are based on a six month period.

For personal use only

Divisional results

Financial performance

Second Half 2020 - First Half 2020

Cash earnings of $256 million were $222 million (or 46%) lower than First Half 2020. Notable items reduced cash earnings by $100 million in Second Half 2020 compared to $88 million in First Half 2020. A 12 basis point reduction in net interest margin and lower non-interest income also contributed to the decline in cash earnings.

Net interest income down $125m, 6%	• Net loans were 3% (or $4.3 billion) lower over the half, driven by a 2% (or $1.4 billion) reduction in mortgages (mostly investment) and a 3% (or $2.2 billion) reduction in business lending, with growth in agriculture and property exposures more than offset by declines across other industries; • Deposits were 7% (or $9.7 billion) higher with a 22% increase in transaction balances and a 14% increase in savings and online balances supported by government stimulus measures. This was partly offset by a 10% decline in term deposits as customers preferred to hold funds in at call accounts; and • Net interest margin was 12 basis points lower over the half (down 22 basis points excluding notable items). The lower margin was mostly from reduced deposit spreads due to low interest rates, along with interest rate reductions on certain business lending products as part of COVID-19 customer support measures. These impacts were partly offset by repricing of mortgages and the changing mix of deposits.
Non-interest income down $62m, 20%	• Notable items in Second Half 2020 of $3 million were $8 million higher than First Half 2020. Excluding this, non-interest income was down $54 million (or 18%), mostly due to lower markets related income and COVID-19 fee waivers (predominantly merchant service fees). Overdraft fees were also lower from lower utilisation.
Expenses up $162m, 15%	• Notable items in Second Half 2020 were $106 million up $82 million from First Half 2020, excluding these, expenses were $80 million (or 8%) higher; and • Most of the increase related to supporting COVID-19 activities, further spend on risk and compliance, and more bankers. This contributed to an 8% increase in FTE over the half.
Impairment charges down $23m, 3%	• The level of stressed exposures to TCE increased 163 basis points to 4.70%, mostly from an increase in watchlist and substandard in the Commercial portfolio; • We continued to increase collectively assessed provisions for higher expected credit loss, most of the increase was in the first half of the year and as a result the Second Half 2020 charge was significantly lower; and • The second half charge also included higher collectively assessed provisions from the re-rating and downgrade of customers, and from the transfer of overlay provisions which were previously held centrally.

For personal use only

Divisional results

Full Year 2020 – Full Year 2019

Cash earnings of $734 million were $1,212 million (or 62%) lower than Full Year 2019. Excluding notable items, cash earnings were $1,244 million (or 57%) lower mostly from an increase in impairment charges and a decline in net interest margin.

Net interest income down $293m, 7%	• Net loans were 4% (or $6.2 billion) lower over the year, driven by a 4% (or $2.3 billion) reduction in mortgages and a 3% (or $2.7 billion) reduction in business lending, with growth in agriculture more than offset by declines across other industries; • Deposits were 7% (or $9.3 billion) higher over the year with a 33% rise in transaction balances and 20% increase in savings and online balances supported by government stimulus packages. This was partially offset by an 18% decline in term deposits given a customer preference to retain funds in at call accounts; and • Net interest margin was 17 basis points lower than Full Year 2019 (down 25 basis points excluding notable items). The lower margin was mostly from reduced deposit spreads from low interest rates and interest rate reductions on business lending products as part of COVID-19 support measures. These reductions were partly offset by repricing and changes in deposit mix.
Non-interest income down $34m, 6%	• Notable items in Full Year 2020 were $14 million lower than Full Year 2019. Excluding this, non-interest income was down $48 million (or 8%) mostly due to lower markets income, lower business lending fees, and the impact of COVID-19 fee waivers. These impacts were partly offset by higher merchant fee income.
Expenses up $204m, 10%	• Notable items were $73 million higher than Full Year 2019. Excluding these items, expenses were up $131 million, (or 6%) due to higher spend relating to COVID-19 activities, increased spending on risk and compliance programs, and investment in bankers.
Impairment charges up $1,199m, large	• The level of stressed exposures increased 182 basis points to 4.70% mostly from an increase in watchlist and substandard within the Commercial portfolio; • Impairment charges were higher mostly from an increase in collectively assessed provisions due to COVID-19 impacts reflecting – Changes to the base case economics forecasts and increasing the weight applied to the downside economic scenario; – an increased overlay provision; and – an increase in stressed exposures; • Individually assessed provisions also increased $58 million, from a small number of large exposures.

For personal use only

Divisional results

3.3 Westpac Institutional Bank

Westpac Institutional Bank (WIB) delivers a broad range of financial products and services to corporate, institutional and government customers operating in, or with connections to, Australia and New Zealand. WIB operates through dedicated industry relationship and specialist product teams, with expert knowledge in financing, transactional banking, and financial and debt capital markets. Customers are supported throughout Australia and via branches and subsidiaries located in New Zealand, the US, UK and Asia. WIB works with all the Group's divisions in the provision of markets' related financial needs including foreign exchange and fixed interest solutions.

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net interest income	506	605	(16)	1,111	1,337	(17)
Non-interest income	626	556	13	1,182	1,195	(1)
Net operating income	**1,132**	**1,161**	**(2)**	**2,293**	**2,532**	**(9)**
Operating expenses	(697)	(619)	13	(1,316)	(1,220)	8
Core earnings	**435**	**542**	**(20)**	**977**	**1,312**	**(26)**
Impairment charges	(111)	(293)	(62)	(404)	(31)	large
Profit before income tax	**324**	**249**	**30**	**573**	**1,281**	**(55)**
Income tax expense and NCI	(139)	(102)	36	(241)	(356)	(32)
Cash earnings	**185**	**147**	**26**	**332**	**925**	**(64)**
Expense to income ratio	61.57%	53.32%	large	57.39%	48.18%	large
Net interest margin	1.23%	1.46%	(23 bps)	1.35%	1.59%	(24 bps)

$bn	As at 30 Sept 2020	As at 31 March 2020	% Mov't Sept 20 - Mar 20	As at 30 Sept 2020	As at 30 Sept 2019	% Mov't Sept 20 - Sept 19
Customer deposits	102.9	110.0	(6)	102.9	99.0	4
Net loans						
Loans	66.6	79.0	(16)	66.6	73.8	(10)
Provisions	(0.4)	(0.4)	-	(0.4)	(0.2)	100
Total net loans	**66.2**	**78.6**	**(16)**	**66.2**	**73.6**	**(10)**
Deposit to loan ratio	**155.44%**	**139.95%**	**large**	**155.44%**	**134.51%**	**large**
Total assets	75.5	109.4	(31)	75.5	95.0	(21)
TCE	168.7	172.7	(2)	168.7	172.6	(2)
Average interest earning assets[1]	82.1	82.9	(1)	82.5	84.2	(2)
Impairment charges to average loans annualised	0.31%	0.80%	(49 bps)	0.56%	0.04%	52 bps
Impaired exposures to TCE	0.27%	0.15%	12 bps	0.27%	0.06%	21 bps
Total stressed exposures to TCE	1.03%	1.09%	(6 bps)	1.03%	0.59%	44 bps

Revenue contribution

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Lending and deposit revenue	644	707	(9)	1,351	1,522	(11)
Markets, sales and fee income	356	389	(8)	745	817	(9)
Total customer revenue	**1,000**	**1,096**	**(9)**	**2,096**	**2,339**	**(10)**
Derivative valuation adjustments	16	(93)	large	(77)	(64)	20
Trading revenue	148	174	(15)	322	241	34
Other[2]	(32)	(16)	100	(48)	16	large
Total WIB revenue	**1,132**	**1,161**	**(2)**	**2,293**	**2,532**	**(9)**

1. Averages are based on a six month period for the halves and a twelve month period for the full year.
2. Includes capital benefit and the Bank Levy.

For personal use only

Divisional results

Financial performance

Second Half 2020 – First Half 2020

Cash earnings of $185 million were $38 million or 26% higher than First Half 2020 due to lower impairment charges and a higher contribution from derivative valuation adjustments. This was partly offset by a 23 basis point reduction to net interest margin from the impact of lower interest rates, and higher risk and compliance costs.

Net interest income down $99m, 16%	• Net loans decreased 16%, or $12.4 billion, (14%, or $11.1 billion excluding FX movements). Lower lending in Asia, in particular trade finance, was a key driver of the decrease, as we sought to preserve capital and reduced lower returning assets. Lending was also lower from a decline in utilisation following a short term increase late in the first half as customers sought to strengthen their working capital in response to COVID-19; • Deposits reduced 6%, or $7.1 billion, (5%, or $6.0 billion excluding the impact of FX movements), mostly from lower term deposits, both in Australia and offshore. This was partly offset by an increase in at call balances mostly from governments; and • Net interest margin was down 23 basis points, with the low interest rate environment reducing at call deposit spreads and earnings on capital. This was partly offset by improved lending and term deposit spreads from disciplined pricing.
Non-interest income up $70m, 13%	• $109 million movement in derivative valuation adjustments ($16 million benefit in Second Half 2020 compared to a $93 million charge in First Half 2020); and • Partly offset by lower non-customer Markets income across FX and commodities and a reduction in customer Markets income from lower FX sales.
Expenses up $78m, 13%	• Increase in costs related to financial crime, risk and compliance. FTE increased 9% during the half primarily to support these activities; • Increase in restructuring costs; and • Partly offset by productivity benefits and lower variable remuneration.
Impairment charges down $182m, 62%	• Over the half, impaired exposures to TCE increased 12 basis points to 0.27% whilst stressed exposures to TCE reduced 6 basis points to 1.03%; and • Impairment charges were lower in the half, from a reduction in collectively assessed provisions as First Half 2020 included a significant rise in collectively assessed provisions.

Full Year 2020 – Full Year 2019

Cash earnings of $332 million were $593 million or 64% lower than Full Year 2019, primarily driven by higher impairment charges (up $373 million) and a 26% decline in core earnings. Income was 9% lower mostly from the 24 basis points decrease in net interest margin. Expenses were higher from a rise in risk and compliance costs.

Net interest income down $226m, 17%	• Net loans decreased 10% (or $7.4 billion) primarily from a reduction in offshore lending, including lower trade finance in Asia; • Deposits increased 4% (or $3.9 billion) reflecting higher at call balances as customers increased liquidity in response to COVID-19 and from higher government balances. This was partly offset by lower term deposits and offshore deposits; and • Net interest margin was down 24 basis points, with lower interest rates reducing deposit spreads and earnings on capital. This was partly offset by more disciplined loan pricing and benefits from the change in deposit mix.
Non-interest income down $13m, 1%	• Higher charge on derivative valuation adjustments ($77 million charge in Full Year 2020 compared to $64 million charge in Full Year 2019); • Reduced syndication fees with Full Year 2019 including several large transactions; • A reduction in customer Markets income from lower fixed income and FX sales; partly offset by • Higher non-customer Markets income across fixed income and FX.
Expenses up $96m, 8%	• Higher risk and compliance related costs, including financial crime; • Increase in restructuring costs; and • Productivity savings of $36 million and lower variable remuneration more than offset increases from annual salary reviews and higher technology costs.
Impairment charges up $373m, large	• Stressed exposures to TCE of 1.03%, up 44 basis points compared to 30 September 2019 due to the downgrade of a number of facilities to stressed or impaired; and • Impairment charges were higher, reflecting COVID-19 impacts. These resulted from changes to the base case economics forecasts and increasing the weight applied to the downside economic scenario. Individually assessed provisions were also higher following the downgrade of a small number of facilities to impaired.

For personal use only

Divisional results

3.4 Westpac New Zealand

Westpac New Zealand provides banking, wealth and insurance products and services for consumer, business and institutional customers in New Zealand. Westpac conducts its New Zealand banking business through two banks: Westpac New Zealand Limited, which is incorporated in New Zealand, and Westpac Banking Corporation (New Zealand Branch), which is incorporated in Australia. Westpac New Zealand operates through a network of branches and ATMs in both the North and South Islands. Business and institutional customers are also served through relationship and specialist product teams. Banking products and services are provided under the Westpac brand while insurance and wealth products are provided under Westpac Life and BT brands, respectively. New Zealand maintains its own infrastructure, including technology, operations and treasury in accordance with regulatory requirements.

NZ$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net interest income	956	987	(3)	1,943	1,967	(1)
Non-interest income	164	175	(6)	339	448	(24)
Net operating income	**1,120**	**1,162**	**(4)**	**2,282**	**2,415**	**(6)**
Operating expenses	(518)	(541)	(4)	(1,059)	(993)	7
Core earnings	**602**	**621**	**(3)**	**1,223**	**1,422**	**(14)**
Impairment (charges)/benefits	(109)	(211)	(48)	(320)	10	large
Profit before income tax	**493**	**410**	**20**	**903**	**1,432**	**(37)**
Income tax expense and NCI	(139)	(115)	21	(254)	(390)	(35)
Cash earnings	**354**	**295**	**20**	**649**	**1,042**	**(38)**
Add back notable items	4	5	(20)	9	(16)	large
Cash earnings excluding notable items	**358**	**300**	**19**	**658**	**1,026**	**(36)**
Expense to income ratio	46.25%	46.56%	(31 bps)	46.41%	41.12%	large
Net interest margin	1.89%	2.06%	(17 bps)	1.97%	2.16%	(19 bps)

NZ$bn	As at 30 Sept 2020	As at 31 March 2020	% Mov't Sept 20 - Mar 20	As at 30 Sept 2020	As at 30 Sept 2019	% Mov't Sept 20 - Sept 19
Customer deposits						
Term deposits	31.0	32.8	(5)	31.0	33.5	(7)
Other	40.0	36.3	10	40.0	31.0	29
Total customer deposits	**71.0**	**69.1**	**3**	**71.0**	**64.5**	**10**
Net loans						
Mortgages	55.2	53.3	4	55.2	51.5	7
Business	31.9	32.5	(2)	31.9	31.1	3
Other	1.5	1.7	(12)	1.5	1.9	(21)
Provisions	(0.6)	(0.5)	20	(0.6)	(0.3)	100
Total net loans	**88.0**	**87.0**	**1**	**88.0**	**84.2**	**5**
Deposit to loan ratio	**80.68%**	**79.43%**	**125 bps**	**80.68%**	**76.60%**	**large**
Total assets	104.2	105.0	(1)	104.2	97.1	7
TCE	127.6	125.1	2	127.6	117.3	9
Third party liquid assets	12.8	14.4	(11)	12.8	10.3	24
Average interest earning assets[1]	101.2	95.8	6	98.5	91.1	8
Total funds	12.2	10.9	12	12.2	11.5	6

Credit quality

%	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	As at 31 March 2019
Impairment charges/(benefits) to average loans annualised[2]	0.25%	0.49%	(0.06%)	0.03%
Mortgage 90+ day delinquencies	0.52%	0.27%	0.13%	0.14%
Other consumer loans 90+ day delinquencies	2.09%	1.59%	0.82%	1.02%
Impaired exposures to TCE	0.16%	0.17%	0.08%	0.13%
Total stressed exposures to TCE	1.59%	1.64%	1.66%	1.57%

1. Averages are based on a six month period for the halves and a twelve month period for the full year.
2. The presented ratios are based on a six month period.

For personal use only

Divisional results

Financial performance (NZ$)

Second Half 2020 – First Half 2020

Cash earnings of $354 million were $59 million or 20% higher than First Half 2020 due to lower impairment charges and a 4% reduction in operating expenses. This was partly offset by a 17 basis point reduction in net interest margin from the impact of lower interest rates.

Net interest income down $31m, 3%	• Net loans increased 1%, or $1.0 billion, with growth in mortgages up $1.9 billion, partly offset by lower business lending (down $0.6 billion, or 2%), as Corporate and Institutional customers reduced their gearing to strengthen their balance sheets; • Deposits were up $1.9 billion with growth primarily from consumers. Term deposits were lower from a customer preference to retain funds in at call accounts; and • Net interest margin was down 17 basis points, with the low interest rate environment reducing deposit spreads. (The RBNZ reduced the official cash rate 75 basis points to 0.25% in March 2020). This was partly offset by improved lending spreads from repricing.
Non-interest income down $11m, 6%	• Non-interest income was lower mostly from the impact of COVID-19 restrictions on activity which reduced volume based fees. Fee waivers as part of COVID-19 customer support measures also contributed to the decline.
Expenses down $23m, 4%	• Most of the decline related to higher restructuring costs in First Half 2020; and • Timing of investment spend and productivity benefits were partly offset by costs related to supporting COVID-19 activities.
Impairment charges down $102m, 48%	• Stressed exposures to TCE decreased 5 basis points to 1.59% compared to March 2020; • Mortgage 90+ day delinquencies increased 25 basis points to 0.52% and other consumer 90+ day delinquencies increased 50 basis points to 2.09%, mostly from an increase in hardship; and • Impairment charges were lower, mostly from changes to the base case economics forecasts and increasing the weight applied to the downside economic scenario used in provision models. Individually assessed provisions were also lower due to a single large provision in First Half 2020.

For personal use only

Divisional results

Full Year 2020 – Full Year 2019

Cash earnings of $649 million were $393 million or 38% lower than Full Year 2019, primarily driven by higher impairment charges (up $330 million). Core earnings were 14% lower mostly from a 24% decline in non-interest income and a 7% increase in expenses.

Net interest income down $24m, 1%	• Net loans increased 5%, or $3.8 billion, primarily from mortgages which increased $3.7 billion, mostly in fixed rate loans. Business lending increased $0.8 billion, (up 3%). These gains were partly offset by a $0.4 billion decline in other personal lending, and higher impairment provision balance (up $0.3 billion); • Deposits were up $6.5 billion with growth across both consumer and business deposits. Term deposits were lower from customer preference to retain funds in at call accounts; and • Net interest margin was down 19 basis points, with the low interest rate environment reducing deposit spreads. This was partly offset by improved lending spreads from repricing and some mix impacts.
Non-interest income down $109m, 24%	• Non-interest income declined from: – Notable items, mostly from the gain on sale of PayMark in Full Year 2019: – Full period impact of fee simplification initiatives implemented in 2019, and lower income from card products; – COVID-19 restrictions which contributed to lower activity based fees, and fee waivers from customer support measures; and – Lower insurance income.
Expenses up $66m, 7%	• Excluding the impact of notable items ($17 million lower in 2020), expenses increased $83 million (or 8%). Mostly from: – Increased spending on risk and compliance programs (including BS11 outsourcing) and increased restructuring expenses; and – Costs to support COVID-19 activities, salary increases and other inflationary rises were offset by productivity benefits.
Impairment charge of $320m compared to an impairment benefit of $10m	• Stressed exposures to TCE decreased 7 basis points to 1.59% compared to September 2019; • During 2019, the methodology for reporting hardship was aligned to APRA's definition which has impacted delinquencies. These changes increased other consumer 90+ day delinquencies by 127 basis points and mortgage 90+ day delinquencies by 39 basis points. Excluding the impact of these changes, other consumer 90+ day delinquencies increased 42 basis points and mortgage 90+ day delinquencies increased 2 basis points; and • Impairment charges were higher, reflecting expected COVID-19 impacts. These included changes to the base case economics forecasts and increasing the weight applied to the downside economic scenario used in provision models. New individually assessed provisions for two large exposures also contributed to the increase.

For personal use only

Divisional results

3.4.1 Westpac New Zealand division performance (A$ Equivalent)

Results have been translated into Australian dollars (A$) at the average exchange rates for each reporting period, Second Half 2020: $1.0721 (First Half 2020: $1.0493, Full Year 2020: $1.0607, Full Year 2019: $1.0574). Unless otherwise stated, assets and liabilities have been translated at spot rates as at the end of the period, 30 September 2020: $1.0803 (31 March 2020: $1.0264; 30 September 2019: $1.0790).

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net interest income	892	940	(5)	1,832	1,860	(2)
Non-interest income	152	167	(9)	319	423	(25)
Net operating income	**1,044**	**1,107**	**(6)**	**2,151**	**2,283**	**(6)**
Operating expenses	(482)	(516)	(7)	(998)	(939)	6
Core earnings	**562**	**591**	**(5)**	**1,153**	**1,344**	**(14)**
Impairment (charges)/benefits	(102)	(200)	(49)	(302)	10	large
Profit before income tax	**460**	**391**	**18**	**851**	**1,354**	**(37)**
Income tax expense and NCI	(129)	(110)	17	(239)	(369)	(35)
Cash earnings	**331**	**281**	**18**	**612**	**985**	**(38)**
Add back notable items	4	5	(20)	9	(15)	large
Cash earnings excluding notable items	**335**	**286**	**17**	**621**	**970**	**(36)**
Expense to income ratio[1]	46.25%	46.56%	(31 bps)	46.41%	41.12%	large
Net interest margin[1]	1.89%	2.06%	(17 bps)	1.97%	2.16%	(19 bps)

$bn	As at 30 Sept 2020	As at 31 March 2020	% Mov't Sept 20 - Mar 20	As at 30 Sept 2020	As at 30 Sept 2019	% Mov't Sept 20 - Sept 19
Customer deposits	65.7	67.3	(2)	65.7	59.7	10
Net loans	81.4	84.8	(4)	81.4	78.0	4
Deposit to loan ratio[1]	80.68%	79.43%	125 bps	80.68%	76.60%	large
Total assets	96.4	102.3	(6)	96.4	90.0	7
TCE	118.1	121.9	(3)	118.1	108.7	9
Third party liquid assets	11.9	14.0	(15)	11.9	9.6	24
Average interest earning assets[2]	94.5	91.3	4	92.9	86.2	8
Total funds	11.3	10.6	7	11.3	10.7	6

1. Ratios calculated using NZ$.
2. Averages are based on a six month period for the halves and a twelve month period for the full year, and are converted at applicable average rates.

For personal use only

Divisional results

3.5 Specialist Businesses

Specialist Businesses provides automobile finance, Australian life, general and lenders mortgage insurance, investment products and services (including margin lending and equities broking), superannuation and retirement products as well as wealth administration platforms. It also manages Westpac Pacific which provides a full range of banking services in Fiji and Papua New Guinea. The division operates under the Westpac, St.George, BankSA, Bank of Melbourne, and BT brands. Specialist Businesses works with Consumer, Business and WIB in the provision of select financial services and products.

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net interest income	247	287	(14)	534	555	(4)
Non-interest income	334	428	(22)	762	1,412	(46)
Net operating income	**581**	**715**	**(19)**	**1,296**	**1,967**	**(34)**
Operating expenses	(1,128)	(420)	169	(1,548)	(847)	83
Core earnings	**(547)**	**295**	**large**	**(252)**	**1,120**	**large**
Impairment charges	(95)	(160)	(41)	(255)	(111)	130
Profit before income tax	**(642)**	**135**	**large**	**(507)**	**1,009**	**large**
Income tax expense and NCI	43	(42)	large	1	(297)	large
Cash earnings	**(599)**	**93**	**large**	**(506)**	**712**	**large**
Add back notable items	820	102	large	922	47	large
Cash earnings excluding notable items	**221**	**195**	**13**	**416**	**759**	**(45)**
Expense to income ratio	194.15%	58.74%	large	119.44%	43.06%	large

$bn	As at 30 Sept 2020	As at 31 March 2020	% Mov't Sept 20 - Mar 20	As at 30 Sept 2020	As at 30 Sept 2019	% Mov't Sept 20 - Sept 19
Deposits	9.3	9.6	(3)	9.3	9.3	-
Net loans						
Loans	15.4	16.7	(8)	15.4	17.5	(12)
Provisions	(0.5)	(0.4)	25	(0.5)	(0.3)	67
Total net loans	**14.9**	**16.3**	**(9)**	**14.9**	**17.2**	**(13)**
Deposit to loan ratio	62.42%	58.90%	352 bps	62.42%	54.07%	large
Total funds	193.0	179.1	8	193.0	207.2	(7)
TCE	19.9	20.6	(3)	19.9	21.9	(9)
Average funds[1]	191.1	203.8	(6)	197.5	196.3	1

Cash earnings excluding notable items

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Banking	34	34	-	68	166	(59)
Insurance	149	32	large	181	261	(31)
Superannuation, platforms and investments	38	129	(71)	167	332	(50)
Total cash earnings (ex notable items)	**221**	**195**	**13**	**416**	**759**	**(45)**

1. Averages are based on a six month period for the halves and a twelve month period for the full year

For personal use only

Divisional results

Financial performance

Second Half 2020 - First Half 2020

Cash earnings were a loss of $599 million compared to a profit of $93 million in First Half 2020. During Second Half 2020 the business incurred $820 million (after tax) of notable items, compared to $102 million (after tax) in First Half 2020. Excluding notable items, cash earnings for Second Half 2020 was $221 million, $26 million higher than First Half 2020.

Net interest income down $40m, 14%	• Net loans decreased 9% (or $1.4 billion) on First Half 2020, mostly in Auto Loans, reflecting subdued activity and lower new car sales. Margin lending and lending in Westpac Pacific were also lower; • Deposits decreased 3% (or $0.3 billion); and • Net interest margin was down 25 basis points from reduced deposit spreads and lower earnings on capital from low interest rates, and interest rate reductions on certain products as part of COVID-19 customer support measures.
Non-interest income down $94m, 22%	• Notable items were $201 million higher in Second Half 2020. Excluding this, non-interest income increased $107 million (or 20%); • Superannuation, Platforms and Insurance (SPI) contribution was down $19 million from: – Margin compression from platform and superannuation pricing changes, product migrations to lower margin super products and impacts of regulation (including Protecting Your Super); – Lower revenue from lower interest rates on managed cash balances; and – Lower average fund balances from market volatility over the half, and early release of superannuation. • Insurance income was $135 million higher over the half given materially lower general insurance claims mostly from a $116 million reduction in claims for bushfires and severe weather events; and • Lower banking fees also contributed to the decline.
Expenses up $708m, 169%	• Notable items increased $612 million in the half. Excluding these, expenses were $96 million (or 25%) higher. Most of the increase in costs related to supporting COVID-19 activities and continued spend on risk and compliance.
Impairment charges down $65m, 41%	• The level of stressed exposures to TCE increased 438 basis points to 8.56%, mostly from an increase in watchlist exposures in Westpac Pacific; and • We continued to increase collectively assessed provisions to reflect higher expected credit losses from AASB 9 provision models, however, the provisions required to be raised in Second Half 2020 were lower than First Half 2020.

For personal use only

Divisional results

Full Year 2020 – Full Year 2019

Cash earnings were a loss of $506 million compared to a profit of $712 million in Full Year 2019. During Full Year 2020 the business incurred $922 million (after tax) of notable items, compared to $47 million (after tax) in Full Year 2019. Excluding the impact of notable items, cash earnings for Full Year 2020 were $416 million, $343 million lower than Full Year 2019.

Net interest income down $21m, 4%	• Net loans decreased 13% (or $2.3 billion), mostly in Auto Loans, reflecting subdued activity and lower new car sales; • Deposits were unchanged with the decline in term deposits offset by an increase in at call accounts; and • Net interest margin was up 11 basis points with the benefit of lower funding costs partly offset by reduced deposit spreads and lower earnings on capital from low interest rates, and interest rate reductions from customer support measures.
Non-interest income down $650m, 46%	• The increase in notable items reduced non-interest income $369 million during the year. Excluding these, non-interest income decreased $281 million (or 19%); • SPI contribution was down $143 million from: – Margin compression from platform and superannuation pricing changes, product migrations to lower margin super products and impacts of regulation (including Protecting Your Super); and – Lower platform revenue from lower interest rates on managed cash balances. • Insurance contribution was down $140 million mostly from: – General insurance claims increased $108 million primarily from bushfires and major weather events (including NSW/QLD storms and floods). Partly offset by an increase in premiums; – Life insurance income was $10 million lower mostly from COVID-19 customer policy support measures. Lower premiums were largely offset by a lower claims; and – LMI income was also lower, mostly from higher claims.
Expenses up $701m, 83%	• Notable items in Full Year 2020 were $664 million higher than Full Year 2019. Excluding these items, expenses were $37 million higher. Most of the increase related to supporting COVID-19 activities, continued spend on risk and compliance, and CPI increases.
Impairment charges up $144m, 130%	• The level of stressed exposures to TCE increased 508 bps to 8.56%, mostly from an increase in watchlist exposures in Westpac Pacific; and • Impairment charges were higher, mostly reflecting COVID-19 impacts. These were from changes to the base case economics forecasts and increasing the weight applied to the downside economic scenario. Higher stress and delinquencies also led to increased overlay provisions. Lower recoveries in Full Year 2020 also contributed to the increase.

For personal use only

Divisional results

Insurance key metrics

	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Life Insurance in-force premiums ($m)						
Balance as at beginning of period	1,208	1,212	-	1,212	1,277	(5)
Sales / New Business	67	67	-	134	88	52
Lapses	(322)	(71)	large	(393)	(153)	157
Balance as at end of period[1]	**953**	**1,208**	**(21)**	**953**	**1,212**	**(21)**
Claims ratios[2] for Insurance Business (%)						
Life insurance	48	54	large	51	51	(76 bps)
General insurance	58	107	large	82	62	large
Lenders mortgage insurance	67	15	large	40	20	large
Gross written premiums ($m)						
General insurance gross written premium ($m)	282	273	3	555	538	3
Lenders mortgage insurance gross written premium[3]	91	89	2	180	160	13

Superannuation, Platforms & Investments

$bn	As at 30 Sept 2020	Inflows	Outflows	Net Flows	Other Mov't[1]	As at 30 Sept 2019	% Mov't Sept 20 - Sept 19	As at 31 March 2020	% Mov't Sept 20 - Mar 20
Superannuation	38.2	3.9	(5.7)	(1.8)	(0.6)	40.6	(6)	35.3	8
Platforms	113.8	26.5	(28.3)	(1.8)	(7.4)	123.0	(7)	105.0	8
Packaged funds	41.0	9.5	(8.2)	1.3	(3.9)	43.6	(6)	38.8	6
Total funds	**193.0**	**39.9**	**(42.2)**	**(2.3)**	**(11.9)**	**207.2**	**(7)**	**179.1**	**8**

Market share in key Australian wealth products are displayed below.

Current Australian Market Share	Market Share	Rank
Platforms (includes Wrap and Corporate Super)	18%	1
Retail (excludes Cash)	17%	1
Corporate Super	14%	3

1. The life insurance in-force premium is comprised of:
   Retail as at 30 September 2020 of $942 million (as at 31 March 2020: $949 million, as at 30 September 2019: $960 million); and Group Life Insurance as at 30 September 2020 of $11 million (as at 31 March 2020: $259 million, as at 30 September 2019: $252 million).
2. Claims ratios are claims over earned premium plus reinsurance rebate. The lenders mortgage insurance claims ratios have been calculated to include exchange commission.
3. LMI gross written premium includes loans >90% LVR reinsured with Arch Reinsurance Limited. Second Half 2020 gross written premiums include $61 million (First Half 2020: $63 million, Full Year 2020: $124 million, Full Year 2019: $108 million).

For personal use only

Divisional results

3.6 Group Businesses

Group Businesses include:

- Treasury, which is responsible for the management of the Group's balance sheet including wholesale funding, capital and the management of liquidity. Treasury also manages the interest rate risk and foreign exchange risks inherent in the balance sheet, including managing the mismatch between Group assets and liabilities. Treasury's earnings are primarily sourced from managing the Group's balance sheet and interest rate risk, (excluding Westpac New Zealand) within set risk limits;
- Group Technology[1], which is responsible for technology strategy and architecture, infrastructure and operations, applications development and business integration in Australia; and
- Core Support[2], which comprises Group support functions, including Australian banking operations, property services, strategy, finance, risk, financial crime, compliance and conduct, compliance, legal, human resources, and customer and corporate relations.

Group Businesses also includes earnings on capital not allocated to divisions, certain intra-group transactions that facilitate the presentation of the performance of the Group's divisions, gains/losses from most asset sales, earnings and costs associated with the Group's Fintech investments, costs associated with customer remediation for the Advice business[3], and certain other head office items such as centrally raised provisions.

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net interest income	443	456	(3)	899	615	46
Non-interest income	257	(113)	large	144	(617)	large
Net operating income	**700**	**343**	**104**	**1,043**	**(2)**	**large**
Operating expenses	(862)	(1,502)	(43)	(2,364)	(1,137)	108
Core earnings	**(162)**	**(1,159)**	**(86)**	**(1,321)**	**(1,139)**	**16**
Impairment (charges)/benefits	641	(472)	large	169	92	84
Profit/(loss) before income tax	**479**	**(1,631)**	**large**	**(1,152)**	**(1,047)**	**10**
Income tax (expense)/benefit and NCI	(311)	153	large	(158)	212	large
Cash earnings	**168**	**(1,478)**	**large**	**(1,310)**	**(835)**	**57**
Add back notable items						
Costs associated with AUSTRAC proceedings including a provision for a penalty	415	1,027	(60)	1,442	-	-
Estimated customer refunds, payments, associated costs and litigation	(138)	157	large	19	590	(97)
Wealth restructuring	-	-	-	-	172	(100)
Cash earnings excluding notable items	**445**	**(294)**	**large**	**151**	**(73)**	**large**

Treasury

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net interest income	458	429	7	887	512	73
Non-interest income	15	(1)	large	14	5	180
Net operating income	**473**	**428**	**11**	**901**	**517**	**74**
Cash earnings	**301**	**273**	**10**	**574**	**315**	**82**

Treasury Value at Risk (VaR)[4]

$m	Average	High	Low
Half Year September 2020	219.4	231.1	173.1
Half Year March 2020	46.3	176.7	33.7
Half Year September 2019	35.1	41.1	28.6

1. Group Technology costs are fully allocated to other divisions in the Group.
2. Core Support costs are partially allocated to other divisions, while Group Head Office costs are retained in Group Businesses.
3. In March 2019, Westpac announced that it was exiting the provision of personal financial advice.
4. VaR includes trading book and banking book exposures. The banking book component includes interest rate risk, credit spread risk in liquid assets and other basis risks as used for internal management purposes.

For personal use only

Divisional results

Financial performance

Second Half 2020 – First Half 2020

Group Businesses cash earnings were $168 million, $1,646 million higher than First Half 2020. Excluding notable items, cash earnings were $445 million, an increase of $739 million.

Net operating income up $357m, 104%	• Revaluation gains from our investment in Zip Co Limited ($303 million); and • Provisions for estimated customer refunds and payments which were $30 million in Second Half 2020, compared to $126 million in First Half 2020.
Expenses down $640m, 43%	• Provision for a penalty from AUSTRAC and the associated costs of $420 million ($638 million lower than First Half 2020); and • Provisions for estimated customer refunds and payments, associated costs and litigation which were $68 million in Second Half 2020 compared to $100 million in First Half 2020.
Impairments charges down $1,113m, large	• The movement of $1,113 million was mainly due to the reallocation of overlays held centrally in First Half 2020 to the operating divisions and centrally held overlays relating to drought and bushfires no longer required.

Full Year 2020 – Full Year 2019

Group Businesses Full Year 2020 cash earnings loss of $1,310 million was $475 million worse than Full Year 2019. Excluding notable items, cash earnings were $151 million, an increase of $224 million.

Net operating income up $1,045m, large	• Provisions for estimated customer refunds and payments which were $156 million in Full Year 2020, compared to $759 million in Full Year 2019; • Revaluation gains from our investment in Zip Co Limited ($303 million); and • Higher Treasury revenue due to management of interest rate risk ($384 million).
Expenses up $1,227m, 108%	• Higher costs due to a provision for a penalty from AUSTRAC and the associated costs ($1,478 million), partly offset by; • Lower costs from the exit of the Advice business ($241 million).
Impairments charges down $77m, 84%	• The movement of $77 million was mainly due to centrally held overlays relating to drought and bushfires no longer required.

For personal use only

Table of contents

4.0	2020 Full Year Financial Report		
4.1	Significant developments		70
4.2	Consolidated income statement		78
4.3	Consolidated statement of comprehensive income		79
4.4	Consolidated balance sheet		80
4.5	Consolidated statement of changes in equity		81
4.6	Consolidated cash flow statement		83
4.7	Notes to the consolidated financial statements		84
	Note 1	Financial statements preparation	84
	Note 2	Segment reporting	84
	Note 3	Net interest income	88
	Note 4	Non-interest income	89
	Note 5	Operating expenses	90
	Note 6	Income tax	91
	Note 7	Earnings per share	91
	Note 8	Average balance sheet and interest rates	92
	Note 9	Loans	93
	Note 10	Provisions for expected credit losses	93
	Note 11	Credit quality	98
	Note 12	Deposits and other borrowings	100
	Note 13	Fair values of financial assets and liabilities	101
	Note 14	Provisions, contingent liabilities, contingent assets and credit commitments	106
	Note 15	Shareholders' equity	111
	Note 16	Notes to the consolidated cash flow statement	113
	Note 17	Subsequent events	114
4.8	Statement in relation to the audit of the financial statements		115

For personal use only

Significant developments

4.1 Significant developments

COVID-19 impacts on Westpac

COVID-19 has had, and continues to have, a significant and adverse impact on the Australian economy, the banking sector, our customers, counterparties and third party suppliers, as well as our operations.

In response to the COVID-19 pandemic, the Australian government has taken a number of actions to help reduce and mitigate the economic impact of the pandemic, including in relation to JobKeeper and JobSeeker payments. The Australian, State and Territory governments have also implemented a range of material restrictions on businesses, venues, travel, movement and gatherings of people. There have also been similar restrictions put in place in other jurisdictions in which the Group operates. Many of these new measures have adversely impacted Westpac.

Westpac's business activities and operations have been, and will likely in the future be, disrupted by the COVID-19 pandemic. For example, the COVID-19 pandemic has resulted in Westpac closing workplaces and suspending the provision of services through certain channels. The COVID-19 pandemic has also disrupted, and will continue to disrupt, numerous industries and global supply chains.

Banks continue to play an important role in supporting customers, continuing to lend to keep credit flowing and supporting the circulation of funds in the economy. Westpac has provided support to certain customers impacted by the COVID-19 pandemic by implementing a range of initiatives, such as lowering interest rates on certain products, waiving certain fees, providing special loans to support customers to manage their cash flow and granting deferrals of mortgage and business loan repayments. These initiatives, and any support that governments or regulators may in the future require banks to provide to customers impacted by the COVID-19 pandemic, may have a negative impact on the Group's financial performance and may see the Group assume greater risk than it would have under ordinary circumstances.

Both APRA and ASIC have supported the provision of credit to customers in these circumstances and remain closely engaged to understand the impact of these measures on our customers, capital, credit risk profile and liquidity. On 1 September 2020, Westpac submitted a comprehensive plan to APRA and ASIC detailing the existing and planned processes in place to ensure appropriate ongoing borrower review, customer engagement, capabilities, resourcing and oversight across the borrower assessment process for COVID-19 impacted customers. Westpac is expected to identify, address and report to ASIC and APRA any material issues that arise in the implementation of these plans.

The COVID-19 pandemic has also led to increased regulatory focus in certain areas, including operational resilience, technology, cyber security, capital management and stress testing. Westpac continues to manage these risks.

In March 2020, the RBA established a Term Funding Facility (TFF) to lower funding costs for the entire banking system so that the cost of credit to households and businesses is low, and to provide an incentive for lenders to support credit to businesses. The TFF provides Westpac access to at least $29.8 billion of funds through three year repurchase transactions at a fixed interest rate of 25 basis points. For further information on the TFF see 'Funding and liquidity risk management' in the Review of Group Operations section.

Further information on the actual and potential impacts of COVID-19 and the Group's response are set out in the 'Strategic Report' and 'Risk Factors' sections in the 2020 Westpac Group Annual Report.

Westpac significant developments

Leadership changes, reset of strategy and launch of Lines of Business operating model

Since November 2019, there have been significant changes to the Westpac Board and Group Executives. Further information is set out in Section 10 of the Directors' Report in the 2020 Westpac Group Annual Report.

In addition, Westpac has adopted a new purpose, helping Australians and New Zealanders succeed, and reset its strategy, which is focused on concentrating on banking in our core markets of Australia and New Zealand to support consumer, business, commercial and institutional customers. Further information is set out in the Strategic Report section in the 2020 Westpac Group Annual Report.

Westpac has also launched its Lines of Business operating model to clarify responsibility and accountability for end-to-end performance. Further information is set out in the Strategic Report section in the 2020 Westpac Group Annual Report.

AUSTRAC civil proceedings

On 20 November 2019, AUSTRAC commenced civil proceedings in the Federal Court of Australia against Westpac in relation to alleged contraventions of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) (AML/CTF Act). These proceedings related to non-reporting of a large number of International Funds Transfer Instructions (IFTIs) and a failure to include in a number of IFTIs required information about the payer, failings in relation to record keeping and the passing on of certain data required in IFTIs, failure to comply with correspondent banking obligations, AML/CTF Program failures and contraventions of ongoing customer due diligence obligations. AUSTRAC alleged over 23 million contraventions of the AML/CTF Act.

On 24 September 2020, Westpac announced that it had reached an agreement with AUSTRAC to resolve the proceedings, subject to Court approval. Under the agreement, the parties agreed to file with the Court a Statement of Agreed Facts and Admissions (SAFA), and to recommend to the Court that Westpac pay a civil penalty of $1.3 billion in relation to in excess of 23 million admitted contraventions of the AML/CTF Act. Westpac also agreed to pay AUSTRAC's legal costs of $3.75 million. In light of the above developments, Westpac has increased the

For personal use only

Significant developments

provision in respect of the penalty from $900 million to $1.3 billion. The settlement was approved by the Court on 21 October 2020. Further information on the provision is set out in Note 14.

As part of the SAFA, Westpac admitted to additional contraventions of the AML/CTF Act to those in its Defence of May 2020 and to the new allegations in the Amended Statement of Claim that AUSTRAC filed with the Court on 24 September 2020. Those additional admitted contraventions relate to the reporting of 76,144 IFTIs that did not contain the required information about the payer, two additional failures to comply with correspondent banking due diligence obligations, a failure to conduct appropriate ongoing customer due diligence in relation to a number of additional customers, and aspects of Part A of Westpac's AML/CTF Program not fully complying with the requirements under the AML/CTF Act and the AML/CTF Rules.

AUSTRAC response plan and external reviews

Since the commencement of the AUSTRAC proceedings, Westpac has made significant progress in its AUSTRAC response plan. Further information on the AUSTRAC response plan is set out in the Strategic Report section in the 2020 Westpac Group Annual Report.

Westpac commissioned a number of external reviews in order to identify the causes of the compliance failings related to the AUSTRAC proceedings, determine appropriate consequences, and to identify key lessons learned. These reviews include a review by an Advisory Panel into Westpac's Board governance of AML/CTF obligations, an assurance review by Promontory of Westpac's management accountability investigation, and a review, also by Promontory, of Westpac's financial crime program. On 4 June 2020 Westpac released a copy of the Advisory Panel Report and a summary of the reviews' findings and recommendations.

Financial Crime

Following the AUSTRAC proceedings, Westpac has been progressing actions to improve its financial crime program. This includes a significant multi-year program of work to improve its management of financial crime risks (including AML/CTF, sanctions, Anti-Bribery and Corruption, *Foreign Account Tax Compliance Act* (FATCA) and Common Reporting Standards (CRS)). Through this work, Westpac has identified further weaknesses and areas for improvement, which it is addressing. Specific focus areas include uplifting its AML/CTF policies, reviewing the completeness of data feeding into its AML/CTF systems and considering the adequacy and appropriateness of its AML/CTF processes and controls. The work also involves addressing matters identified in AUSTRAC's Statement of Claim and outlined in the SAFA.

Westpac is also undertaking remediation work in multiple areas, including applicable customer identification procedures, ongoing and enhanced customer due diligence, customer and payment screening, risk assessments, transaction monitoring and regulatory reporting including in relation to IFTIs, Threshold Transaction Reports (TTRs) and Suspicious Matter Reports (including "tipping off" controls).

With increased focus on financial crime, further issues requiring attention have been identified and may continue to be identified. As part of these efforts, Westpac identified deficiencies in certain systems and controls relevant to its obligation to file TTRs. This has resulted in instances where the Group has failed to report TTRs, as well as instances where the Group filed TTRs with incomplete or inaccurate information. The Group self-reported these TTR deficiencies to AUSTRAC, providing a series of updates since 2019, and is keeping AUSTRAC apprised of the status of its remediation.

As part of the remediation work the Group is also working to remediate gaps and enhance controls to support compliance with its FATCA and CRS obligations.

Details about the consequences of failing to comply with financial crime obligations are set out in the Risk Factors section in the 2020 Westpac Group Annual Report.

Australian Prudential Regulation Authority (APRA) and Australian Securities and Investments Commission (ASIC) investigations

On 17 December 2019, APRA commenced an investigation examining potential contraventions by Westpac, its directors and/or senior managers of the *Banking Act 1959* (Cth) (including the Banking Executive Accountability Regime) (Banking Act) and/or APRA's Prudential Standards by engaging in, and the way it responded to, the conduct which is the subject of the AUSTRAC proceedings.

On 17 June 2020, APRA delegated certain of its enforcement powers under the Banking Act to ASIC. Following that delegation, ASIC will examine potential contraventions under the Banking Act by Westpac, its directors and/or senior managers. APRA has retained its power to administratively disqualify certain individuals under the Banking Act.

ASIC has commenced an extensive investigation into matters related to the AUSTRAC allegations in the AUSTRAC proceedings. Westpac remains committed to cooperating and working constructively with ASIC during its investigation which is ongoing. Westpac has not received an indication from ASIC about the nature of any enforcement action it may take. Details about the consequences of failing to comply with legal obligations are set out in the Risk Factors section in the 2020 Westpac Group Annual Report.

For personal use only

Significant developments

Australian and US class actions

Westpac is defending a class action proceeding which was commenced in December 2019 in the Federal Court of Australia by law firm Phi Finney McDonald, on behalf of certain investors in Westpac securities between 16 December 2013 and 19 November 2019. The proceeding involves allegations relating to market disclosure issues connected to Westpac's monitoring of financial crime over the relevant period and matters which are the subject of the AUSTRAC proceedings. The claims do not identify the amount of any damages sought. However, given the time period in question and the nature of the claims it is likely that the damages which will be alleged will be significant. No provision has been taken in relation to the potential exposure.

A second class action in relation to similar issues was commenced by law firm Johnson Winter & Slattery in March 2020. The Phi Finney McDonald claim was subsequently amended to include the group members from the Johnson Winter & Slattery proceeding. The Johnson Winter & Slattery proceeding was discontinued in May 2020 by agreement between Westpac, the applicant in that proceeding and the applicant in the Phi Finney McDonald proceeding.

In January 2020, a US class action was commenced by the Rosen Law Firm, naming Westpac, our current CEO and our former CEO as defendants. It was brought on behalf of certain investors in Westpac securities between 11 November 2015 and 19 November 2019. That claim related to market disclosure issues connected to Westpac's monitoring of financial crime over the relevant period and matters which are the subject of the AUSTRAC proceedings. The parties have agreed to settle this proceeding on a wholly without admissions basis and on the basis that in return for full releases from the class members in the proceeding, Westpac will pay an amount of US$3.1 million. The settlement remains subject to approval by the District Court of Oregon and a process to give class members an option to opt out. In light of the above developments, Westpac has taken a provision in respect of the settlement. Further information on the provision is set out in Note 14.

APRA review into risk governance

On 17 December 2019, following the commencement of the AUSTRAC proceedings and other significant prudential reviews, APRA announced that in addition to investigating possible breaches of the Banking Act by Westpac, it would conduct an extensive supervision program focused on Westpac's risk governance, accountability and risk culture. This program will assess Westpac's remediation actions, the effectiveness of Westpac's execution and the steps Westpac has been taking to strengthen risk governance, including through its self-assessment, which is referred to below. APRA's review will consider several governance focus areas in non-financial and financial risk management and case studies. This review is expected to take approximately 18 months and result in a report of APRA's observations and findings.

Operational risk capital overlays

The following additional capital overlays are currently applied by APRA to Westpac's operational risk capital requirement:

- $500 million in response to Westpac's Culture, Governance and Accountability (CGA) self-assessment. The overlay applied from 30 September 2019 and will remain in place until APRA is satisfied that Westpac has completed its action plan.
- $500 million in response to the magnitude and nature of issues alleged by AUSTRAC in its Statement of Claim. The additional overlay applied from 31 December 2019.

Both of the overlays have been applied through an increase in risk weighted assets (RWA). The impact on Westpac's Level 2 common equity tier 1 (CET1) capital ratio at 30 September 2020 was 31 basis points.

Outcome of Specialist Businesses strategic review

On 4 May 2020, Westpac announced the creation of a new Specialist Businesses division consisting of the following businesses:

- Superannuation, Investments and Platforms;
- Insurance;
- Auto and vendor finance; and
- Westpac Pacific.

These businesses have since undergone a strategic review process which has now been completed. The outcome is that Westpac does not view itself as the long-term owner of these businesses and will seek to exit them over time as market conditions permit.

On 21 August 2020, Westpac announced that it had entered into an agreement for the sale of its Vendor Finance business to Angle Finance, a portfolio company of Cerberus Capital Management, L.P. Vendor Finance supports third parties to fund small ticket equipment finance loans to around 42,000 Australian businesses. Given the relatively modest size of the portfolio, the sale is expected to have an immaterial impact on Westpac's balance sheet and capital ratios. Completion is expected to occur at the end of April 2021.

Consolidation of Westpac's international operations

Following a comprehensive review of its Asia, Europe and US businesses, Westpac has decided to consolidate its international operations into three branches; Singapore, London and New York. This decision means the Group will exit operations in Beijing, Shanghai, Hong Kong, Mumbai and Jakarta. The changes are not expected to have a significant impact on cash earnings and, over time, are planned to improve the Group's capital efficiency, including by reducing RWA.

For personal use only

Significant developments

Sale of shares in Pendal Group Limited

On 17 June 2020, Westpac announced the sale of approximately 31 million Pendal Group Limited (ASX:PDL) (Pendal) shares at a price of $5.98 per share, pursuant to a fully underwritten institutional offer. This sale completed the divestment of Westpac's proprietary shareholding in Pendal, following earlier share sales in 2007, 2015 and 2017.

Sale of shares in Zip Co Limited

On 21 October 2020, Westpac announced the sale of its 10.7% stake in Zip Co Limited (ASX:Z1P) by way of a fully underwritten institutional offer. The decision reflects Westpac's approach to simplifying its business and ensuring the efficient use of capital. The sale added approximately 8 basis points to Westpac's common equity tier 1 capital ratio in the first half of FY21. Settlement of the transaction occurred on 26 October 2020.

Westpac reviews

Culture, Governance and Accountability reassessment

Following a reassessment of its existing CGA Remediation Plan (as defined below), which was undertaken in response to a request from APRA, Westpac has launched a Group-wide program to strengthen its management of non-financial risks.

Westpac first conducted a self-assessment into culture, governance and accountability in November 2018 and developed a remediation plan in response (CGA Remediation Plan). Following AUSTRAC's Statement of Claim in November 2019, Westpac reassessed its remediation plan at the request of APRA. A central conclusion from the reassessment was that Westpac's non-financial risk culture remains immature and reactive.

As a result, Westpac is embarking on a Group-wide program, CORE – Customer Outcomes and Risk Excellence – with a focus on Board and Executive oversight of non-financial risk, and strengthening risk culture, risk frameworks and risk management capability. Promontory will provide ongoing assurance over the CORE program.

Further information about CORE is set out in the 'Strategic Report' and 'Group Performance' sections in the 2020 Westpac Group Annual Report.

Risk management

Westpac is upgrading its end to end risk management. Recent reviews have identified a wide range of shortcomings and areas for improvement in Westpac's policies, systems and data, as well as its risk capabilities and risk management framework. The Group has a number of risks which sit outside of our risk appetite or do not meet the expectations of regulators. The CORE program is addressing some of these improvements. Key components of the CORE program include embedding a more proactive risk culture, refining a three lines of defence model to define clearer risk management accountabilities and improving risk awareness, capability and capacity through organisational-wide training and additional risk resources in the business. Other areas of improvement are being addressed through significant investment in risk management expertise in areas such as operational risk, compliance, financial crime, stress testing, modelling and data management.

Further information about risk management is set out in the Risk and Risk Management section in the 2020 Westpac Group Annual Report.

Regulatory and Government focus

Royal Commission into the banking, superannuation and financial services industry

Implementation of the 76 express recommendations in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry continues to have a significant impact on Australia's banking and financial services entities and their regulators. Depending on how and when the government legislates or regulates for the recommendations there may also be adverse impacts on our business.

To allow the industry to focus on its response to COVID-19 and support for customers on 8 May 2020 the government announced a six month deferral in its Implementation Roadmap. A number of the legislative drafts are proposed to come into effect in early 2021 but the final form of these drafts have not yet been released by the government posing a challenge to implementation.

Presently, 50 recommendations apply to Westpac. The Group has commenced programs of work in relation to all of the applicable recommendations that have been the subject of legislative activity and/or regulatory activity and, to date, has implemented 14 recommendations.

In anticipation of the removal of grandfathering of conflicted remuneration payable to financial advisers effective from 1 January 2021, we are also currently reviewing third party remuneration arrangements.

Other impacts arising from the Royal Commission include a number of claims being brought against financial institutions in relation to certain matters considered during the Royal Commission, and the referral of several cases of misconduct to the financial regulators by Commissioner Hayne. The Royal Commission has also led to increased political and regulatory scrutiny of the financial industry in New Zealand and may continue to do so.

For personal use only

Significant developments

Changes to responsible lending laws

On 25 September 2020, the government announced a proposed simplification of Australia's consumer credit regulatory regime. The government's intended commencement date (subject to the passage of law) is 1 March 2021. We are closely monitoring this and will make any changes to our systems and processes as appropriate.

In addition to the responsible lending obligations, consumer credit is subject to regulatory oversight through a range of mechanisms, including APRA standards and guidance in relation to credit assessments by authorised deposit-taking institutions (ADIs), the ABA's Banking Code of Practice and the general conduct obligations under section 47 of the *National Consumer Credit Protection Act 2009* (Cth), including the obligation to do all things to ensure that credit activities are engaged in efficiently, honestly and fairly. Accordingly, without analogous changes to these regulatory requirements, removal of the responsible lending obligations may not necessarily have a significant impact on our overall consumer credit processes.

Focus on superannuation

On 6 October 2020, the government released a paper entitled 'Your Future, Your Super', setting out 'reforms to make your super work harder for you'.

The first key reform involves linking a person to their superannuation fund throughout their working life (although a person can choose to change their super fund at any time). Rather than contributing to the employer's default fund for its employees who do not choose their own superannuation fund, employers will be required to contribute to their employees' existing superannuation funds. This reform is intended to reduce the number of people with multiple superannuation accounts. This means employees do not have to select a superannuation fund each time they change jobs, and should therefore reduce individuals having unintended multiple superannuation accounts.

The second key reform relates to annual performance tests. An online ATO 'YourSuper' comparison tool that compares funds by fees and performance will be introduced to assist people in selecting a superannuation fund. The tool will also expressly list under performing funds, based on the annual performance tests. These annual performance tests will apply by July 2021 for MySuper (default) products. If a MySuper product fails the performance 'test', the trustee will be required to notify members of the under performance by October 2021 and provide information about the YourSuper comparison tool. If a fund fails two consecutive performance 'tests', it will not be permitted to accept new members. Annual performance tests will also apply to certain types of superannuation choice options by July 2022.

Westpac is supportive of the changes given they are expected to drive increased competitiveness across the industry.

In addition, APRA is increasing its supervisory focus on superannuation providers, including Westpac, with an emphasis on member outcomes and governance. Westpac's superannuation entities are underway with an ongoing program of work to strengthen their management of risk under the risk management framework and address feedback from APRA.

Regulatory reviews and inquiries

Provision of credit - reviews by APRA

Following APRA reviews assessing the adequacy of our credit risk management framework including our controls, end-to-end processes, policies and operating systems, long standing weaknesses have been identified that require significant uplift. The Group is making changes to systems and controls to improve its end-to-end approach for its mortgage, business and institutional lending portfolios, as well as other key processes. This includes enhancing portfolio management practices, data governance, systems upgrades (including data collection and rationalisation), strengthening collateral management processes and improving assurance and oversight over our credit management frameworks. This program of work will also address issues identified by Westpac's internal assurance and audit teams.

General regulatory changes affecting our business

Open banking regime

The *Competition and Consumer Act 2010* (Cth), as amended by the *Treasury Laws Amendment (Consumer Data Right) Act 2019* (Cth), contains a regime for a consumer data right that gives customers in Australia a right to direct that their data (starting with banking data) be shared with accredited third parties. Data sharing facilitates competition through easier product comparison and switching. This is expected to have significant implications for consumers and banks, including Westpac.

The Competition and Consumer (Consumer Data Right) Rules 2020 (the CDR Rules) commenced on 6 February 2020. The CDR Rules set out how the CDR regime will operate. Open Banking commenced on 1 July 2020 with the four major banks required to share consumer data for credit and debit card, deposit account and transaction account data with accredited service providers. Future phases will introduce additional products, joint accounts and, business and corporate consumers. Other brands in the Westpac Group will be required to commence data sharing on 1 July 2021.

Comprehensive Credit Reporting (CCR)

The *National Consumer Credit Protection Amendment (Mandatory Credit Reporting and Other Measures) Bill 2019* (Cth) is currently before the Senate. The Bill requires the four major Australian banks to supply CCR data to credit reporting bodies and outlines how financial hardship cases should be reported.

For personal use only

Significant developments

The Bill has not yet passed and there have been disruptions to the parliamentary schedule as a result of COVID-19. Nevertheless, Westpac is already participating in CCR on a voluntary basis.

Other litigation

ASIC's outbound scaled advice division proceedings

On 22 December 2016, ASIC commenced Federal Court proceedings against BT Funds Management Limited (BTFM) and Westpac Securities Administration Limited (WSAL) in relation to a number of superannuation account consolidation campaigns conducted between 2013 and 2016. ASIC has alleged that in the course of some of these campaigns, customers were provided with personal advice in contravention of a number of *Corporations Act 2001* (Cth) (Corporations Act) provisions, and selected 15 specific customers as the focus of their claim. Following an appeal by ASIC in the proceedings, on 28 October 2019 the Full Federal Court handed down its decision in ASIC's favour and made findings that BTFM and WSAL each provided personal advice on relevant calls made to 14 of the 15 customers and made declarations of consequential contraventions of the Corporations Act (including section 912A(1)(a)). BTFM and WSAL were granted special leave to appeal by the High Court of Australia, which heard the appeal to the Full Federal Court's decision on 7 and 8 October 2020. The High Court's judgment in the matter is reserved. If this appeal is unsuccessful, the matter will be remitted to the Federal Court for a hearing on penalties and any other orders sought by ASIC.

ASIC's proceedings against BT Funds Management and Asgard Capital Management

On 20 August 2020, ASIC commenced proceedings in the Federal Court against BT Funds Management Limited and Asgard Capital Management Limited, in relation to an issue that was a case study in the Royal Commission. The allegations concern the inadvertent charging of financial adviser fees to 404 customers totalling $130,006 after a request had been made to remove the financial adviser from the customers' accounts. The issue was self-reported to ASIC in 2017 and customers have been contacted and remediated. BTFM and ACML accept the allegations made by ASIC and do not intend to defend the proceedings. Westpac is now working through the relevant Court procedural steps to try and bring the matter to a resolution.

Class action against Westpac Banking Corporation and Westpac Life Insurance Services Limited

On 12 October 2017, a class action was filed in the Federal Court of Australia on behalf of customers who, since February 2011, obtained insurance issued by Westpac Life Insurance Services Limited (WLIS) on the recommendation of financial advisers employed within the Westpac Group. The plaintiffs have alleged that aspects of the financial advice provided by those advisers breached fiduciary and statutory duties owed to the advisers' clients, including the duty to act in the best interests of the client, and that WLIS was knowingly involved in those alleged breaches. Westpac and WLIS are defending the proceedings. The matter has been set down for an initial trial in May 2021.

Class action in the US relating to bank bill swap rate (BBSW)

In August 2016, a class action was filed in the United States District Court for the Southern District of New York against Westpac and a number of other Australian and international banks and brokers alleging misconduct in relation to the bank bill swap reference rate. Westpac has reached agreement with the Plaintiffs to settle this class action. The terms of the settlement are currently confidential and subject to negotiation and execution of settlement papers and Court approval. Westpac holds a provision in relation to this matter.

Class action relating to cash in super

On 5 September 2019, a class action against BTFM and WLIS was commenced in the Federal Court of Australia in relation to aspects of BTFM's BT Super for Life cash investment option. The claim follows other industry class actions.

It is alleged that BTFM failed to adhere to a number of obligations under the general law, the relevant trust deed and the *Superannuation Industry (Supervision) Act 1993* (Cth), and that WLIS was knowingly concerned with BTFM's alleged contraventions. The damages sought by the claim are unspecified. BTFM and WLIS are defending the proceedings.

Class action relating to consumer credit insurance

On 28 February 2020, a class action was commenced against Westpac Banking Corporation, Westpac General Insurance Limited and Westpac Life Insurance Services Limited in the Federal Court of Australia in relation to Westpac's sale of consumer credit insurance (CCI). The claim follows other industry class actions.

It is alleged that the three entities failed to adhere to a number of obligations in selling CCI in conjunction with credit cards, personal loans and flexi loans. The damages sought by the claim are unspecified. The three entities are defending the proceedings. Westpac no longer sells CCI products.

Class action relating to payment of flex commissions to auto dealers

On 16 July 2020, a class action was commenced against Westpac Banking Corporation and St George Finance Limited (SGF) in the Supreme Court of Victoria in relation to flex commissions paid to auto dealers from 1 March 2013 to 31 October 2018. This proceeding is one of two class actions brought by Maurice Blackburn against a number of lenders in the auto finance industry.

It is alleged that Westpac and SGF are liable for the unfair conduct of dealers acting as credit representatives and engaged in misleading or deceptive conduct. The damages sought are unspecified. Westpac and SGF are defending the proceedings. Another law firm publicly announced in July 2020 that it is preparing to commence

For personal use only

Significant developments

a class action against Westpac entities in relation to flex commissions paid to auto dealers. Westpac has not been served with a claim from that law firm on flex commissions. Westpac has not paid flex commissions since 1 November 2018 following an industry-wide ban issued by ASIC.

Potential class actions

Westpac is aware from media reports and other publicly available material that other class actions against Westpac entities are being investigated. In July 2020, one law firm publicly stated that it intends to commence a class action against BTFM alleging that since 2014, BTFM did not act in the best interests of members of certain superannuation funds when obtaining group insurance policies. In August 2020, another law firm announced that it is investigating claims on behalf of persons who in the past 6 years acquired, renewed or continued to hold a financial product (including life insurance) on the advice or recommendation of a financial adviser from Magnitude Group, Securitor Financial Group or Westpac Banking Corporation. Westpac has not been served with a claim in relation to either of these matters and has no information about the proposed claims beyond the public statements issued by the law firms involved.

APRA regulatory changes and other changes affecting capital

APRA announcements on capital

As part of its response to the current economic environment following the COVID-19 pandemic, APRA has made the following announcements on capital:

- Updated guidance on capital management and dividends: For 2020, APRA expects ADIs to retain at least half of their earnings, actively use the dividend reinvestment plan (DRP) and/or other capital management initiatives to at least partially offset the reduction in capital from distributions. Westpac took this guidance into consideration when determining the final dividend, which is discussed further in Section 3 of the Directors' Report in the 2020 Westpac Group Annual Report;
- Adjustment to expectations for bank capital: As announced in March 2020, APRA does not expect ADIs to meet the 'unquestionably strong' capital benchmarks in the period ahead (so long as they remain above the current regulatory requirement). Westpac's capital management strategy is set out further in the Review of Group Operations section in the 2020 Westpac Group Annual Report;
- Temporary amendments to the calculation of RWA for COVID-19 support packages: Where a support package provides an option to defer repayments for a period of time, for RWA calculation purposes, a bank need not treat the period of the repayment holiday as a period of arrears (provided the borrower had previously been meeting their repayment obligations). In addition, the government's 'Coronavirus SME Guarantee Scheme' is to be regarded as an eligible guarantee by the government for RWA calculation purposes. The temporary capital treatment is available until the earlier of either a maximum period of ten months from when the initial repayment deferral was granted, or 31 March 2021;
- Deferral of APRA's implementation of the Basel III capital reforms by a year to January 2023; and
- Deferral of changes to APS 222 Associations with Related Entities standard by a year to 1 January 2022.

APRA's proposed revisions to subsidiary capital investment treatment

APRA has proposed changes to APS 111 Capital Adequacy Measurement of Capital including changes to the existing approach for equity exposures in banking and insurance subsidiaries (Level 1). There is no impact to Westpac's reported capital ratios on a Level 2 basis. APRA has indicated that they intend to recommence consultation and a revised standard will come into effect from 1 January 2022 following the COVID-19 pandemic.

Additional loss absorbing capacity

On 9 July 2019, APRA announced a requirement for the Australian major banks (including Westpac) to increase their total capital requirements by three percentage points of RWA as measured under the current capital adequacy framework. This increase in total capital will take full effect from 1 January 2024.

The additional capital is expected to be raised through Tier 2 Capital and is likely to be offset by a decrease in other forms of long term wholesale funding. Westpac is continuing to make progress towards the new requirements. As at 30 September 2020, the Tier 2 ratio was 3.15%.

APRA is still targeting an additional four to five percentage points of loss-absorbing capacity. Over the next four years, APRA has stated that it will consider feasible alternative methods for raising the remaining 1-2 percentage points.

APRA Prudential Standard CPS 511: Remuneration

On 23 July 2019, APRA released for consultation a new draft prudential standard and supporting discussion paper on remuneration. It is aimed at clarifying and strengthening remuneration arrangements in APRA-regulated entities. The new standard will replace existing remuneration requirements under CPS/SPS 510 Governance. In August 2020, APRA released its 2020-2024 Corporate Plan noting the revised APRA Prudential Standard CPS 511 is expected to be released from January to July 2021.

For personal use only

Significant developments

New Zealand

COVID-19 impacts

In response to COVID-19, a number of laws have been enacted by the New Zealand government to help reduce the economic impact and it has implemented a range of material restrictions on businesses, venues, travel and movement. Many of these new measures have impacted WNZL's operations.

Also in response to COVID-19, there have been a number of new guidance updates published and regulatory delays announced by New Zealand regulators, including the Reserve Bank of New Zealand (RBNZ), the Financial Markets Authority and the Commerce Commission.

On 2 April 2020, a decision was made by the RBNZ to freeze the distribution of dividends on ordinary shares by all banks in New Zealand during the period of economic uncertainty caused by COVID-19. Non-payment of dividends from WNZL only affects Westpac's Level 1 CET1 capital ratio.

Westpac is well capitalised and at 30 September 2020 had a Level 1 CET1 capital ratio of 11.40%.

RBNZ Capital Review

On 5 December 2019, the RBNZ announced changes to the capital adequacy framework in New Zealand. The new framework includes the following key components:

- Setting a Tier 1 capital requirement of 16% of RWA for systemically important banks (including WNZL) and 14% for all other banks;
- Additional Tier 1 capital ('AT1') can comprise no more than 2.5% of the 16% Tier 1 capital requirement;
- Eligible Tier 1 capital will comprise common equity and redeemable perpetual preference shares. Existing AT1 instruments will be phased out over a seven year period;
- Maintaining the existing Tier 2 capital requirement of 2% of RWA; and
- Recalibrating RWA for internal rating based banks, such as WNZL, such that aggregate RWA will increase to 90% of standardised RWA.

Westpac believes WNZL is already strongly capitalised with a Tier 1 capital ratio of 15% at 30 September 2020 based on the current RBNZ rules. On a pro forma basis (including the new RWA and capital requirements), at 30 September 2020 and assuming a Tier 1 capital ratio of 16-17%, WNZL would require a further NZ$1.6-$2.2 billion of Tier 1 capital to meet the new requirements that are fully effective in 2028.

In response to the impacts of COVID-19, and to support credit availability, the RBNZ has delayed the start date of the new capital regime by 12 months to 1 July 2021 and the RBNZ will consider further delays in 2021 if it considers that market conditions warrant it. Banks will be given up to seven years to comply.

RBNZ - Review under section 95 of the Reserve Bank of New Zealand Act 1989

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. With effect from 31 December 2019, the RBNZ removed the requirement imposed on WNZL since 31 December 2017 to maintain minimum regulatory capital ratios that were two percentage points higher than the ratios applying to other locally incorporated banks.

For personal use only

Consolidated financial statements

4.2 Consolidated income statement

Westpac Banking Corporation and its controlled entities

$m	Note	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Interest income:							
Calculated using the effective interest rate method	3	12,184	14,412	(15)	26,596	32,518	(18)
Other	3	179	272	(34)	451	704	(36)
Total interest income		**12,363**	**14,684**	**(16)**	**27,047**	**33,222**	**(19)**
Interest expense	3	(4,667)	(5,684)	(18)	(10,351)	(16,315)	(37)
Net interest income		**7,696**	**9,000**	**(14)**	**16,696**	**16,907**	**(1)**
Net fee income	4	837	755	11	1,592	1,655	(4)
Net wealth management and insurance income	4	286	465	(38)	751	1,029	(27)
Trading income	4	435	460	(5)	895	929	(4)
Other income	4	325	(76)	large	249	129	93
Net operating income before operating expenses and impairment charges		**9,579**	**10,604**	**(10)**	**20,183**	**20,649**	**(2)**
Operating expenses	5	(6,558)	(6,181)	6	(12,739)	(10,106)	26
Impairment charges	10	(940)	(2,238)	(58)	(3,178)	(794)	large
Profit before income tax		**2,081**	**2,185**	**(5)**	**4,266**	**9,749**	**(56)**
Income tax expense	6	(980)	(994)	(1)	(1,974)	(2,959)	(33)
Net profit for the period		**1,101**	**1,191**	**(8)**	**2,292**	**6,790**	**(66)**
Net profit attributable to non-controlling interests (NCI)		(1)	(1)	-	(2)	(6)	(67)
Net profit attributable to owners of Westpac Banking Corporation (WBC)		**1,100**	**1,190**	**(8)**	**2,290**	**6,784**	**(66)**
Earnings per share (cents)							
Basic	7	30.5	33.2	(8)	63.7	196.5	(68)
Diluted	7	29.9	33.2	(10)	63.7	189.5	(66)

The above consolidated income statement should be read in conjunction with the accompanying notes.

For personal use only

Consolidated financial statements

4.3 Consolidated statement of comprehensive income

Westpac Banking Corporation and its controlled entities

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net profit for the period	**1,101**	**1,191**	**(8)**	**2,292**	**6,790**	**(66)**
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss						
Gains/(losses) recognised in equity on:						
Debt securities measured at fair value through other comprehensive income (FVOCI)	500	(143)	large	357	(46)	large
Cash flow hedging instruments	(240)	145	large	(95)	(203)	(53)
Transferred to income statement:						
Debt securities measured at FVOCI	(51)	(28)	82	(79)	(29)	172
Cash flow hedging instruments	90	128	(30)	218	197	11
Foreign currency translation reserve	55	-	-	55	(10)	large
Loss allowance on debt securities measured at FVOCI	1	1	-	2	-	-
Exchange differences on translation of foreign operations (net of associated hedges)	(433)	265	large	(168)	182	large
Income tax on items taken to or transferred from equity:						
Debt securities measured at FVOCI	(131)	50	large	(81)	20	large
Cash flow hedging instruments	44	(80)	large	(36)	2	large
Items that will not be reclassified subsequently to profit or loss						
Gains/(losses) on equity securities measured at FVOCI (net of tax)	(3)	(18)	(83)	(21)	11	large
Own credit adjustment on financial liabilities designated at fair value (net of tax)	(383)	344	large	(39)	(10)	large
Remeasurement of defined benefit obligation recognised in equity (net of tax)	(169)	54	large	(115)	(276)	(58)
Other comprehensive income for the period (net of tax)	**(720)**	**718**	**large**	**(2)**	**(162)**	**(99)**
Total comprehensive income for the period	**381**	**1,909**	**(80)**	**2,290**	**6,628**	**(65)**
Attributable to:						
Owners of WBC	386	1,905	(80)	2,291	6,620	(65)
NCI	(5)	4	large	(1)	8	large
Total comprehensive income for the period	**381**	**1,909**	**(80)**	**2,290**	**6,628**	**(65)**

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

For personal use only

Consolidated financial statements

4.4 Consolidated balance sheet

Westpac Banking Corporation and its controlled entities

$m	Note	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Assets						
Cash and balances with central banks		30,129	45,815	20,059	(34)	50
Collateral paid		4,778	5,339	5,930	(11)	(19)
Trading securities and financial assets measured at fair value through income statement (FVIS)		40,667	26,280	31,781	55	28
Derivative financial instruments		23,367	56,661	29,859	(59)	(22)
Investments securities		91,539	85,789	73,401	7	25
Loans	9	693,059	719,678	714,770	(4)	(3)
Other financial assets		5,474	5,849	5,367	(6)	2
Life insurance assets		3,593	2,574	9,367	40	(62)
Investment in associates		61	101	129	(40)	(53)
Property and equipment		3,910	4,170	1,155	(6)	large
Deferred tax assets		3,064	2,623	2,048	17	50
Intangible assets		11,497	11,943	11,953	(4)	(4)
Other assets		808	840	807	(4)	-
Total assets		**911,946**	**967,662**	**906,626**	**(6)**	**1**
Liabilities						
Collateral received		2,250	12,728	3,287	(82)	(32)
Deposits and other borrowings	12	591,131	582,920	563,247	1	5
Other financial liabilities		40,925	33,996	29,215	20	40
Derivative financial instruments		23,054	48,089	29,096	(52)	(21)
Debt issues		150,325	185,835	181,457	(19)	(17)
Current tax liabilities		70	31	163	126	(57)
Life insurance liabilities		1,396	604	7,377	131	(81)
Provisions	14	5,287	4,669	3,169	13	67
Deferred tax liabilities		126	45	44	180	186
Other liabilities		5,359	5,292	2,238	1	139
Total liabilities excluding loan capital		**819,923**	**874,209**	**819,293**	**(6)**	**-**
Loan capital		23,949	25,807	21,826	(7)	10
Total liabilities		**843,872**	**900,016**	**841,119**	**(6)**	**-**
Net assets		**68,074**	**67,646**	**65,507**	**1**	**4**
Shareholders' equity						
Share capital:						
Ordinary share capital	15	40,509	40,503	37,508	-	8
Treasury shares and Restricted Share Plan (RSP) treasury shares	15	(563)	(586)	(553)	(4)	2
Reserves	15	1,544	1,688	1,311	(9)	18
Retained profits		26,533	25,985	27,188	2	(2)
Total equity attributable to owners of WBC		**68,023**	**67,590**	**65,454**	**1**	**4**
NCI		51	56	53	(9)	(4)
Total shareholders' equity and NCI		**68,074**	**67,646**	**65,507**	**1**	**4**

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

For personal use only

Consolidated financial statements

4.5 Consolidated statement of changes in equity

Westpac Banking Corporation and its controlled entities

$m	Share Capital (Note 15)	Reserves (Note 15)	Retained profits	Total equity attributable to owners of WBC	NCI	Total shareholders' equity and NCI
Balance as at 30 September 2018	**35,561**	**1,077**	**27,883**	**64,521**	**52**	**64,573**
Impact on adoption of new accounting standards	-	2	(727)	(725)	-	(725)
Restated opening balance	**35,561**	**1,079**	**27,156**	**63,796**	**52**	**63,848**
Net profit for the year	-	-	**6,784**	**6,784**	**6**	**6,790**
Net other comprehensive income for the year	-	122	(286)	(164)	2	(162)
Total comprehensive income for the year	**-**	**122**	**6,498**	**6,620**	**8**	**6,628**
Transactions in capacity as equity holders						
Dividends on ordinary shares[1]	-	-	(6,466)	(6,466)	-	(6,466)
Dividend reinvestment plan	1,489	-	-	1,489	-	1,489
Other equity movements						
Share-based payment arrangements	-	108	-	108	-	108
Purchase of shares (net of issue costs)	(33)	-	-	(33)	-	(33)
Net (acquisition)/disposal of treasury shares	(62)	-	-	(62)	-	(62)
Other	-	2	-	2	(7)	(5)
Total contributions and distributions	**1,394**	**110**	**(6,466)**	**(4,962)**	**(7)**	**(4,969)**
Balance as at 30 September 2019	**36,955**	**1,311**	**27,188**	**65,454**	**53**	**65,507**
Net profit for the year	**-**	**-**	**2,290**	**2,290**	**2**	**2,292**
Net other comprehensive income for the year	-	155	(154)	1	(3)	(2)
Total comprehensive income for the year	**-**	**155**	**2,136**	**2,291**	**(1)**	**2,290**
Transactions in capacity as equity holders						
Share issuances	2,751	-	-	2,751	-	2,751
Dividends on ordinary shares[1]	-	-	(2,791)	(2,791)	-	(2,791)
Dividend reinvestment plan	273	-	-	273	-	273
Other equity movements						
Share-based payment arrangements	-	78	-	78	-	78
Purchase of shares (net of issue costs)	(29)	-	-	(29)	-	(29)
Net (acquisition)/disposal of treasury shares	(10)	-	-	(10)	-	(10)
Other	6	-	-	6	(1)	5
Total contributions and distributions	**2,991**	**78**	**(2,791)**	**278**	**(1)**	**277**
Balance as at 30 September 2020	**39,946**	**1,544**	**26,533**	**68,023**	**51**	**68,074**

1. 2020 relates to 2019 final dividend of 80 cents per share ($2,791 million) (2019: 2019 interim dividend of 94 cents per share ($3,239 million) and 2018 final dividend of 94 cents per share ($3,227 million)), all fully franked at 30%.

For personal use only

Consolidated financial statements

4.5 Consolidated statement of changes in equity (continued)

Westpac Banking Corporation and its controlled entities

$m	Share Capital (Note 15)	Reserves (Note 15)	Retained profits	Total equity attributable to owners of WBC	NCI	Total shareholders' equity and NCI
Balance as at 30 September 2019	**36,955**	**1,311**	**27,188**	**65,454**	**53**	**65,507**
Net profit for the period	**-**	**-**	**1,190**	**1,190**	**1**	**1,191**
Net other comprehensive income for the period	-	317	398	715	3	718
Total comprehensive income for the period	**-**	**317**	**1,588**	**1,905**	**4**	**1,909**
Transactions in capacity as equity holders						
Share issuances	2,751	-	-	2,751	-	2,751
Dividends on ordinary shares[1]	-	-	(2,791)	(2,791)	-	(2,791)
Dividend reinvestment plan	273	-	-	273	-	273
Other equity movements						
Share-based payment arrangements	-	60	-	60	-	60
Purchase of shares (net of issue costs)	(29)	-	-	(29)	-	(29)
Net (acquisition)/disposal of treasury shares	(33)	-	-	(33)	-	(33)
Other	-	-	-	-	(1)	(1)
Total contributions and distributions	**2,962**	**60**	**(2,791)**	**231**	**(1)**	**230**
Balance as at 31 March 2020	**39,917**	**1,688**	**25,985**	**67,590**	**56**	**67,646**
Net profit for the period	**-**	**-**	**1,100**	**1,100**	**1**	**1,101**
Net other comprehensive income for the period	-	(162)	(552)	(714)	(6)	(720)
Total comprehensive income for the period	**-**	**(162)**	**548**	**386**	**(5)**	**381**
Other equity movements						
Share-based payment arrangements	-	18	-	18	-	18
Net (acquisition)/disposal of treasury shares	23	-	-	23	-	23
Other	6	-	-	6	-	6
Total contributions and distributions	**29**	**18**	**-**	**47**	**-**	**47**
Balance as at 30 September 2020	**39,946**	**1,544**	**26,533**	**68,023**	**51**	**68,074**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

1. First Half 2020 reflects the 2019 final dividend of 80 cents per share ($2,791 million), all fully franked at 30%.

For personal use only

Consolidated financial statements

4.6 Consolidated cash flow statement

Westpac Banking Corporation and its controlled entities

$m	Note	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Cash flows from operating activities							
Interest received		12,578	14,637	(14)	27,215	33,093	(18)
Interest paid		(5,283)	(6,183)	(15)	(11,466)	(16,486)	(30)
Dividends received excluding life business		15	1	large	16	6	167
Other non-interest income received		947	1,947	(51)	2,894	3,865	(25)
Operating expenses paid		(4,348)	(4,250)	2	(8,598)	(9,080)	(5)
Income tax paid excluding life business		(1,318)	(1,762)	(25)	(3,080)	(3,406)	(10)
Life business:							
Receipts from policyholders and customers		1,102	1,133	(3)	2,235	2,189	2
Interest and other items of similar nature		10	11	(9)	21	6	large
Dividends received		124	182	(32)	306	553	(45)
Payments to policyholders and suppliers		(1,113)	(1,189)	(6)	(2,302)	(2,250)	2
Income tax paid		(5)	(1)	large	(6)	(94)	(94)
Cash flows from operating activities before changes in operating assets and liabilities		**2,709**	**4,526**	**(40)**	**7,235**	**8,396**	**(14)**
Net (increase)/decrease in:							
Collateral paid		(529)	877	large	348	(847)	large
Trading securities and financial assets measured at FVIS		(16,870)	8,114	large	(8,756)	(7,629)	15
Derivative financial instruments		(3,115)	4,966	large	1,851	7,605	(76)
Loans		18,966	(694)	large	18,272	(4,188)	large
Other financial assets		272	1	large	273	336	(19)
Life insurance assets and liabilities		(134)	(143)	(6)	(277)	(134)	107
Other assets		1	69	(99)	70	(13)	large
Net increase/(decrease) in:							
Collateral received		(9,996)	8,900	large	(1,096)	1,007	large
Deposits and other borrowings		16,002	12,908	24	28,910	1,113	large
Other financial liabilities		9,190	2,627	large	11,817	1,463	large
Other liabilities		(4)	8	large	4	(5)	large
Net cash provided by/(used in) operating activities	16	**16,492**	**42,159**	**(61)**	**58,651**	**7,104**	**large**
Cash flows from investing activities							
Proceeds from investment securities		18,096	14,984	21	33,080	19,768	67
Purchase of investment securities		(25,764)	(25,568)	1	(51,332)	(29,527)	74
Proceeds/(payments) from disposal of controlled entities, net of cash disposed		-	-	-	-	(1)	(100)
Proceeds from disposal of associates		-	-	-	-	45	(100)
Purchase of associates		(6)	(2)	200	(8)	(25)	(68)
Proceeds from disposal of property and equipment		35	23	52	58	157	(63)
Purchase of property and equipment		(183)	(57)	large	(240)	(280)	(14)
Purchase of intangible assets		(608)	(427)	42	(1,035)	(906)	14
Net cash provided by/(used in) investing activities		**(8,430)**	**(11,047)**	**(24)**	**(19,477)**	**(10,769)**	**81**
Cash flows from financing activities							
Proceeds from debt issues (net of issue costs)		7,703	27,063	(72)	34,766	61,484	(43)
Redemption of debt issues		(28,936)	(36,224)	(20)	(65,160)	(63,313)	3
Payments for the principal portion of lease liabilities		(259)	(284)	(9)	(543)	-	-
Issue of loan capital (net of issue costs)		-	2,225	(100)	2,225	4,935	(55)
Redemption of loan capital		(11)	(251)	(96)	(262)	(1,662)	(84)
Proceeds from issuances of shares		-	2,751	(100)	2,751	-	-
Purchase of shares on exercise of employee options and rights		-	(4)	(100)	(4)	(6)	(33)
Shares purchased for delivery of employee share plan		-	(25)	(100)	(25)	(27)	(7)
Purchase of RSP treasury shares		(2)	(44)	(95)	(46)	(69)	(33)
Net sale/(purchase) of other treasury shares		3	11	(73)	14	7	100
Payment of dividends		-	(2,518)	(100)	(2,518)	(4,977)	(49)
Dividends paid to NCI		-	(1)	(100)	(1)	(5)	(80)
Net cash provided by/(used in) financing activities		**(21,502)**	**(7,301)**	**195**	**(28,803)**	**(3,633)**	**large**
Net increase/(decrease) in cash and balances with central banks		**(13,440)**	**23,811**	**large**	**10,371**	**(7,298)**	**large**
Effect of exchange rate changes on cash and balances with central banks		(2,246)	1,945	large	(301)	569	large
Cash and balances with central banks as at beginning of the period		45,815	20,059	128	20,059	26,788	(25)
Cash and balances with central banks as at end of the period		**30,129**	**45,815**	**(34)**	**30,129**	**20,059**	**50**

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

For personal use only

Notes to the consolidated financial statements

4.7 Notes to the consolidated financial statements

Note 1. Financial statements preparation

The accounting policies and methods of computation adopted in the financial year were in accordance with the requirements for an authorised deposit-taking institution under the Banking Act 1959 (as amended), Australian Accounting Standards (AAS) and Interpretations as issued by the Australian Accounting Standards Board and the Corporations Act 2001. Westpac's financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

All amounts have been rounded in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, to the nearest million dollars, unless otherwise stated.

For further information, refer to Westpac's 2020 Annual Report.

Comparative revisions

Comparative information has been revised where appropriate to conform with changes in presentation in the current period and to enhance comparability.

Note 2. Segment reporting

Operating segments are presented on a basis consistent with information provided internally to Westpac's key decision makers and reflects the management of the business, rather than the legal structure of the Group.

Internally, Westpac uses 'cash earnings' in assessing the financial performance of its divisions. Management believes this allows the Group to:

- more effectively assess current year performance against prior years;
- compare performance across business divisions; and
- compare performance across peer companies.

Cash earnings is viewed as a measure of the level of profit that is generated by ongoing operations and is therefore typically considered in assessing distributions, including dividends. Cash earnings is neither a measure of cash flow nor net profit determined on a cash accounting basis, as it includes both cash and non-cash adjustments to statutory net profit.

To determine cash earnings, three categories of adjustments are made to statutory results:

- material items that key decision makers at Westpac believe do not reflect ongoing operations;
- items that are not typically considered when dividends are recommended, such as the amortisation of intangibles, impact of Treasury shares and economic hedging impacts; and
- accounting reclassifications between individual line items that do not impact statutory results.

Reportable operating segments

The operating segments are defined by the customers they serve and the services they provide:

- Consumer:
  - is responsible for sales and service of banking and financial products and services to consumer customers in Australia; and
  - operates under the Westpac, St.George, BankSA, Bank of Melbourne, and RAMS brands.
- Business:
  - is responsible for banking products and services for Small to Medium size Enterprises (SME) and commercial customers in Australia. SME and commercial customers typically have facilities up to approximately $200 million;
  - is responsible for Private Wealth, serving the banking needs of high net worth customers across the banking brands; and
  - operates under the Westpac, St.George, BankSA, and Bank of Melbourne brands.
- Westpac Institutional Bank (WIB):
  - is responsible for delivering a broad range of financial products and services to commercial, corporate, institutional and government customers with connections to Australia and New Zealand;
  - services include financing, transactional banking, financial and debt capital markets; and
  - customers are supported throughout Australia, as well as via branches and subsidiaries located in New Zealand, US, UK and Asia.
- Westpac New Zealand:
  - is responsible for banking, wealth and insurance products and services to customers in New Zealand;
  - customer base includes consumers, business and institutional customers; and
  - operates under the Westpac brand for banking products, the Westpac Life brand for life insurance products and the BT brand for wealth products.

For personal use only

Notes to the consolidated financial statements

Note 2. Segment reporting (continued)

- Specialist Businesses:
  - is responsible for sales and service of Auto and Vendor Finance, Australian insurance products, Superannuation, Platforms and Investments;
  - it is also responsible for Westpac Pacific which provides a full range of banking services in Fiji and Papua New Guinea; and
  - operates under the Westpac, St.George, BankSA, Bank of Melbourne and BT brands.
- Group Businesses include:
  - Treasury, which is responsible for the management of the Group's balance sheet including wholesale funding, capital and management of liquidity. Treasury also manages the interest rate risk and foreign exchange risks inherent in the balance sheet, including managing the mismatch between Group assets and liabilities. Treasury's earnings are primarily sourced from managing the Group's balance sheet and interest rate risk, (excluding Westpac New Zealand) within set risk limits;
  - Group Technology[1], which comprises functions for the Australian businesses, is responsible for technology strategy and architecture, infrastructure and operations, applications development and business integration;
  - Core Support[2], which comprises Group support functions, including Australian banking operations, property services, strategy, finance, risk, financial crime, compliance and conduct, compliance, legal, human resources, and customer and corporate relations; and
  - Group Businesses also includes earnings on capital not allocated to divisions, certain intra-group transactions that facilitate presentation of performance of the Group's operating segments, earnings from non-core asset sales, earnings and costs associated with the Group's fintech investments, costs associated with customer remediation for the Advice business[3], and certain other head office items such as centrally held provisions.

Revisions to segment results

In 2020, Westpac implemented a change to the presentation of its divisional financial information. The change related to:

- the creation of the Specialist Businesses division, which includes the following businesses: Auto and Vendor Finance, Australian insurance businesses, Superannuation, Platforms and Investments, and Westpac Pacific; and
- the movement of certain small to medium size enterprise customer, and products between the Consumer and Business division to better reflect our new line of business operating structure.

This change has no impact on the Group's overall results or balance sheet but impacts divisional results and balance sheets. Comparative divisional financial information has been restated for this change.

The tables present the segment results on a cash earnings basis for the Group:

1. Costs are fully allocated to other divisions in the Group.
2. Costs are partially allocated to other divisions in the Group, with costs attributed to enterprise activity retained in Group Businesses.
3. In March 2019, Westpac announced that it was exiting the provision of personal financial advice.

For personal use only

Notes to the consolidated financial statements

Note 2. Segment reporting (continued)

	Half Year Sept 2020						
$m	Consumer	Business	Westpac Institutional Bank	Westpac New Zealand (A$)	Specialist Businesses	Group Businesses	Group
Net interest income	4,313	2,019	506	892	247	443	8,420
Net fee income	196	191	280	56	48	66	837
Net wealth management and insurance income	-	10	-	80	266	(78)	278
Trading income	42	47	364	9	17	20	499
Other income	9	1	(18)	7	3	249	251
Net operating income before operating expenses and impairment charges	**4,560**	**2,268**	**1,132**	**1,044**	**581**	**700**	**10,285**
Operating expenses[1]	(2,141)	(1,230)	(697)	(482)	(1,128)	(862)	(6,540)
Impairment (charges) / benefits	(599)	(674)	(111)	(102)	(95)	641	(940)
Profit before income tax	**1,820**	**364**	**324**	**460**	**(642)**	**479**	**2,805**
Income tax (expense)/benefit	(546)	(108)	(139)	(129)	44	(311)	(1,189)
Net profit attributable to NCI	-	-	-	-	(1)	-	(1)
Cash earnings for the period	**1,274**	**256**	**185**	**331**	**(599)**	**168**	**1,615**
Net cash earnings adjustments	-	-	-	(4)	32	(543)	(515)
Net profit for the period attributable to owners of WBC	**1,274**	**256**	**185**	**327**	**(567)**	**(375)**	**1,100**
Balance sheet							
Loans	389,793	140,698	66,192	81,434	14,942	-	693,059
Deposits and other borrowings	219,259	151,939	102,851	68,473	9,260	39,349	591,131

	Half Year March 2020						
$m	Consumer	Business	Westpac Institutional Bank	Westpac New Zealand (A$)	Specialist Businesses	Group Businesses	Group
Net interest income	4,234	2,144	605	940	287	456	8,666
Net fee income	275	247	264	67	41	(139)	755
Net wealth management and insurance income	-	12	-	78	358	33	481
Trading income	48	50	273	18	40	-	429
Other income	3	2	19	4	(11)	(7)	10
Net operating income before operating expenses and impairment charges	**4,560**	**2,455**	**1,161**	**1,107**	**715**	**343**	**10,341**
Operating expenses[1]	(2,035)	(1,068)	(619)	(516)	(420)	(1,502)	(6,160)
Impairment (charges) / benefits	(416)	(697)	(293)	(200)	(160)	(472)	(2,238)
Profit before income tax	**2,109**	**690**	**249**	**391**	**135**	**(1,631)**	**1,943**
Income tax (expense)/benefit	(637)	(212)	(102)	(110)	(41)	153	(949)
Net profit attributable to NCI	-	-	-	-	(1)	-	(1)
Cash earnings for the period	**1,472**	**478**	**147**	**281**	**93**	**(1,478)**	**993**
Net cash earnings adjustments	-	-	-	11	(63)	249	197
Net profit for the period attributable to owners of WBC	**1,472**	**478**	**147**	**292**	**30**	**(1,229)**	**1,190**
Balance sheet							
Loans	395,625	144,959	78,595	84,778	16,269	(548)	719,678
Deposits and other borrowings	208,427	142,175	109,977	70,725	9,625	41,991	582,920

1. Included in the Specialist Businesses division in operating expenses is $538 million relating to impairment of goodwill and other intangible assets for Second Half 2020 (First Half 2020: $33 million). For other divisions, there was no impairment of goodwill and impairment of other intangibles assets was not material.

For personal use only

Notes to the consolidated financial statements

Note 2. Segment reporting (continued)

	Full Year Sept 2020						
$m	**Consumer**	**Business**	**Westpac Institutional Bank**	**Westpac New Zealand (A$)**	**Specialist Businesses**	**Group Businesses**	**Group**
Net interest income	8,547	4,163	1,111	1,832	534	899	17,086
Net fee income	471	438	544	123	89	(73)	1,592
Net wealth management and insurance income	-	22	-	158	624	(45)	759
Trading income	90	97	637	27	57	20	928
Other income	12	3	1	11	(8)	242	261
Net operating income before operating expenses and impairment charges	**9,120**	**4,723**	**2,293**	**2,151**	**1,296**	**1,043**	**20,626**
Operating expenses[1]	(4,176)	(2,298)	(1,316)	(998)	(1,548)	(2,364)	(12,700)
Impairment (charges) / benefits	(1,015)	(1,371)	(404)	(302)	(255)	169	(3,178)
Profit before income tax	**3,929**	**1,054**	**573**	**851**	**(507)**	**(1,152)**	**4,748**
Income tax (expense)/benefit	(1,183)	(320)	(241)	(239)	3	(158)	(2,138)
Net profit attributable to NCI	-	-	-	-	(2)	-	(2)
Cash earnings for the year	**2,746**	**734**	**332**	**612**	**(506)**	**(1,310)**	**2,608**
Net cash earnings adjustments	-	-	-	7	(31)	(294)	(318)
Net profit for the period attributable to owners of WBC	**2,746**	**734**	**332**	**619**	**(537)**	**(1,604)**	**2,290**
Balance sheet							
Loans	389,793	140,698	66,192	81,434	14,942	-	693,059
Deposits and other borrowings	219,259	151,939	102,851	68,473	9,260	39,349	591,131

	Full Year Sept 2019						
$m	**Consumer**	**Business**	**Westpac Institutional Bank**	**Westpac New Zealand (A$)**	**Specialist Businesses**	**Group Businesses**	**Group**
Net interest income	8,130	4,456	1,337	1,860	555	615	16,953
Net fee income	594	463	570	163	44	(179)	1,655
Net wealth management and insurance income	-	16	-	177	1,319	(489)	1,023
Trading income	94	109	636	37	54	(23)	907
Other income	7	6	(11)	46	(5)	74	117
Net operating income before operating expenses and impairment charges	**8,825**	**5,050**	**2,532**	**2,283**	**1,967**	**(2)**	**20,655**
Operating expenses	(3,794)	(2,094)	(1,220)	(939)	(847)	(1,137)	(10,031)
Impairment (charges) / benefits	(582)	(172)	(31)	10	(111)	92	(794)
Profit before income tax	**4,449**	**2,784**	**1,281**	**1,354**	**1,009**	**(1,047)**	**9,830**
Income tax (expense)/benefit	(1,333)	(838)	(356)	(369)	(292)	213	(2,975)
Net profit attributable to NCI	-	-	-	-	(5)	(1)	(6)
Cash earnings for the year	**3,116**	**1,946**	**925**	**985**	**712**	**(835)**	**6,849**
Net cash earnings adjustments	-	-	-	(1)	(45)	(19)	(65)
Net profit for the period attributable to owners of WBC	**3,116**	**1,946**	**925**	**984**	**667**	**(854)**	**6,784**
Balance sheet							
Loans	399,279	146,867	73,572	78,005	17,216	(169)	714,770
Deposits and other borrowings	207,578	142,558	99,005	60,801	9,277	44,028	563,247

1. Included in the Specialist Businesses division in operating expenses is $571 million relating to impairment of goodwill and other intangible assets for Full Year 2020. For other divisions, there was no impairment of goodwill and impairment of other intangibles assets was not material.

For personal use only

Notes to the consolidated financial statements

Note 2. Segment reporting (continued)

Reconciliation of cash earnings to reported results

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Cash earnings for the period	**1,615**	**993**	**63**	**2,608**	**6,849**	**(62)**
Cash earnings adjustments						
Fair value gain/(loss) on economic hedges	(581)	219	large	(362)	(35)	large
Ineffective hedges	37	24	54	61	20	large
Adjustments related to Pendal	32	(63)	large	(31)	(45)	(31)
Treasury shares	(3)	17	large	14	(5)	large
Total cash earnings adjustment (post-tax)	**(515)**	**197**	**large**	**(318)**	**(65)**	**large**
Net profit attributable to owners of WBC	**1,100**	**1,190**	**(8)**	**2,290**	**6,784**	**(66)**

Note 3. Net interest income

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Interest income[1]						
Calculated using the effective interest rate method						
Cash and balances with central banks	21	114	(82)	135	334	(60)
Collateral paid	6	69	(91)	75	201	(63)
Investment securities	640	881	(27)	1,521	1,919	(21)
Loans	11,512	13,336	(14)	24,848	30,029	(17)
Other financial assets	5	12	(58)	17	35	(51)
Total interest income calculated using the effective interest rate method	**12,184**	**14,412**	**(15)**	**26,596**	**32,518**	**(18)**
Other						
Net ineffectiveness on qualifying hedges	52	35	49	87	28	large
Trading securities and financial assets measured at FVIS	125	234	(47)	359	662	(46)
Loans	2	3	(33)	5	14	(64)
Total other	**179**	**272**	**(34)**	**451**	**704**	**(36)**
Total interest income	**12,363**	**14,684**	**(16)**	**27,047**	**33,222**	**(19)**
Interest expense						
Calculated using the effective interest rate method						
Collateral received	(7)	(19)	(63)	(26)	(57)	(54)
Deposits and other borrowings	(1,792)	(2,860)	(37)	(4,652)	(7,967)	(42)
Debt issues	(1,078)	(1,829)	(41)	(2,907)	(4,706)	(38)
Loan capital	(370)	(430)	(14)	(800)	(776)	3
Other financial liabilities	(11)	(87)	(87)	(98)	(274)	(64)
Total interest expense calculated using the effective interest rate method	**(3,258)**	**(5,225)**	**(38)**	**(8,483)**	**(13,780)**	**(38)**
Other						
Deposits and other borrowings	(107)	(295)	(64)	(402)	(978)	(59)
Trading liabilities[2]	(964)	177	large	(787)	(915)	(14)
Debt issues	(39)	(68)	(43)	(107)	(163)	(34)
Bank Levy	(212)	(196)	8	(408)	(391)	4
Other interest expense[3]	(87)	(77)	13	(164)	(88)	86
Total other	**(1,409)**	**(459)**	**large**	**(1,868)**	**(2,535)**	**(26)**
Total interest expense	**(4,667)**	**(5,684)**	**(18)**	**(10,351)**	**(16,315)**	**(37)**
Total net interest income	**7,696**	**9,000**	**(14)**	**16,696**	**16,907**	**(1)**

1. Interest income includes items relating to estimated customer refunds, payments, associated costs and litigation recognised as a reduction in interest income of $38 million for Second Half 2020 (First Half 2020: $132 million, Full Year 2020: $170 million; Full Year 2019: $372 million).
2. Includes net impact of Treasury balance sheet management activities.
3. Included in other interest expense for Second Half 2020 is $32 million (First Half 2020: $32 million, Full Year 2020: $64 million) relating to interest expense on lease liabilities due to the adoption of AASB 16 from 1 October 2019. Comparatives have not been restated. Refer to Notes 1 and 26 in the 2020 Annual Report for further details.

For personal use only

Notes to the consolidated financial statements

Note 4. Non-interest income[1]

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net fee income						
Facility fees	359	372	(3)	731	730	-
Transaction fees	439	582	(25)	1,021	1,225	(17)
Other non-risk fee income	134	(86)	large	48	(76)	large
Fee income	**932**	**868**	**7**	**1,800**	**1,879**	**(4)**
Credit card loyalty programs	(40)	(62)	(35)	(102)	(121)	(16)
Transaction fee related expenses	(55)	(51)	8	(106)	(103)	3
Fee expenses	**(95)**	**(113)**	**(16)**	**(208)**	**(224)**	**(7)**
Net fee income	**837**	**755**	**11**	**1,592**	**1,655**	**(4)**
Net wealth management and insurance income						
Wealth management income	**247**	**384**	**(36)**	**631**	**276**	**129**
Life insurance premium income	609	688	(11)	1,297	1,443	(10)
General insurance and lenders mortgage insurance (LMI) net premiums earned	252	247	2	499	482	4
Life insurance investment and other income[2]	68	(4)	large	64	409	(84)
General insurance and LMI investment and other income	18	24	(25)	42	52	(19)
Total insurance premium, investment and other income	**947**	**955**	**(1)**	**1,902**	**2,386**	**(20)**
Life insurance claims and changes in life insurance liabilities	(710)	(574)	24	(1,284)	(1,266)	1
General insurance and LMI claims and other expenses	(198)	(300)	(34)	(498)	(367)	36
Total insurance claims, changes in life insurance liabilities and other expenses	**(908)**	**(874)**	**4**	**(1,782)**	**(1,633)**	**9**
Net wealth management and insurance income	**286**	**465**	**(38)**	**751**	**1,029**	**(27)**
Trading income	**435**	**460**	**(5)**	**895**	**929**	**(4)**
Other income						
Dividends received from other entities	-	1	(100)	1	6	(83)
Net gain/(loss) on derecognition/sale of associates	316	-	-	316	38	large
Net gain/(loss) on disposal of assets	9	2	large	11	61	(82)
Net gain/(loss) on derivatives held for risk management purposes[3]	27	(23)	large	4	(11)	large
Net gain/(loss) on financial instruments measured at fair value	14	(92)	large	(78)	(39)	100
Net gain/(loss) on disposal of controlled entities	-	-	-	-	3	(100)
Rental income on operating leases	25	29	(14)	54	72	(25)
Share of associates' net profit/(loss)	(9)	(14)	(36)	(23)	(23)	-
Other	(57)	21	large	(36)	22	large
Total other income	**325**	**(76)**	**large**	**249**	**129**	**93**
Total non-interest income	**1,883**	**1,604**	**17**	**3,487**	**3,742**	**(7)**

1. Non-interest income includes items relating to estimated customer refunds, payments, associated costs and litigation recognised as a reduction in non-risk fee income, wealth management income and other income of $96 million in Second Half 2020 (First Half 2020: $129 million, Full Year 2020: $225 million, Full Year 2019: $860 million). Refer to Note 14 for further details.
2. Includes policyholder tax recoveries.
3. Income from derivatives held for risk management purposes reflects the impact of economic hedges of earnings.

For personal use only

Notes to the consolidated financial statements

Note 5. Operating expenses[1]

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Staff expenses						
Employee remuneration, entitlements and on-costs	2,273	2,155	5	4,428	4,320	3
Superannuation expense	206	207	-	413	378	9
Share-based payments	33	47	(30)	80	108	(26)
Restructuring costs	59	35	69	94	232	(59)
Total staff expenses	**2,571**	**2,444**	**5**	**5,015**	**5,038**	**-**
Occupancy expenses						
Operating lease rentals	84	64	31	148	658	(78)
Depreciation and impairment of property and equipment[2]	320	388	(18)	708	222	large
Other	98	62	58	160	143	12
Total occupancy expenses	**502**	**514**	**(2)**	**1,016**	**1,023**	**(1)**
Technology expenses						
Amortisation and impairment of software assets	502	468	7	970	719	35
Depreciation and impairment of IT equipment[2]	147	125	18	272	129	111
Technology services	350	348	1	698	810	(14)
Software maintenance and licences	205	193	6	398	371	7
Telecommunications	117	99	18	216	207	4
Data processing	45	44	2	89	83	7
Total technology expenses	**1,366**	**1,277**	**7**	**2,643**	**2,319**	**14**
Other expenses						
Professional and processing services	774	600	29	1,374	1,060	30
Amortisation and impairment of intangible assets and deferred expenditure	520	3	large	523	9	large
Postage and stationery	81	83	(2)	164	179	(8)
Advertising	95	122	(22)	217	245	(11)
Non-lending losses	474	969	(51)	1,443	58	large
Other expenses	175	169	4	344	175	97
Total other expenses	**2,119**	**1,946**	**9**	**4,065**	**1,726**	**136**
Total operating expenses	**6,558**	**6,181**	**6**	**12,739**	**10,106**	**26**

1. In Second Half 2020, operating expenses include estimated costs associated with AUSTRAC proceedings of $420 million, (First Half 2020: $1,058 million, Full Year 2020: $1,478 million, Full Year 2019: nil) which includes a provision for a penalty of $400 million (First Half 2020: $900 million, Full Year 2020: $1,300 million, Full Year 2019: nil) and estimated customer refunds, payments, associated costs and litigation of $173 million (First Half 2020: $144 million, Full Year 2020: $317 million; Full Year 2019: $196 million). Refer to Note 14 for further details.
2. These balances include depreciation of right-of-use assets for Second Half 2020 of $313 million (First Half 2020: $317 million, Full Year 2020: $630 million) due to the adoption of AASB 16 from 1 October 2019. Comparatives have not been restated. Refer to Notes 1 and 26 in the 2020 Annual Report for further details.

For personal use only

Notes to the consolidated financial statements

Note 6. Income tax

The income tax expense is reconciled to the profit before income tax as follows:

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Profit before income tax	**2,081**	**2,185**	**(5)**	**4,266**	**9,749**	**(56)**
Tax at the Australian company tax rate of 30%	624	656	(5)	1,280	2,925	(56)
The effect of amounts which are not deductible/ (assessable) in calculating taxable income:						
Hybrid capital distributions	26	30	(13)	56	72	(22)
Life insurance:						
Tax adjustment on policyholder earnings	7	(24)	large	(17)	8	large
Adjustment for life business tax rates	-	1	(100)	1	(1)	large
Dividend adjustments	-	-	-	-	(1)	(100)
Other non-assessable items	(2)	(1)	100	(3)	(14)	(79)
Other non-deductible items	290	295	(2)	585	12	large
Adjustment for overseas tax rates	6	10	(40)	16	(32)	large
Income tax (over)/under provided in prior periods	1	-	-	1	(10)	large
Other items	28	27	4	55	-	-
Total income tax expense	**980**	**994**	**(1)**	**1,974**	**2,959**	**(33)**
Effective income tax rate	**47.09%**	**45.49%**	**160 bps**	**46.27%**	**30.35%**	**large**

Note 7. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares on issue during the period, adjusted for treasury shares. Diluted EPS is calculated by adjusting the basic EPS by assuming all dilutive potential ordinary shares are converted.

	Half Year Sept 2020		Half Year March 2020		Full Year Sept 2020		Full Year Sept 2019	
$m	**Basic**	**Diluted**	**Basic**	**Diluted**	**Basic**	**Diluted**	**Basic**	**Diluted**
Net profit attributable to shareholders	1,100	1,100	1,190	1,190	2,290	2,290	6,784	6,784
Adjustment for RSP dividends[1]	-	-	(2)	(2)	(2)	(2)	(6)	(6)
Adjustment for potential dilution:								
Distributions to convertible loan capital holders[2]	-	75	-	-	-	-	-	290
Adjusted net profit attributable to shareholders	**1,100**	**1,175**	**1,188**	**1,188**	**2,288**	**2,288**	**6,778**	**7,068**
Weighted average number of ordinary shares (millions)								
Weighted average number of ordinary shares on issue	3,612	3,612	3,579	3,579	3,595	3,595	3,456	3,456
Treasury shares (including RSP share rights)[1]	(6)	(6)	(5)	(5)	(5)	(5)	(6)	(6)
Adjustment for potential dilution:								
Share-based payments	-	3	-	1	-	1	-	1
Convertible loan capital[2]	-	325	-	-	-	-	-	278
Adjusted weighted average number of ordinary shares	**3,606**	**3,934**	**3,574**	**3,575**	**3,590**	**3,591**	**3,450**	**3,729**
Earnings per ordinary share (cents)	**30.5**	**29.9**	**33.2**	**33.2**	**63.7**	**63.7**	**196.5**	**189.5**

1. Some shares under the RSP have not vested and are not outstanding ordinary shares but do receive dividends. These RSP dividends are deducted to show the profit attributable to ordinary shareholders. Shares under the RSP were dilutive in Second Half 2020 and antidilutive in all other periods presented.
2. The Group has issued convertible loan capital which may convert into ordinary shares in the future. These convertible loan capital instruments are potentially dilutive instruments, and diluted EPS is therefore calculated as if the instruments had been converted at the beginning of the respective period or, if later, the instruments' issue date. In Second Half 2020, all convertible loan capital instruments, except for Westpac capital note 4, were dilutive (First Half 2020 and Full Year 2020: all convertible loan capital instruments were antidilutive, Full Year 2019: all convertible loan capital instruments were dilutive).

For personal use only

Notes to the consolidated financial statements

Note 8. Average balance sheet and interest rates

	Full Year Sept 2020			Full Year Sept 2019		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Assets						
Interest earnings assets						
Collateral paid	15,732	75	0.5	10,823	201	1.9
Trading securities and financial assets measured at FVIS	29,629	359	1.2	29,074	662	2.3
Investment securities	78,181	1,521	1.9	63,787	1,919	3.0
Loans and other receivables[1]	698,176	25,092	3.6	695,240	30,440	4.4
Total interest earning assets and interest income	**821,718**	**27,047**	**3.3**	**798,924**	**33,222**	**4.2**
Non-interest earning assets						
Derivative financial instruments	31,334			25,959		
Life insurance assets	4,614			9,610		
All other assets[2]	62,414			60,231		
Total non-interest earning assets	**98,362**			**95,800**		
Total assets	**920,080**			**894,724**		
Liabilities						
Interest bearing liabilities						
Collateral received	7,581	26	0.3	3,617	57	1.6
Deposits and other borrowings	518,633	5,054	1.0	506,789	8,945	1.8
Loan capital	22,711	800	3.5	18,181	776	4.3
Other interest bearing liabilities[3]	196,716	4,471	2.3	205,695	6,537	3.2
Total interest bearing liabilities and interest expense	**745,641**	**10,351**	**1.4**	**734,282**	**16,315**	**2.2**
Non-interest bearing liabilities						
Deposits and other borrowings	54,892			49,270		
Derivative financial instruments	33,249			26,568		
Life insurance liabilities	2,999			7,653		
All other liabilities[4]	15,233			13,187		
Total non-interest bearing liabilities	**106,373**			**96,678**		
Total liabilities	**852,014**			**830,960**		
Shareholders' equity	68,014			63,714		
NCI	52			50		
Total equity	**68,066**			**63,764**		
Total liabilities and equity	**920,080**			**894,724**		
Loans and other receivables[1]						
Australia	585,643	21,315	3.6	589,427	25,931	4.4
New Zealand	85,184	3,237	3.8	79,255	3,650	4.6
Other overseas	27,349	540	2.0	26,558	859	3.2
Deposits and other borrowings						
Australia	435,877	3,745	0.9	425,799	7,023	1.6
New Zealand	57,096	882	1.5	54,720	1,235	2.3
Other overseas	25,660	427	1.7	26,270	687	2.6

1. Loans and other receivables are net of Stage 3 provision for ECL, where interest income is determined based on their carrying value. Stages 1 and 2 provisions for ECL are not included in the average interest earning assets balance, as interest income is determined based on the gross value of loans and other receivables.
2. Includes property and equipment, intangible assets, deferred tax assets, non-interest bearing loans relating to mortgage offset accounts and all other non-interest earning assets.
3. Includes net impact of Treasury balance sheet management activities and the Bank Levy.
4. Includes other financial liabilities, provisions, current and deferred tax liabilities and other non-interest bearing liabilities.

For personal use only

Notes to the consolidated financial statements

Note 9. Loans

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Australia					
Housing	440,933	445,663	449,201	(1)	(2)
Personal	17,081	19,854	21,247	(14)	(20)
Business	147,584	155,322	152,360	(5)	(3)
Total Australia	**605,598**	**620,839**	**622,808**	**(2)**	**(3)**
New Zealand					
Housing	51,126	52,037	47,731	(2)	7
Personal	1,360	1,610	1,709	(16)	(20)
Business	29,864	32,021	29,285	(7)	2
Total New Zealand	**82,350**	**85,668**	**78,725**	**(4)**	**5**
Total other overseas	**10,713**	**18,361**	**16,845**	**(42)**	**(36)**
Total loans	**698,661**	**724,868**	**718,378**	**(4)**	**(3)**
Provision for expected credit losses (ECL) on loans (Note 10)	(5,602)	(5,190)	(3,608)	8	55
Total net loans[1,2]	**693,059**	**719,678**	**714,770**	**(4)**	**(3)**

Note 10. Provisions for expected credit losses

Loans and credit commitments

The following table shows the provision for ECL on loans and credit commitments by stage:

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Performing - Stage 1	1,084	1,181	884	(8)	23
Performing - Stage 2	2,875	2,878	1,674	-	72
Non-performing - Stage 3	2,173	1,707	1,355	27	60
Total provisions for ECL on loans and credit commitments	**6,132**	**5,766**	**3,913**	**6**	**57**
Presented as:					
Provision for ECL on loans (Note 9)	5,602	5,190	3,608	8	55
Provision for ECL on credit commitments (Note 14)	530	576	305	(8)	74
Total provisions for ECL on loans and credit commitments	**6,132**	**5,766**	**3,913**	**6**	**57**
Of which:					
Individually assessed provisions	611	606	412	1	48
Collectively assessed provisions	5,521	5,160	3,501	7	58
Total provisions for ECL on loans and credit commitments	**6,132**	**5,766**	**3,913**	**6**	**57**

1. Total net loans include securitised loans of $7,367 million (31 March 2020: $9,029 million, 30 September 2019: $7,737 million). The level of securitised loans excludes loans where Westpac is the holder of related debt securities.
2. Total net loans include assets pledged for the covered bond programs of $37,222 million (31 March 2020: $39,348 million, 30 September 2019: $38,832 million).

For personal use only

Notes to the consolidated financial statements

Note 10. Provisions for expected credit losses (continued)

Movement in provision for ECL on loans and credit commitments

$m	Performing Stage 1	Performing Stage 2	Non-performing Stage 3	Total
Balance as at 30 September 2019	**884**	**1,674**	**1,355**	**3,913**
Transfers to Stage 1	600	(583)	(17)	-
Transfers to Stage 2	(131)	466	(335)	-
Transfers to Stage 3	(2)	(334)	336	-
Business activity during the period	120	114	(50)	184
Net remeasurement of provision for ECL	(297)	1,526	911	2,140
Write-offs	-	-	(537)	(537)
Exchange rate and other adjustments	7	15	44	66
Balance as at 31 March 2020	**1,181**	**2,878**	**1,707**	**5,766**
Transfers to Stage 1	978	(945)	(33)	-
Transfers to Stage 2	(214)	695	(481)	-
Transfers to Stage 3	(5)	(621)	626	-
Business activity during the period	92	(54)	(27)	11
Net remeasurement of provision for ECL	(936)	948	1,004	1,016
Write-offs	-	-	(633)	(633)
Exchange rate and other adjustments	(12)	(26)	10	(28)
Balance as at 30 September 2020	**1,084**	**2,875**	**2,173**	**6,132**

The following table provides further details of the provision for ECL by class and stage:

$m	Performing Stage 1	Performing Stage 2	Non-performing Stage 3	Total
Housing	163	354	591	1,108
Personal	268	459	248	975
Business	453	861	516	1,830
Balance as at 30 September 2019	**884**	**1,674**	**1,355**	**3,913**
Housing	195	544	583	1,322
Personal	267	562	319	1,148
Business	719	1,772	805	3,296
Balance as at 31 March 2020	**1,181**	**2,878**	**1,707**	**5,766**
Housing	192	747	977	1,916
Personal	216	408	232	856
Business	676	1,720	964	3,360
Balance as at 30 September 2020	**1,084**	**2,875**	**2,173**	**6,132**

For personal use only

Notes to the consolidated financial statements

Note 10. Provisions for expected credit losses (continued)

Impact of Overlays on the provision for ECL for the year ending 30 September 2020

The following table attributes the breakup between modelled ECL and other economic overlays.

Where there is increased uncertainty regarding the required forward-looking economic conditions under AASB 9, or limitations of the historical data used to calibrate the models to current stressed environments, overlays are typically used to address areas of potential risk not captured in the underlying modelled ECL.

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019
Modelled provision for ECL	5,480	5,147	3,801
Overlays[1]	652	619	112
Total provision for ECL	**6,132**	**5,766**	**3,913**

Details of these changes, which are based on reasonable and supportable information up to the date of this report are provided below.

Modelled provision for ECL

The modelled provision for ECL is a probability weighted estimate based on three scenarios which together are representative of the Group's view of the forward-looking distribution of potential loss outcomes. The increase in provisions as a result of changes in modelled ECL are reflected through the "net remeasurement of provision for ECL" line.

The base case scenario uses current Westpac Economics forecasts and reflects the latest available macroeconomic view which shows a deterioration in the short term, with a subsequent recovery. The latest view considers both the economic and societal impacts of COVID-19, the Australian Government stimulus measures implemented to cushion the impacts, including the JobKeeper package and the New Zealand Government stimulus package. The Westpac Australian economics forecast assumes the following:

- forecast growth of 2.5% for GDP in calendar year 2021;
- forecast a contraction of 19.3% for commercial property prices in calendar year 2021;
- forecast a marginal dip in residential property prices in calendar year 2021; and
- unemployment rate forecast to peak at 7.9% in February 2021 and then fall to 7.5% at December 2021.

The downside scenario is a more severe scenario with expected credit losses higher than the base case scenario. The more severe loss outcome for the downside is generated under a recession scenario in which the combination of negative GDP growth, declines in commercial and residential property prices and an increase in the unemployment rate simultaneously impact expected credit losses across all portfolios from the reporting date. The assumptions in this scenario and relativities to the base case scenario will be monitored having regard to the emerging economic conditions and updated where necessary. The upside scenario represents a modest improvement to the base case.

The following sensitivity table shows the reported provision for ECL based on the probability weighted scenarios and what the provisions for ECL would be assuming a 100% weighting is applied to the base case scenario and to the downside scenario (with all other assumptions, including customer risk grades, held constant).

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019
Reported probability-weighted ECL	6,132	5,766	3,913
100% base case ECL	4,750	4,476	2,748
100% downside ECL	8,315	7,902	7,065

If 1% of the stage 1 gross exposure from loans and credit commitments (calculated on a 12 month ECL) was reflected in Stage 2 (calculated on a lifetime ECL) the provision for ECL would increase by $296 million (2019:$236 million) for the Group based on applying the average provision coverage ratios by stage to the movement in the gross exposure by stage.

1. Included in 2020 is $577 million related to COVID-19.

For personal use only

Notes to the consolidated financial statements

Note 10. Provisions for expected credit losses (continued)

The following table indicates the weightings applied by the Group:

Macroeconomic scenario weightings (%)	30 Sept 2020	31 March 2020	30 Sept 2019
Upside	5.0	5.0	10.0
Base	55.0	55.0	62.5
Downside	40.0	40.0	27.5

The increase in weighting to the downside scenario since 30 September 2019 reflects the continuing uncertainty around the economic assumptions used in the base case and the asymmetric impact of downside tail risk on ECL. In particular, the current base case economic forecast indicates a relatively short and sharp economic impact followed by a subsequent recovery. There is a risk that the economic impacts of COVID-19 could be deeper or more prolonged which would result in higher credit losses than those modelled under the base case.

The COVID-19 pandemic is leading to material structural shifts in the behaviour of the economy and customers, and unprecedented actions by banks, governments and regulators in response. ECL models are expected to be subject to a higher than usual level of uncertainty during this period. In this environment there is a heightened need for the application of judgement in order to reflect these evolving relationships and risks.

This judgement has been applied in the form of the revision to scenario weightings and a COVID-19 overlay.

COVID-19 overlay

Where there is increased uncertainty regarding the required forward-looking economic conditions under AASB 9, or limitations of the historical data used to calibrate the models to current stressed environments, overlays are typically used to address areas of potential risk not captured in the underlying modelled ECL.

The COVID-19 pandemic has had, and continues to have, an impact on businesses around the world and the economic environments in which they operate. There also exists significant uncertainty regarding the duration and severity of COVID-19 impacts and the associated disruption to the economy and our customers. While the impacts on the broader economy are included in the assumptions used in the economic scenarios and the weightings applied to these scenarios, these general economy wide impacts may not fully reflect the specific impact on individual customers, and therefore the potential risk is not captured in the underlying modelled ECL. As overlays require the application of expert judgment, they are documented and subject to comprehensive internal governance and oversight.

The Group's COVID-19 overlay as of September 2020 is $577 million, of which, $404 million relates to COVID-19 deferral packages.

The deferral of payments by customers in hardship arrangements is generally treated as an indication of a significant increase in credit risk (SICR) but the deferral of payments under the current COVID-19 support packages for mortgages, personal and business loans has not, in isolation, been treated as an indication of SICR. As highlighted by the IASB in its guidance document 'IFRS 9 and COVID-19' issued on 27 March 2020, in these changed circumstances it is not appropriate to apply previously established approaches to assessing significant increase in credit risk ('SICR') for payment holidays in a mechanistic manner.

These relief packages are available to customers who require assistance because of COVID-19 and who otherwise had up to date payment status prior to the onset of COVID-19. The relief packages allow for a deferral of payments for up to 6 months. During this period, the deferred interest will be capitalised and the deferred principal along with the capitalised interest, will be repaid over the remaining term of the loan. These packages have been designed to provide short-term cash flow support while the most significant COVID-19 restrictions are in place. A further extension allowing for up to an additional 4 month deferral up to 31 March 2021 has been announced. The extension will not be automatic and will require up-to-date financial information on each borrower to confirm that there is a reasonable prospect to repay the loan.

As the situation has evolved since March 2020, the Group has classified the deferral packages into different categories of risk. Each of these categories are assigned a corresponding AASB 9 staging level based on whether SICR is deemed to have occurred because of the increased likelihood of a risk of default. The group has identified a proportion of deferral packages as higher credit risk and has identified a SICR event to have occurred on these customers. An overlay estimation has been done on this base of customers.

We continue to monitor our lending portfolios closely and reassess our provisioning levels as the situation around COVID-19 evolves. At the cessation of the COVID-19 support packages, , it is likely that some customers will move into general hardship arrangements (Stage 2). Exposures allocated to Stage 3 relies only observable evidence of default.

For personal use only

Notes to the consolidated financial statements

Note 10. Provisions for expected credit losses (continued)

Business lending (including institutional)

The business lending overlay relates to the increased credit risk relating to a portion of small business and transaction managed (<$10 million TCE) customers currently on COVID-19 relief packages or still to be reviewed.

Based on this judgement we have identified $2.4 billion of business portfolio exposures on which a lifetime ECL overlay has been determined. This has resulted in a $223m million overlay for business lending exposures which is included in Stage 2 provision.

Retail lending

The retail lending overlay relates to the increased credit risk relating to a portion of housing and personal customers currently on COVID-19 relief packages. Customers with packages have been segmented into different categories of risk based on how these customers are expected to perform following the expiry of the package. Customers assessed to be high risk have been considered for an overlay estimation and a lifetime ECL overlay has been determined for these customers.

We have identified $7.5 billion of retail exposures on which a lifetime ECL overlay has been determined. This has resulted in a $354 million overlay which is included in Stage 2 provision.

The judgements and assumptions used in estimating the above overlays will be reviewed and refined as both the COVID-19 pandemic and portfolio evolves.

Impact of changes in credit exposures on the provision for ECL

- Stage 1 exposures had a net decrease of $52.9 billion (2019: $7.6 billion) primarily driven by decreases in housing and business segments. The decrease is impacted by underlying balance reduction as well as an additional $31.3 billion transferred to Stage 2 to account for staging methodology changes and TCE associated with overlays.
- Stage 2 credit exposures increased by $34.3 billion (2019: $2.1 billion) mainly driven by increases from the business segment and the impact of the additional $31.3 billion transferred to Stage 2 to account for staging methodology changes and TCE associated with overlays . The Stage 2 underlying exposure increase has been driven by the business segment resulting from credit reviews in the portfolio. Stage 2 ECL has increased driven by the COVID-19 overlay, impacts from revised macro-economic forecasts/weightings and underlying increase in Stage 2 exposures.
- Stage 3 credit exposures had a net increase of $4.5 billion (2019: $0.9 billion) driven by net transfers to Stage 3 from Stage 1 and Stage 2 with the increase driven by the housing portfolio. The increase in Stage 3 exposures is in line with increase in 90 days past due for the home loans portfolio. Stage 3 ECL has increased in line with the increase in Stage 3 exposures.

For personal use only

Notes to the consolidated financial statements

Note 10. Provisions for expected credit losses (continued)

Investment Securities – debt securities

The following tables reconcile the provision for ECL on debt securities.

$m	Debt securities at FVOCI[1]	Debt securities at amortised cost	Total Investment securities - debt securities
Balance as at 30 September 2019	**2**	**9**	**11**
Stage 1 - change in the provision during the period	1	10	11
Stage 2 - change in the provision during the period	-	3	3
Balance as at 31 March 2020	**3**	**22**	**25**
Stage 1 - change in the provision during the period	1	(19)	(18)
Stage 2 - change in the provision during the period	-	24	24
Balance as at 30 September 2020	**4**	**27**	**31**

Reconciliation of impairment charges

$m	Half Year Sept 2020	Half Year March 2020	Full Year Sept 2020	Full Year Sept 2019
Loans and credit commitments:				
Business activity during the period	11	184	195	(170)
Net remeasurement of the provision for ECL	1,016	2,140	3,156	1,136
Impairment charges for debt securities at amortised cost	5	13	18	-
Impairment charges for debt securities at FVOCI[1]	1	1	2	-
Recoveries	(93)	(100)	(193)	(172)
Total impairment charges	**940**	**2,238**	**3,178**	**794**

Note 11. Credit Quality

The loans and credit commitments balance in stage 3 (non-performing) is represented by those loans and credit commitments which are in default. A default occurs when Westpac considered that the customer is unlikely to repay its credit obligations in full, irrespective of recourse by the Group to actions such as realising security, or the customer is more than 90 days past due on any material credit obligation. This definition of default is aligned to the APRA regulatory definition of default. These can be disaggregated into impaired loans and credit commitments (which is where the customer is unlikely to pay its credit obligations in full including restructured loans) and items 90 days past due, or otherwise in default but not impaired.

Impaired loans and credit commitments include:

- housing and business loans with insufficient security to cover the principal and interest payments owing (aligned to an impaired internal credit risk grade);
- personal loans which are greater than 90 days past due; and
- restructured loans (the original contractual terms have been modified to provide for concessions for a customer facing financial difficulties).

Items 90 days past due, or otherwise in default but not impaired include:

- currently 90 days or more past due but well secured[2];
- assets that were, but are no longer 90 days past due but are yet to satisfactorily demonstrate sustained improvement to allow reclassification; and
- other assets in default and not impaired, including those where an order for bankruptcy or similar legal action has been taken (e.g. appointment of an Administrator or Receiver).

Further detail of these balances is as follows:

1. Impairment on debt securities at FVOCI is recognised in the income statement with a corresponding amount in other comprehensive income (refer to Note 15). There is no reduction of the carrying value of the debt securities which remains at fair value.
2. The estimated net realisable value of security to which the Group has recourse is sufficient to cover all principal and interest.

For personal use only

Notes to the consolidated financial statements

Note 11. Credit quality (continued)

Non-performing loans and credit commitments

$m	As at 30 Sept 20	As at 31 March 2020	As at 30 Sept 19
Impaired exposures			
Australia			
Housing and business loans			
Gross amount	1,845	1,267	1,215
Provision[1]	(690)	(530)	(491)
Net	**1,155**	**737**	**724**
Personal loans greater than 90 days past due			
Gross amount	370	402	384
Provision[2]	(206)	(285)	(233)
Net	**164**	**117**	**151**
Restructured loans			
Gross amount	16	14	16
Provision[1]	(4)	(3)	(6)
Net	**12**	**11**	**10**
New Zealand			
Housing and business loans			
Gross amount	157	175	62
Provision[1]	(70)	(73)	(26)
Net	**87**	**102**	**36**
Personal loans greater than 90 days past due			
Gross amount	36	33	20
Provision[2]	(26)	(26)	(15)
Net	**10**	**7**	**5**
Restructured loans			
Gross amount	-	-	12
Provision[1]	-	-	(3)
Net	**-**	**-**	**9**
Other overseas			
Housing and business loans			
Gross amount	355	259	50
Provision[1]	(156)	(161)	(17)
Net	**199**	**98**	**33**
Personal loans greater than 90 days past due			
Gross amount	-	1	1
Provision[2]	-	-	-
Net	**-**	**1**	**1**
Restructured loans			
Gross amount	-	3	3
Provision[1]	-	(1)	(1)
Net	**-**	**2**	**2**
Total impaired exposures			
Gross amount	2,779	2,154	1,763
Provision[1,2]	(1,152)	(1,079)	(792)
Total net impaired exposures	**1,627**	**1,075**	**971**
Items 90 days past due, or otherwise in default but not impaired			
Australia			
Gross amount	7,976	4,965	4,684
Provision	(941)	(575)	(521)
Net	**7,035**	**4,390**	**4,163**
New Zealand			
Gross amount	503	389	340
Provision	(72)	(45)	(33)
Net	**431**	**344**	**307**
Overseas			
Gross amount	53	55	64
Provision	(8)	(8)	(9)
Net	**45**	**47**	**55**
Total items 90 days past due, or otherwise in default but not impaired			
Gross amount	8,532	5,409	5,088
Provision	(1,021)	(628)	(563)
Total net items 90 days past due, or otherwise in default but not impaired	**7,511**	**4,781**	**4,525**
Total non-performing loans and credit commitments			
Gross amount	11,311	7,563	6,851
Provision	(2,173)	(1,707)	(1,355)
Total net non-performing loans and credit commitments	**9,138**	**5,856**	**5,496**

1. Includes individually assessed provisions and collectively assessed provisions on impaired exposures.
2. Includes collectively assessed provisions on impaired exposures.

For personal use only

Notes to the consolidated financial statements

Note 12. Deposits and other borrowings

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Australia					
Certificates of deposit	25,647	21,029	26,259	22	(2)
Non-interest bearing, repayable at call	48,303	44,557	43,341	8	11
Other interest bearing at call	304,761	274,071	247,161	11	23
Other interest bearing term	125,820	141,933	158,564	(11)	(21)
Total Australia	**504,531**	**481,590**	**475,325**	**5**	**6**
New Zealand					
Certificates of deposit	2,773	3,452	1,058	(20)	162
Non-interest bearing, repayable at call	10,711	9,526	6,368	12	68
Other interest bearing at call	26,300	25,822	22,291	2	18
Other interest bearing term	28,689	31,925	31,084	(10)	(8)
Total New Zealand	**68,473**	**70,725**	**60,801**	**(3)**	**13**
Other overseas					
Certificates of deposit	7,258	14,638	11,414	(50)	(36)
Non-interest bearing, repayable at call	868	1,007	824	(14)	5
Other interest bearing at call	1,864	1,834	1,610	2	16
Other interest bearing term	8,137	13,126	13,273	(38)	(39)
Total other overseas	**18,127**	**30,605**	**27,121**	**(41)**	**(33)**
Total deposits and other borrowings	**591,131**	**582,920**	**563,247**	**1**	**5**

For personal use only

Notes to the consolidated financial statements

Note 13. Fair values of financial assets and liabilities

Fair Valuation Control Framework

The Group uses a Fair Valuation Control Framework where the fair value is either determined or validated by a function independent of the transaction. This framework formalises the policies and procedures used to achieve compliance with relevant accounting, industry and regulatory standards. The framework includes specific controls relating to:

- the revaluation of financial instruments;
- independent price verification;
- fair value adjustments; and
- financial reporting.

A key element of the framework is the Revaluation Committee, comprising senior valuation specialists from within the Group. The Revaluation Committee reviews the application of the agreed policies and procedures to assess that a fair value measurement basis has been applied.

The method of determining fair value differs depending on the information available.

Fair value hierarchy

A financial instrument's categorisation within the valuation hierarchy is based on the lowest level input that is significant to the fair value measurement.

The Group categorises all fair value instruments according to the hierarchy described below.

Valuation techniques

The Group applies market accepted valuation techniques in determining the fair valuation of over the counter (OTC) derivatives. This includes CVA and FVA, which incorporate credit risk and funding costs and benefits that arise in relation to uncollateralised derivative positions, respectively.

The specific valuation techniques, the observability of the inputs used in valuation models and the subsequent classification for each significant product category are outlined as follows:

Level 1 instruments

The fair value of financial instruments traded in active markets based on recent unadjusted quoted prices. These prices are based on actual arm's length basis transactions.

The valuations of Level 1 instruments require little or no management judgement.

Instrument	Balance sheet category	Includes	Valuation
Exchange traded products	Derivatives	Exchange traded interest rate futures and options and commodity, energy and carbon futures	All these instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.
FX products	Derivatives	FX spot and futures contracts	
Equity products	Derivatives Trading securities and financial assets measured at FVIS Other financial liabilities	Listed equities and equity indices	
Non-asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities Other financial liabilities	Australian Commonwealth and New Zealand government bonds	
Life insurance assets and liabilities	Life insurance assets Life insurance liabilities	Listed equities, exchange traded derivatives and short sale of listed equities within controlled managed investment schemes	

For personal use only

Notes to the consolidated financial statements

Note 13. Fair values of financial assets and liabilities (continued)

Level 2 instruments

The fair value for financial instruments that are not actively traded are determined using valuation techniques which maximise the use of observable market prices. Valuation techniques include:

- the use of market standard discounting methodologies;
- option pricing models; and
- other valuation techniques widely used and accepted by market participants.

Instrument	Balance sheet category	Includes	Valuation
Interest rate products	Derivatives	Interest rate and inflation swaps, swaptions, caps, floors, collars and other non-vanilla interest rate derivatives	Industry standard valuation models are used to calculate the expected future value of payments by product, which is discounted back to a present value. The model's interest rate inputs are benchmark interest rates and active broker quoted interest rates in the swap, bond and future markets. Interest rate volatilities are sourced from brokers and consensus data providers. If consensus prices are not available, these are classified as Level 3 instruments.
FX products	Derivatives	FX swap, FX forward contracts, FX options and other non-vanilla FX derivatives	Derived from market observable inputs or consensus pricing providers using industry standard models.
Other credit products	Derivatives	Single name and index credit default swaps (CDS)	Valued using an industry standard model that incorporates the credit spread as its principal input. Credit spreads are obtained from consensus data providers. If consensus prices are not available, these are classified as Level 3 instruments.
Commodity products	Derivatives	Commodity, energy and carbon derivatives	Valued using industry standard models. The models calculate the expected future value of deliveries and payments and discount them back to a present value. The model inputs include forward curves, volatilities implied from market observable inputs, discount curves and underlying spot and futures prices. The significant inputs are market observable or available through a consensus data provider. If consensus prices are not available, these are classified as Level 3 instruments.
Equity products	Derivatives	Exchange traded equity options, OTC equity options and equity warrants	Due to low liquidity, exchange traded options are Level 2. Valued using industry standard models based on observable parameters such as stock prices, dividends, volatilities and interest rates.
Asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities	Australian residential mortgage backed securities (RMBS) denominated in Australian dollar and other asset backed securities (ABS)	Valued using an industry approach to value floating rate debt with prepayment features. Australian RMBS are valued using prices sourced from a consensus data provider. If consensus prices are not available these are classified as Level 3 instruments.
Non-asset backed debt instruments	Trading securities and financial assets measured at FVIS Investment securities Other financial liabilities	State and other government bonds, corporate bonds and commercial paper Repurchase agreements and reverse repurchase agreements over non-asset backed debt securities	Valued using observable market prices which are sourced from independent pricing services, broker quotes or inter-dealer prices.
Loans at fair value	Loans	Fixed rate bills and syndicated loans	Discounted cash flow approach, using a discount rate which reflects the terms of the instrument and the timing of cash flows, adjusted for creditworthiness, or expected sale amount.
Certificates of deposit	Deposits and other borrowings	Certificates of deposit	Discounted cash flow using market rates offered for deposits of similar remaining maturities.
Debt issues at fair value	Debt issues	Debt issues	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in Westpac's implied credit worthiness.

For personal use only

Notes to the consolidated financial statements

Note 13. Fair values of financial assets and liabilities (continued)

Instrument	Balance sheet category	Includes	Valuation
Life insurance assets and liabilities	Life insurance assets Life insurance liabilities	Corporate bonds, over the counter derivatives, units in unlisted unit trusts, life insurance contract liabilities, life investment contract liabilities and external liabilities of managed investment schemes controlled by statutory life funds	Valued using observable market prices or other widely used and accepted valuation techniques utilising observable market input.

Level 3 instruments

Financial instruments valued where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historical transactions.

These valuations are calculated using a high degree of management judgement.

Instrument	Balance sheet category	Includes	Valuation
Debt instruments	Trading securities and financial assets measured at FVIS Investment securities	Certain ABS, offshore non-ABS and debt securities issued via private placement	These securities are evaluated by an independent pricing service or based on third party revaluations. Due to their illiquidity and/or complexity these are classified as Level 3 assets.
Equity instruments	Trading securities and financial assets measured at FVIS Investment securities	Strategic equity investments	Valued using valuation techniques appropriate to the instrument, including the use of recent arm's length transactions where available, discounted cash flow approach or reference to the net assets of the entity. Due to their illiquidity, complexity and/or use of unobservable inputs into valuation models, they are classified as Level 3 assets.

For personal use only

Notes to the consolidated financial statements

Note 13. Fair values of financial assets and liabilities (continued)

The following tables summarise the attribution of financial instruments measured at fair value to the fair value hierarchy:

	As at 30 Sept 2020			
$m	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value on a recurring basis				
Trading securities and financial assets measured at FVIS	8,059	32,387	221	40,667
Derivative financial instruments	10	23,353	4	23,367
Investment securities	18,032	72,370	153	90,555
Loans	-	540	21	561
Life insurance assets	617	2,976	-	3,593
Total financial assets measured at fair value on a recurring basis	**26,718**	**131,626**	**399**	**158,743**
Financial liabilities measured at fair value on a recurring basis				
Deposits and other borrowings	-	35,764	-	35,764
Other financial liabilities	420	4,229	-	4,649
Derivative financial instruments	10	23,031	13	23,054
Debt issues	-	5,333	-	5,333
Life insurance liabilities	-	1,396	-	1,396
Total financial liabilities measured at fair value on a recurring basis	**430**	**69,753**	**13**	**70,196**

	As at 31 March 2020			
$m	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value on a recurring basis				
Trading securities and financial assets measured at FVIS	5,252	20,808	220	26,280
Derivative financial instruments	17	56,620	24	56,661
Investment securities	15,320	69,206	152	84,678
Loans	-	246	22	268
Life insurance assets	600	1,974	-	2,574
Total financial assets measured at fair value on a recurring basis	**21,189**	**148,854**	**418**	**170,461**
Financial liabilities measured at fair value on a recurring basis				
Deposits and other borrowings	-	38,794	-	38,794
Other financial liabilities	261	10,239	-	10,500
Derivative financial instruments	14	48,031	44	48,089
Debt issues	-	6,295	-	6,295
Life insurance liabilities	-	604	-	604
Total financial liabilities measured at fair value on a recurring basis	**275**	**103,963**	**44**	**104,282**

	As at 30 Sept 2019			
$m	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value on a recurring basis				
Trading securities and financial assets measured at FVIS	10,440	21,121	220	31,781
Derivative financial instruments	7	29,828	24	29,859
Investment securities	11,163	61,284	134	72,581
Loans	-	239	21	260
Life insurance assets	1,097	8,270	-	9,367
Total financial assets measured at fair value on a recurring basis	**22,707**	**120,742**	**399**	**143,848**
Financial liabilities measured at fair value on a recurring basis				
Deposits and other borrowings	-	38,413	-	38,413
Other financial liabilities	262	5,108	-	5,370
Derivative financial instruments	8	29,059	29	29,096
Debt issues	-	5,819	-	5,819
Life insurance liabilities	-	7,377	-	7,377
Total financial liabilities measured at fair value on a recurring basis	**270**	**85,776**	**29**	**86,075**

For personal use only

Notes to the consolidated financial statements

Note 13. Fair values of financial assets and liabilities (continued)

Reconciliation of non-market observables

The following table summarises the changes in financial instruments measured at fair value derived from non-market observable valuation techniques (Level 3):

	Full Year Sept 2020					
$m	Trading securities and financial assets measured at FVIS	Investment Securities	Other[1]	Total Level 3 assets	Derivatives	Total Level 3 liabilities
Balance as at beginning of year	**220**	**134**	**45**	**399**	**29**	**29**
Gains/(losses) on assets/ (gains)/losses on liabilities recognised in:						
Income statement	(2)	-	(2)	(4)	(4)	(4)
Other comprehensive income	-	(15)	-	(15)	-	-
Acquisitions and issues	26	40	12	78	7	7
Disposals and settlements	(23)	(6)	(30)	(59)	(19)	(19)
Balance as at end of year	**221**	**153**	**25**	**399**	**13**	**13**
Unrealised gains/(losses) recognised in the income statement for financial instrument held as at end of year	(4)	-	3	(1)	(3)	(3)

Transfers into and out of Level 3 have occurred due to changes in observability in the significant inputs into the valuation models used to determine the fair value of the related financial instruments. Transfers in and transfers out are reported using the end of year fair values. No transfers in or transfers out have occurred during the year.

Significant unobservable inputs

Sensitivities to reasonably possible changes in non-market observable valuation assumptions would not have a material impact on the Group's reported results.

Day one profit or loss

The closing balance of unrecognised day one profit for was $4 million (31 March 2020: $3 million profit; 30 September 2019: $3 million profit).

Financial instruments not measured at fair value

The following table summarises the estimated fair value of financial instruments not measured at fair value for the Group:

	As at 30 Sept 2020		As at 31 March 2020		As at 30 Sept 2019	
$m	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets not measured at fair value						
Cash and balances with central banks	30,129	30,129	45,815	45,815	20,059	20,059
Collateral paid	4,778	4,778	5,339	5,339	5,930	5,930
Investment securities	984	984	1,111	1,111	820	820
Loans	692,498	694,264	719,410	721,740	714,510	716,130
Other financial assets	5,474	5,474	5,849	5,849	5,367	5,367
Total financial assets not measured at fair value	**733,863**	**735,629**	**777,524**	**779,854**	**746,686**	**748,306**
Financial liabilities not measured at fair value						
Collateral received	2,250	2,250	12,728	12,728	3,287	3,287
Deposits and other borrowings	555,367	555,621	544,126	544,506	524,834	525,516
Other financial liabilities	36,276	36,276	23,496	23,496	23,845	23,845
Debt issues[2]	144,992	146,402	179,540	175,610	175,638	176,838
Loan capital	23,949	23,934	25,807	23,636	21,826	22,076
Total financial liabilities not measured at fair value	**762,834**	**764,483**	**785,697**	**779,976**	**749,430**	**751,562**

A detailed description of how fair value is derived for financial instruments not measured at fair value is disclosed in Note 22 of the 2020 Annual Report.

1. Other is comprised of derivative financial assets and certain loans.
2. The estimated fair value of debt issues includes the impact of changes in Westpac's credit spreads since origination.

For personal use only

Notes to the consolidated financial statements

Note 14. Provisions, contingent liabilities, contingent assets and credit commitments

Provisions are recognised for present obligations arising from past events where a payment (or other economic transfer) is likely to be necessary to settle the obligation and can be reliably estimated. Provisions raised by the Group are set out in the table in the "Provisions" section below. Where it is not probable there will be an outflow of economic resources or where a liability cannot be reliably estimated a contingent liability may exist.

Provisions

$m	Long service leave	Annual leave and other employee benefits	Litigation and non-lending losses	Provisions for impairment on credit commitments	Lease restoration obligations	Restructuring provisions	Compliance, regulation and remediation provisions	Total
Balance as at beginning of year	**456**	**614**	**38**	**305**	**24**	**160**	**1,572**	**3,169**
Additions	95	795	1,391	225	197	126	1,107	3,936
Utilisation	(40)	(794)	(46)	-	(12)	(110)	(567)	(1,569)
Reversal of unutilised provisions	-	(19)	(9)	-	(1)	-	(217)	(246)
Other	-	-	(3)	-	-	-	-	(3)
Balance as at end of year	**511**	**596**	**1,371**	**530**	**208**	**176**	**1,895**	**5,287**

Litigation and non-lending loss provisions

A provision for a penalty in relation to the AUSTRAC civil proceedings.

On 24 September 2020, Westpac announced that it had reached an agreement with AUSTRAC to resolve the civil penalty proceedings commenced by AUSTRAC on 20 November 2019, subject to Court approval. Under the agreement, the parties agreed to file with the Court a Statement of Agreed Facts and Admissions, and to recommend to the Court that Westpac pay a civil penalty of $1.3 billion in relation to the admitted contraventions of the AML/CTF Act. Westpac also agreed to pay AUSTRAC's legal costs of $3.75 million. The settlement was approved by the Court on 21 October 2020 and the penalty and AUSTRAC's legal costs are to be paid within 28 calendar days of this date.

In light of the above developments, Westpac has increased the provision in respect of the penalty from $900 million provided for in the First Half 2020 results to $1.3 billion and has also provided for AUSTRAC's legal costs.

Westpac is defending a class action proceedings filed by Phi Finney McDonald in Australia relating to market disclosure issues connected to Westpac's monitoring of financial crime over the relevant period and matters which are the subject of the recent AUSTRAC proceedings. The claims are brought on behalf of certain shareholders who acquired an interest in Westpac securities between 16 December 2013 and 19 November 2019. It does not identify the amount of any damages sought, however given the time period in question and the nature of the claims it is likely that the damages which will be alleged will be significant. No provision has been recognised in relation to this potential exposure.

Compliance, regulation and remediation provisions

Provisions for the Full Year 2020 in respect of compliance, regulation and remediation include:

- estimated customer refunds associated with certain ongoing advice service fees charged by the Group's salaried financial planners;
- estimated customer refunds associated with certain ongoing advice service fees charged by authorised representatives of the Group's wholly owned subsidiaries Securitor Financial Group Limited (Securitor) and Magnitude Group Pty Ltd (Magnitude);
- refunds for certain Consumer and Business customers that had interest only loans that did not automatically switch, when required, to principal and interest loans; and
- refunds to certain customers who were provided with business loans where they should have been provided with loans covered by the *National Consumer Credit Protection Act 2009* (Cth).

Certain compliance, regulation and remediation provisions are described further as follows:

Estimated customer refunds associated with certain ongoing advice service fees charged by the Group's salaried financial planners

At balance date, Westpac has a provision of $112 million for customer refunds associated with certain ongoing advice service fees charged by the Group's salaried financial planners during the period 2008 to 2018. A number of estimates and judgements continue to be applied in measuring the provision at FY20. The provision includes estimated interest and estimated program costs.

Ongoing advice service fees charged by authorised representatives of Securitor and Magnitude

At balance date, Westpac has a provision of $646 million relating to estimated customer remediation costs (including interest on refunded fees and additional costs to run the remediation program) where customers of authorised representatives of the Group's wholly owned subsidiaries Securitor and Magnitude paid ongoing advice service fees to those representatives and where it is not clear that the services were provided. The ongoing advice service fees were charged during the period from 2008 to 2018. At balance date, A number of estimates and judgements continue to be applied in measuring the provision at 30 September 2020.

For personal use only

Notes to the consolidated financial statements

It is possible that the final outcome could be below or above the provision, if the actual outcome differs from the assumptions used in estimating the provision. Remediation processes may change over time as further facts emerge and such changes could result in a change to the final exposure.

Restructuring provisions

The Group carries restructuring provisions in relation to changes in business restructures primarily for separation and redundancy costs.

Lease restoration obligations

The addition to the lease restoration provision reflects a reassessment of the cost of making good leasehold premises at the end of the Group's property leases. The increase in the expected make-good cost has been treated as an addition to the right-of-use asset and is being depreciated over the remaining life of those assets.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events and present obligations where the transfer of economic resources is not probable or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the outflow of economic resource is remote.

Regulatory investigations, reviews and inquiries

Regulators, statutory authorities and other bodies routinely conduct investigations, reviews and inquiries involving the financial services sector, both in Australia and overseas. These regulatory actions may consider a range of subject matter, and in Australia, a number of regulatory investigations and reviews are currently considering potential misconduct in credit and financial services.

Domestic regulators such as ASIC, APRA, ACCC, AUSTRAC, the OAIC, the ATO and the Fair Work Ombudsman, as well as certain international regulators such as the Reserve Bank of New Zealand, Financial Markets Authority in New Zealand, Hong Kong Monetary Authority, Monetary Authority of Singapore and National Futures Association are also currently conducting investigations (some of which are industry-wide) involving the Group.

Two specific areas of investigation undertaken by ASIC are:

- *Ongoing advice services* – A current set of regulatory actions involve investigations by ASIC into alleged 'fee for no service' activity. The first relates to ongoing advice services provided by the Group's former salaried financial planners and by authorised representatives of the Group's wholly owned subsidiaries Securitor and Magnitude and whether the corresponding ongoing advice was provided in all circumstances. The second relates to advice service fees charged or deducted from some customer accounts (including platform and superannuation accounts) following the death of the relevant account holder. ASIC's investigations relate to the periods between 2010 and 2019.

  ASIC commenced both of these investigations in 2019 and is examining a range of matters, including whether Westpac had appropriate systems and processes in place to ensure that customers received the advice services that they had paid for, and the processes for ensuring ongoing fees were terminated quickly enough following the death of some members. The Group is continuing to cooperate fully with ASIC's investigations and remediate affected accounts where appropriate. To date, ASIC has commenced a number of civil penalty proceedings against other financial entities in relation to fee for no service activity.
- *Consumer credit insurance* - ASIC is also investigating Westpac's past sales practices in relation to Consumer Credit Insurance (CCI). This investigation follows ASIC's industry-wide review of CCI sales practices between the period 2011 and 2018.

  Westpac ceased selling CCI products in branch and contact centre channels in November 2018, and ceased online sales in June 2019. ASIC's investigation is a separate matter to the Federal Court class action proceedings commenced against Westpac, Westpac General Insurance Limited and Westpac Life Insurance Services Limited. Further information about this class action is set out in the 'Litigation' section below.

In addition, there are investigations covering a range of other matters (some of which are industry-wide) that involve or may involve the Group in the future, including:

- the provision of financial advice, including whether personal advice obligations have been complied with and the conduct of financial planners;
- financial markets conduct, including market activity prior to entering into interest rate swaps with certain customers; Westpac's practices relating to selling unsecured debt; and the adequacy of fee disclosure charged for our products and services; and
- other areas such as responsible lending, residential mortgages, credit portfolio management, general insurance, the provision of superannuation (including insurance in superannuation), privacy and information governance, competition law conduct and anti-money laundering and counter-terrorism financing processes and procedures.

For personal use only

Notes to the consolidated financial statements

Note 14. Provisions, contingent liabilities, contingent assets and credit commitments (continued)

The Group has not received any indication of what (if any) action regulators will take following the conclusion of the investigations set out above. No provisions have yet been made in relation to any financial penalty that might arise in the event that regulators were to pursue enforcement proceedings, as any potential future liability of that kind cannot be reliably estimated at this time.

These investigations may result in litigation (including class action proceedings), fines and penalties, infringement notices, enforceable undertakings, imposition of capital requirements, licence revocation or variation, or other action being taken by regulators or other parties. Given the size of Westpac, these investigations have in some instances resulted, and could in the future result, in findings of a significant number of breaches of obligations. This in turn could lead to significant financial and other penalties.

Litigation

There are ongoing Court proceedings, claims and possible claims for and against the Group. Contingent liabilities exist in respect of actual and potential claims and proceedings, including those listed below. An assessment of the Group's likely loss has been made on a case-by-case basis for the purpose of the financial statements but cannot always be reliably estimated, including in relation to those listed below. Except as otherwise stated, no provision has been recognised in relation to the matters below because liability is not certain and cannot be reliably estimated.

Regulatory litigation

- On 22 December 2016, ASIC commenced Federal Court proceedings against BT Funds Management Limited (BTFM) and Westpac Securities Administration Limited (WSAL) in relation to a number of superannuation account consolidation campaigns conducted between 2013 and 2016. The litigation has recently gone through an appeal process, with the most recent appeal being brought by Westpac in the High Court of Australia. The judgment will relate to whether BTFM and WSAL each provided personal advice on relevant telephone calls made to 14 of the 15 specific customers (who were the focus of the claim) and consequentially contravened the *Corporations Act 2001 (*Cth) (including section 912A(1)(a)).
- On 20 August 2020, ASIC commenced proceedings in the Federal Court against BTFM and Asgard Capital Management Limited (ACML), in relation to an issue that was a case study in the Financial Services Royal Commission. The allegations concern the inadvertent charging of financial adviser fees to 404 customers totalling $130,006 after a request had been made to remove the financial adviser from the customers' accounts. The issue was self-reported to ASIC in 2017 and customers have been remediated. BTFM and ACML accept the allegations made by ASIC and do not intend to defend the proceedings. Westpac is now working through the relevant Court procedural steps to try to bring the matter to a resolution.

Class actions

The Group is currently defending the following five class actions:

- On 12 October 2017, a class action against Westpac and Westpac Life Insurance Services Limited (WLIS) was filed in the Federal Court of Australia. The class action was filed on behalf of customers who, since February 2011, obtained insurance issued by WLIS on the recommendation of financial advisers employed within the Westpac Group. The plaintiffs have alleged that aspects of the financial advice provided by those advisers breached fiduciary and statutory duties owed to the advisers' clients, including the duty to act in the best interests of the client, and that WLIS was knowingly involved in those alleged breaches. The matter has been set down for an initial trial in May 2021. The damages sought are unspecified.
- On 5 September 2019, a class action against BTFM and WLIS was commenced in the Federal Court of Australia in relation to aspects of BTFM's BT Super for Life cash investment option. The claim follows other industry class actions. It is alleged that BTFM failed to adhere to a number of obligations under the general law, the relevant trust deed and the *Superannuation Industry (Supervision) Act 1993* (Cth), and that WLIS was knowingly concerned with BTFM's alleged contraventions. The damages sought are unspecified.
- A class action proceeding was commenced in December 2019 in the Federal Court of Australia, on behalf of certain investors who acquired an interest in Westpac securities between 16 December 2013 and 19 November 2019. The proceeding involves allegations relating to market disclosure issues connected to Westpac's monitoring of financial crime over the relevant period and matters which are the subject of the recent AUSTRAC proceedings. The damages sought are unspecified. However, given the time period in question and the nature of the claims it is likely that the damages which will be alleged will be significant.
- On 28 February 2020, a class action was commenced against Westpac, Westpac General Insurance Limited and WLIS in the Federal Court of Australia in relation to Westpac's sale of CCI. The claim follows other industry class actions. It is alleged that the three entities failed to adhere to a number of obligations in selling CCI in conjunction with credit cards, personal loans and flexi loans. The damages sought are unspecified. Westpac no longer sells CCI products.

For personal use only

Notes to the consolidated financial statements

For personal use only

Note 14. Provisions, contingent liabilities, contingent assets and credit commitments (continued)

- On 16 July 2020, a class action was commenced against Westpac and St George Finance Limited (SGF) in the Supreme Court of Victoria in relation to flex commissions paid to auto dealers from 1 March 2013 to 31 October 2018. This proceeding is one of two class actions commenced against a number of lenders in the auto finance industry. It is alleged that Westpac and SGF are liable for the unfair conduct of dealers acting as credit representatives and engaged in misleading or deceptive conduct. The damages sought are unspecified. Another law firm publicly announced in July 2020 that it is preparing to commence a class action against Westpac entities for similar conduct. Westpac has not paid flex commissions since 1 November 2018 following an industry-wide ban issued by ASIC.

Westpac is aware from media reports and other publicly available material that other class actions against Westpac entities are being investigated. In July 2020, one law firm publicly stated that it intends to commence a class action against BTFM alleging that since 2014, BTFM did not act in the best interests of members of certain superannuation funds when obtaining group insurance policies. In August 2020, another law firm announced that it is investigating claims on behalf of persons who in the past 6 years acquired, renewed or continued to hold a financial product (including life insurance) on the advice or recommendation of a financial adviser from Magnitude, Securitor or Westpac. Westpac does not have any further information about the proposed claims beyond the public statements issued by the law firms involved.

Internal reviews and remediation

As in prior periods, Westpac is continuing to undertake a number of reviews to identify and resolve prior issues that have the potential to impact our customers and reputation. These internal reviews continue to identify a number of issues in respect of which we are taking steps or will take steps to put things right so that our customers are not at a disadvantage from certain past practices, including making compensation/remediation payments to customers and providing refunds where identified. These issues include compliance with lending obligations (including responsible lending) which is an area of industry focus, the provision of credit in accordance with the *National Consumer Credit Protection Act 2009* (Cth), the charging of certain Wealth fees, the processing of corporate actions, reviewing third party remuneration arrangements and the way some product terms and conditions are operationalised. By undertaking these reviews we can also improve our processes and controls.

An assessment of the Group's likely loss has been made on a case-by-case basis for the purpose of the financial statements but cannot always be reliably estimated. Contingent liabilities may exist in respect of actual or potential claims (which could be brought by customers or regulators), compensation/remediation payments and/or refunds identified as part of these reviews.

Australian Financial Complaints Authority

Contingent liabilities may also exist in relation to customer complaints brought before the Australian Financial Complaints Authority (AFCA). AFCA has the power to make determinations about complaints and can award compensation up to certain thresholds. AFCA has a broader jurisdiction than previous dispute resolution bodies which it has replaced and, up until 30 June 2020, could also consider customer complaints dating back to 1 January 2008.

Financial Claims Scheme

Under the Financial Claims Scheme (FCS), the Australian Government provides depositors a free guarantee of deposits in eligible ADIs up to and including $250,000. The FCS applies to an eligible ADI if APRA has applied for the winding up of the ADI and the responsible Australian Government minister has declared that the FCS applies to the ADI.

The Financial Claims Scheme (ADIs) Levy Act 2008 provides for the imposition of a levy to fund the excess of certain APRA FCS costs connected to an ADI, including payments by APRA to deposit holders in a failed ADI. The levy would be imposed on liabilities of eligible ADIs to their depositors and cannot be more than 0.5% of the amount of those liabilities. A contingent liability may exist in respect of any levy imposed under the FCS.

Contingent tax risk

Tax and regulatory authorities in Australia and in other jurisdictions are reviewing the taxation treatment of certain transactions (both historical and present-day transactions) undertaken by the Group in the course of normal business activities and the claiming of tax incentives and indirect taxes such as GST. The Group also responds to various notices and requests for information it receives from tax and regulatory authorities.

These reviews, notices and requests may result in additional tax liabilities (including interest and penalties).

The Group has assessed these and other taxation claims arising in Australia and elsewhere, including seeking independent advice.

Settlement risk

The Group is subject to a credit risk exposure in the event that another counterparty fails to settle for its payments clearing activities (including foreign exchange). The Group seeks to minimise credit risk arising from settlement risk in the payments system by aligning our processing method with the legal certainty of settlement in the relevant clearing mechanism.

Notes to the consolidated financial statements

Note 14. Provisions, contingent liabilities, contingent assets and credit commitments (continued)

Parent Entity guarantees and undertakings

The Parent Entity makes the following guarantees and undertakings to subsidiaries:

- letters of comfort for certain subsidiaries which recognise that Westpac has a responsibility that those subsidiaries continue to meet their obligations; and
- guarantees to certain wholly owned subsidiaries which are Australian financial services or credit licensees to comply with legislative requirements. Each guarantee is capped at $40 million per year and can only be utilised if the entity concerned becomes legally obliged to pay for a claim under the relevant licence. The Parent Entity has a right to recover any funds payable under the guarantees from the relevant subsidiary.

Contingent assets

The credit commitments shown in the following table also constitute contingent assets. These commitments would be classified as loans in the balance sheet on the contingent event occurring.

Undrawn credit commitments

The Group enters into various arrangements with customers which are only recognised in the balance sheet when called upon. These arrangements include commitments to extend credit, bill endorsements, financial guarantees, standby letters of credit and underwriting facilities.

They expose the Group to liquidity risk when called upon and also to credit risk if the customer fails to repay the amounts owed at the due date. The maximum exposure to credit loss is the contractual or notional amount of the instruments. Some of the arrangements can be cancelled by the Group at any time and a significant portion is expected to expire without being drawn. The actual liquidity and credit risk exposure varies in line with amounts drawn and may be less than the amounts disclosed.

The Group uses the same credit policies when entering into these arrangements as it does for on-balance sheet instruments. Refer to Note 21 of the 2020 Annual Report for further details of liquidity risk and credit risk management.

Undrawn credit commitments excluding derivatives are as follows:

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	% Mov't Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Undrawn credit commitments					
Letters of credit and guarantees[1]	12,610	14,746	15,150	(14)	(17)
Commitments to extend credit[2]	184,064	175,794	176,002	5	5
Other	267	158	188	69	42
Total undrawn credit commitments	**196,941**	**190,698**	**191,340**	**3**	**3**

1. Standby letters of credit are undertakings to pay, against presentation documents, an obligation in the event of a default by a customer. Guarantees are unconditional undertakings given to support the obligations of a customer to third parties. The Group may hold cash as collateral for certain guarantees issued.
2. Commitments to extend credit include all obligations on the part of the Group to provide credit facilities. As facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. In addition to the commitments disclosed above, at 30 September 2020 the Group had offered $4.9 billion (31 March 2020: $5.2 billion, 30 September 2019: $5.0 billion) of facilities to customers, which had not yet been accepted.

For personal use only

Notes to the consolidated financial statements

Note 15. Shareholders' equity

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019
Share capital			
Ordinary share capital, fully paid	40,509	40,503	37,508
RSP treasury shares held[1]	(618)	(616)	(572)
Other treasury shares held[2]	55	30	19
Total treasury shares held	**(563)**	**(586)**	**(553)**
Total share capital	**39,946**	**39,917**	**36,955**
NCI	**51**	**56**	**53**

Ordinary Shares

Westpac does not have authorised capital and the ordinary shares have no par value. Ordinary shares entitle the holder to participate in dividends and, in the event of Westpac winding up, to a share of the proceeds in proportion to the number of and amounts paid on the shares held.

Each ordinary share entitles the holder to one vote, either in person or by proxy, at a shareholder meeting.

Reconciliation of movement in number of ordinary shares

	Half Year Sept 2020	Half Year March 2020	Half Year Sept 2019
Balance as at beginning of period	**3,611,684,870**	**3,489,928,773**	**3,447,571,023**
Share issuances[3]	-	110,919,861	-
Dividend reinvestment plan[4]	-	10,836,236	42,357,750
Issued shares for the period	**-**	**121,756,097**	**42,357,750**
Balance as at end of period	**3,611,684,870**	**3,611,684,870**	**3,489,928,773**

Ordinary shares purchased on market

Consolidated	Full Year Sept 2020 Number	Full Year Sept 2020 Average price ($)
For share-based payment arrangements:		
Employee share plan (ESP)	931,524	26.46
RSP[5]	1,931,521	24.06
Westpac Performance Plan (WPP) - share rights exercised	175,957	26.00
As treasury shares:		
Treasury shares purchased	114,376	24.52
Treasury shares sold	(1,835,908)	20.23
Net number of ordinary shares purchased/(sold) on market	**1,317,470**	

1. 30 September 2020: 4,588,277 unvested shares held (31 March 2020: 4,578,297, 30 September 2019: 4,784,213).
2. 30 September 2020: Nil shares held (31 March 2020: 1,284,249, 30 September 2019: 1,721,532).
3. The average price per share for the issuance of shares was $24.81.
4. The price for the issuance of shares in relation to the dividend re-investment plan for was $25.17 (2019 final dividend) and $27.36 (2019 interim dividend). No 2020 Interim dividends were declared and paid.
5. Ordinary shares allocated to employees under the RSP are classified as treasury shares until the shares vest.

For personal use only

Notes to the consolidated financial statements

Note 15. Shareholders' equity (continued)

Reconciliation of movement in reserves

	Half Year Sept 2020	Half Year March 2020	Half Year Sept 2019
Debt securities at FVOCI reserve			
Balance as at beginning of period	**(142)**	**(22)**	**59**
Net gains/(losses) from changes in fair value	500	(140)	(111)
Income tax effect	(138)	42	33
Transferred to income statement	(51)	(28)	(4)
Income tax effect	7	8	1
Loss allowance on debt securities measured at FVOCI	1	1	-
Exchange differences	-	(3)	-
Balance as at end of period	**177**	**(142)**	**(22)**
Equity securities at FVOCI reserve			
Balance as at beginning of period	**(1)**	**17**	**7**
Net gains/(losses) from changes in fair value	(3)	(18)	10
Balance as at end of period	**(4)**	**(1)**	**17**
Share-based payment reserve			
Balance as at beginning of period	**1,702**	**1,642**	**1,604**
Share-based payment expense	18	60	38
Balance as at end of period	**1,720**	**1,702**	**1,642**
Cash flow hedge reserve			
Balance as at beginning of period	**64**	**(129)**	**(204)**
Net gains/(losses) from changes in fair value	(240)	145	(11)
Income tax effect	71	(43)	4
Transferred to income statement	90	128	117
Income tax effect	(27)	(37)	(35)
Balance as at end of period	**(42)**	**64**	**(129)**
Foreign currency translation reserve			
Balance as at beginning of period	**86**	**(179)**	**(306)**
Exchange differences on translation of foreign operations	(884)	707	(112)
Gains/(losses) on net investment hedges	451	(442)	239
Transferred to income statement	55	-	-
Balance as at end of period	**(292)**	**86**	**(179)**
Other reserves			
Balance as at beginning of period	**(21)**	**(18)**	**(19)**
Transactions with owners	6	(3)	1
Balance as at end of period	**(15)**	**(21)**	**(18)**
Total reserves	**1,544**	**1,688**	**1,311**

For personal use only

Notes to the consolidated financial statements

Note 16. Notes to the consolidated cash flow statement

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Reconciliation of net cash provided by/(used in) operating activities to net profit for the period						
Net profit for the period	**1,101**	**1,191**	**(8)**	**2,292**	**6,790**	**(66)**
Adjustments:						
Depreciation, amortisation and impairment	1,489	984	51	2,473	1,079	129
Impairment charges	1,033	2,338	(56)	3,371	966	large
Net decrease/(increase) in current and deferred tax	(343)	(769)	(55)	(1,112)	(541)	106
(Increase)/decrease in accrued interest receivable	157	82	91	239	132	81
(Decrease)/increase in accrued interest payable	(597)	(663)	(10)	(1,260)	(341)	large
(Decrease)/increase in provisions	618	1,307	(53)	1,925	1,143	68
Other non-cash items	(749)	56	large	(693)	(832)	(17)
Cash flows from operating activities before changes in operating assets and liabilities	**2,709**	**4,526**	**(40)**	**7,235**	**8,396**	**(14)**
Net (increase)/decrease in derivative financial instruments	(3,115)	4,966	large	1,851	7,605	(76)
Net (increase)/decrease in life insurance assets and liabilities	(134)	(143)	(6)	(277)	(134)	107
(Increase)/decrease in other operating assets:						
Collateral paid	(529)	877	large	348	(847)	large
Trading securities and other financial assets measured at FVIS	(16,870)	8,114	large	(8,756)	(7,629)	15
Loans	18,966	(694)	large	18,272	(4,188)	large
Other financial assets	272	1	large	273	336	(19)
Other assets	1	69	(99)	70	(13)	large
(Decrease)/increase in other operating liabilities:						
Collateral received	(9,996)	8,900	large	(1,096)	1,007	large
Deposits and other borrowings	16,002	12,908	24	28,910	1,113	large
Other financial liabilities	9,190	2,627	large	11,817	1,463	large
Other liabilities	(4)	8	large	4	(5)	large
Net cash provided by/(used in) operating activities	**16,492**	**42,159**	**(61)**	**58,651**	**7,104**	**large**

Non-cash financing activities

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Shares issued under the dividend reinvestment plan	-	273	(100)	273	1,489	(82)
Increase in lease liabilities	89	88	1	177	-	-

Businesses disposed in Half Year September 2020

There were no businesses disposed of during Half Year September 2020.

Businesses disposed in Half Year March 2020

There were no businesses disposed of during Half Year March 2020.

For personal use only

Notes to the consolidated financial statements

Note 16. Notes to the consolidated cash flow statement (continued)

Businesses disposed in Full Year 2019

Westpac sold its interest in Ascalon Capital Managers (Asia) Limited and Ascalon Capital Managers Limited on 8 February 2019, for a combined profit of $3 million recognised in non-interest income. The total cash consideration paid, net of transaction costs and cash held, was $1 million.

Restricted cash

Certain of our foreign operations are required to maintain reserves or minimum balances with central banks in their respective countries of operation, totalling $457 million (31 March 2020: $307 million, 30 September 2019: $330 million) which are included in cash and balances with central banks.

Note 17. Subsequent events

Since 30 September 2020, the Board has determined to pay a fully franked final dividend of 31 cents per fully paid ordinary share. The dividend is expected to be $1,120 million. The dividend is not recognised as a liability at 30 September 2020. The proposed payment date of the dividend is 18 December 2020.

The Board has determined to issue shares to satisfy the Dividend Reinvestment Plan (DRP) for the 2020 final ordinary dividend. The DRP will include a 1.5% discount to the market price used to determine the number of shares issued under the DRP. The market price used to determine the number of shares issued under the DRP will be set over the 15 trading days commencing 17 November 2020.

Subsequent to the end of the financial year the Group's General Insurance business met the criteria to be classified as held for sale. The General Insurance business currently forms part of the Specialist Businesses segment. Completion of the expected sale would have no material impact on the Group.

No other matters have arisen since the year ended 30 September 2020, which are not otherwise dealt with in this report, that have significantly affected or may significantly affect the operations of the Group, the results of its operations or the state of affairs of the Group in subsequent periods.

For personal use only

Statutory statements

4.8 Statement in relation to the audit of the financial statements

PricewaterhouseCoopers has audited the financial statements contained within the Westpac 2020 financial report and has issued an unmodified audit report. A copy of their report is available with the Annual financial report. This full year results announcement has not been subject to audit by PricewaterhouseCoopers. The preceding financial information contained in Section 4 "Full Year 2020 Financial Report" includes financial information extracted from the audited financial statements together with financial information that has not been audited.

Dated at Sydney this 1st day of November 2020 for and on behalf of the Board.



Tim Hartin

General Manager and Company Secretary

For personal use only

Cash earnings financial information

5.0 Cash earnings financial information

Note 1	Interest spread and margin analysis (cash earnings basis)	117
Note 2	Average balance sheet and interest rates (cash earnings basis)	118
Note 3	Net interest income (cash earnings basis)	120
Note 4	Non-interest income (cash earnings basis)	121
Note 5	Operating expenses (cash earnings basis)	122
Note 6	Deferred expenses	123
Note 7	Earnings per share (cash earnings basis)	123
Note 8	Group earnings reconciliation	124
Note 9	Divisional result and economic profit	128

For personal use only

Cash earnings financial information

Note 1. Interest spread and margin analysis (cash earnings basis)

$m	Half Year Sept 2020	Half Year March 2020	Full Year Sept 2020	Full Year Sept 2019
Group				
Average interest earning assets ($m)	830,465	812,971	821,718	798,924
Net interest income ($m)	8,420	8,666	17,086	16,953
Interest spread	1.92%	1.99%	1.96%	1.94%
Benefit of net non-interest bearing assets, liabilities and equity	0.11%	0.14%	0.12%	0.18%
Net interest margin	2.03%	2.13%	2.08%	2.12%
Analysis by division				
Average interest earning assets ($m)				
Consumer	358,173	363,618	360,895	365,873
Business	137,639	140,499	139,069	140,838
Westpac Institutional Bank	82,088	82,894	82,491	84,247
Westpac New Zealand (A$)	94,468	91,326	92,897	86,172
Specialist Businesses	17,090	18,284	17,687	19,041
Group Businesses	141,007	116,350	128,679	102,753
Group total	**830,465**	**812,971**	**821,718**	**798,924**
Westpac New Zealand (NZ$)	**101,190**	**95,766**	**98,478**	**91,099**
Net interest income ($m)[1]				
Consumer	4,313	4,234	8,547	8,130
Business	2,019	2,144	4,163	4,456
Westpac Institutional Bank	506	605	1,111	1,337
Westpac New Zealand (A$)	892	940	1,832	1,860
Specialist Businesses	247	287	534	555
Group Businesses	443	456	899	615
Group total	**8,420**	**8,666**	**17,086**	**16,953**
Westpac New Zealand (NZ$)	**956**	**987**	**1,943**	**1,967**
Interest margin				
Consumer	2.41%	2.33%	2.37%	2.22%
Business	2.93%	3.05%	2.99%	3.16%
Westpac Institutional Bank	1.23%	1.46%	1.35%	1.59%
Westpac New Zealand (NZ$)	1.89%	2.06%	1.97%	2.16%
Specialist Businesses	2.89%	3.14%	3.02%	2.91%
Group Businesses	0.63%	0.78%	0.70%	0.60%
Group total	**2.03%**	**2.13%**	**2.08%**	**2.12%**

1. Includes capital benefit. Capital benefit represents the notional revenue earned on capital allocated to divisions under Westpac's economic capital framework.

For personal use only

Cash earnings financial information

Note 2. Average balance sheet and interest rates (cash earnings basis)

	Half Year Sept 2020			Half Year March 2020		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Assets						
Interest earning assets						
Collateral paid	18,338	6	0.1	13,126	69	1.1
Trading securities and other financial assets measured at FVIS	32,021	124	0.8	27,237	235	1.7
Investment securities	84,010	640	1.5	72,352	881	2.4
Loans and other receivables[1]	696,096	11,540	3.3	700,256	13,465	3.8
Total interest earning assets and interest income	**830,465**	**12,310**	**3.0**	**812,971**	**14,650**	**3.6**
Non-interest earning assets						
Derivative financial instruments	32,051			30,617		
Life insurance assets	2,397			6,831		
All other assets[2]	62,883			61,945		
Total non-interest earning assets	**97,331**			**99,393**		
Total assets	**927,796**			**912,364**		
Liabilities						
Interest bearing liabilities						
Collateral received	8,583	7	0.2	6,579	19	0.6
Deposits and other borrowings	524,744	1,899	0.7	512,522	3,155	1.2
Loan capital	23,240	370	3.2	22,182	430	3.9
Other interest bearing liabilities[3]	192,147	1,614	1.7	201,285	2,380	2.4
Total interest bearing liabilities and interest expense	**748,714**	**3,890**	**1.0**	**742,568**	**5,984**	**1.6**
Non-interest bearing liabilities						
Deposits and other borrowings	56,961			52,823		
Derivative financial instruments	36,219			30,279		
Life insurance policy liabilities	387			5,611		
All other liabilities[4]	17,061			13,405		
Total non-interest bearing liabilities	**110,628**			**102,118**		
Total liabilities	**859,342**			**844,686**		
Shareholders' equity	68,403			67,625		
NCI	51			53		
Total equity	**68,454**			**67,678**		
Total liabilities and equity	**927,796**			**912,364**		
Loans and other receivables[1]						
Australia	583,758	9,857	3.4	587,528	11,380	3.9
New Zealand	86,527	1,504	3.5	83,841	1,724	4.1
Other overseas	25,811	179	1.4	28,887	361	2.5
Deposits and other borrowings						
Australia	445,733	1,412	0.6	426,021	2,333	1.1
New Zealand	57,728	366	1.3	56,464	516	1.8
Other overseas	21,283	121	1.1	30,037	306	2.0

1. Loans and other receivables are net of Stage 3 provision for ECL, where interest income is determined based on their carrying value. Stages 1 and 2 provisions for ECL are not included in the average interest earning assets balance, as interest income is determined based on the gross value of loans and other receivables.
2. Includes property and equipment, intangible assets, deferred tax assets, non-interest bearing loans relating to mortgage offset accounts and all other non-interest earning financial assets.
3. Includes net impact of Treasury balance sheet management activities and the Bank Levy.
4. Includes other financial liabilities, provisions, current and deferred tax liabilities and other non-interest bearing liabilities.

For personal use only

Cash earnings financial information

Note 2. Average balance sheet and interest rates (cash earnings basis) (continued)

	Full Year Sept 2020			Full Year Sept 2019		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Assets						
Interest earning assets						
Collateral paid	15,732	75	0.5	10,823	201	1.9
Trading securities and other financial assets measured at FVIS	29,629	359	1.2	29,074	662	2.3
Investment securities	78,181	1,521	1.9	63,787	1,919	3.0
Loans and other receivables[1]	698,176	25,005	3.6	695,240	30,412	4.4
Total interest earning assets and interest income	**821,718**	**26,960**	**3.3**	**798,924**	**33,194**	**4.2**
Non-interest earning assets						
Derivative financial instruments	31,334			25,959		
Life insurance assets	4,614			9,610		
All other assets[2]	62,414			60,231		
Total non-interest earning assets	**98,362**			**95,800**		
Total assets	**920,080**			**894,724**		
Liabilities						
Interest bearing liabilities						
Collateral received	7,581	26	0.3	3,617	57	1.6
Deposits and other borrowings	518,633	5,054	1.0	506,789	8,945	1.8
Loan capital	22,711	800	3.5	18,181	776	4.3
Other interest bearing liabilities[3]	196,716	3,994	2.0	205,695	6,463	3.1
Total interest bearing liabilities and interest expense	**745,641**	**9,874**	**1.3**	**734,282**	**16,241**	**2.2**
Non-interest bearing liabilities						
Deposits and other borrowings	54,892			49,270		
Derivative financial instruments	33,249			26,568		
Life insurance policy liabilities	2,999			7,653		
All other liabilities[4]	15,233			13,187		
Total non-interest bearing liabilities	**106,373**			**96,678**		
Total liabilities	**852,014**			**830,960**		
Shareholders' equity	68,014			63,714		
NCI	52			50		
Total equity	**68,066**			**63,764**		
Total liabilities and equity	**920,080**			**894,724**		
Loans and other receivables[1]						
Australia	585,643	21,237	3.6	589,427	25,905	4.4
New Zealand	85,184	3,228	3.8	79,255	3,648	4.6
Other overseas	27,349	540	2.0	26,558	859	3.2
Deposits and other borrowings						
Australia	435,877	3,745	0.9	425,799	7,023	1.6
New Zealand	57,096	882	1.5	54,720	1,235	2.3
Other overseas	25,660	427	1.7	26,270	687	2.6

1. Loans and other receivables are net of Stage 3 provision for ECL, where interest income is determined based on their carrying value. Stages 1 and 2 provisions for ECL are not included in the average interest earning assets balance, as interest income is determined based on the gross value of loans and other receivables.
2. Includes property and equipment, intangible assets, deferred tax assets, non-interest bearing loans relating to mortgage offset accounts and all other non-interest earning financial assets.
3. Includes net impact of Treasury balance sheet management activities and the Bank Levy.
4. Includes other financial liabilities, provisions, current and deferred tax liabilities and other non-interest bearing liabilities.

For personal use only

Cash earnings financial information

Note 3. Net interest income (cash earnings basis)

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Interest income						
Cash and balances with central banks	21	114	(82)	135	334	(60)
Collateral paid	6	69	(91)	75	201	(63)
Net ineffectiveness on qualifying hedges	-	-	-	-	-	-
Trading securities and financial assets measured at FVIS	124	235	(47)	359	662	(46)
Investment securities	640	881	(27)	1,521	1,919	(21)
Loans	11,514	13,339	(14)	24,853	30,043	(17)
Other financial assets	5	12	(58)	17	35	(51)
Total interest income	**12,310**	**14,650**	**(16)**	**26,960**	**33,194**	**(19)**
Interest expense						
Collateral received	(7)	(19)	(63)	(26)	(57)	(54)
Deposits and other borrowings	(1,899)	(3,155)	(40)	(5,054)	(8,945)	(43)
Trading liabilities[1]	(188)	(122)	54	(310)	(841)	(63)
Debt Issues	(1,117)	(1,897)	(41)	(3,014)	(4,869)	(38)
Loan capital	(370)	(430)	(14)	(800)	(776)	3
Bank levy	(212)	(196)	8	(408)	(391)	4
Other interest expense	(97)	(165)	(41)	(262)	(362)	(28)
Total interest expense	**(3,890)**	**(5,984)**	**(35)**	**(9,874)**	**(16,241)**	**(39)**
Net interest income	**8,420**	**8,666**	**(3)**	**17,086**	**16,953**	**1**

1. Includes net impact of Treasury balance sheet management activities.

For personal use only

Cash earnings financial information

Note 4. Non-interest income (cash earnings basis)

$m	Half Year Sept 2020	Half Year Mar 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Net fee income						
Facility fees	359	372	(3)	731	730	-
Transactions fees and commissions	439	582	(25)	1,021	1,225	(17)
Other non-risk fee income	134	(86)	large	48	(76)	large
Fee income	**932**	**868**	**7**	**1,800**	**1,879**	**(4)**
Credit Card Loyalty	(40)	(62)	(35)	(102)	(121)	(16)
Other Transaction Fees	(55)	(51)	8	(106)	(103)	3
Fee expense	**(95)**	**(113)**	**(16)**	**(208)**	**(224)**	**(7)**
Net fee income	**837**	**755**	**11**	**1,592**	**1,655**	**(4)**
Net wealth management and insurance income						
Wealth management income	**247**	**384**	**(36)**	**631**	**276**	**129**
Life insurance premium income	609	688	(11)	1,297	1,443	(10)
General insurance and lenders mortgage insurance (LMI) net premium earned	252	247	2	499	482	4
Life insurance investment and other income[1]	60	12	large	72	403	(82)
General insurance and LMI investment and other income	18	24	(25)	42	52	(19)
Total insurance premium, investment and other income	**939**	**971**	**(3)**	**1,910**	**2,380**	**(20)**
Life insurance claims and changes in life insurance liabilities[1]	(710)	(574)	24	(1,284)	(1,266)	1
General insurance and LMI claims and other expenses	(198)	(300)	(34)	(498)	(367)	36
Total insurance claims, changes in life insurance liabilities and other expenses	**(908)**	**(874)**	**4**	**(1,782)**	**(1,633)**	**9**
Net wealth management and insurance income	**278**	**481**	**(42)**	**759**	**1,023**	**(26)**
Trading income[2]	**499**	**429**	**16**	**928**	**907**	**2**
Other Income						
Dividends received from other entities	-	1	(100)	1	6	(83)
Net gain/(loss) on derecognition/sale of associates	316	-	-	316	38	large
Net gain/(loss) on disposal of assets	9	2	large	11	61	(82)
Net gain/(loss) on derivatives held for risk management purposes[3]	18	(7)	large	11	(12)	large
Net gain/(loss) on financial assets designated at fair value	(33)	(1)	large	(34)	4	large
Net gain/(loss) on disposal of controlled entities	-	-	-	-	3	(100)
Rental income on operating lease	7	8	(13)	15	18	(17)
Share of associates' net profit/(loss)	(9)	(14)	(36)	(23)	(23)	-
Other	(57)	21	large	(36)	22	large
Total other income	**251**	**10**	**large**	**261**	**117**	**123**
Total non-interest income	**1,865**	**1,675**	**11**	**3,540**	**3,702**	**(4)**

1. Movements in life insurance investment income and changes in life insurance liabilities are broadly correlated.
2. Trading income represents a component of total markets income from our WIB markets business, Westpac Pacific, Westpac New Zealand and Treasury foreign exchange operations in Australia and New Zealand.
3. Net gain/(loss) on derivatives held for risk management purposes reflects the impact of economic hedges of earnings.

For personal use only

Cash earnings financial information

Note 5. Operating expenses (cash earnings basis)

$m	Half Year Sept 2020	Half Year Mar 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Staff expenses						
Employee remuneration, entitlements and on-costs	2,273	2,155	5	4,428	4,299	3
Superannuation expense	206	207	-	413	378	9
Share-based payments	33	47	(30)	80	108	(26)
Restructuring costs	59	35	69	94	232	(59)
Total staff expenses	**2,571**	**2,444**	**5**	**5,015**	**5,017**	**-**
Occupancy expenses						
Operating lease rentals	84	64	31	148	658	(78)
Depreciation and impairment of property and equipment	302	367	(18)	669	168	large
Other	98	62	58	160	143	12
Total occupancy expenses	**484**	**493**	**(2)**	**977**	**969**	**1**
Technology expenses						
Amortisation and impairment of software assets	502	468	7	970	719	35
Depreciation and impairment of IT equipment	147	125	18	272	129	111
Technology services	350	348	1	698	810	(14)
Software maintenance and licenses	205	193	6	398	371	7
Telecommunications	117	99	18	216	207	4
Data processing	45	44	2	89	83	7
Total technology expenses	**1,366**	**1,277**	**7**	**2,643**	**2,319**	**14**
Other expenses						
Professional and processing services	774	600	29	1,374	1,060	30
Amortisation and impairment of intangible and deferred expenditure	520	3	large	523	9	large
Postage and stationery	81	83	(2)	164	179	(8)
Advertising	95	122	(22)	217	245	(11)
Non-lending losses	474	969	(51)	1,443	58	large
Other expenses	175	169	4	344	175	97
Total other expenses	**2,119**	**1,946**	**9**	**4,065**	**1,726**	**136**
Total operating expenses	**6,540**	**6,160**	**6**	**12,700**	**10,031**	**27**

For personal use only

Cash earnings financial information

Note 6. Deferred expenses[1]

$m	As at 30 Sept 2020	As at 31 March 2020	As at 30 Sept 2019	Sept 20 - Mar 20	% Mov't Sept 20 - Sept 19
Deferred acquisition costs	52	53	61	(2)	(15)
Other deferred expenditure	31	29	29	7	7

Note 7. Earnings per share (cash earnings basis)

$m	Half Year Sept 2020	Half Year March 2020	% Mov't Sept 20 - Mar 20	Full Year Sept 2020	Full Year Sept 2019	% Mov't Sept 20 - Sept 19
Cash earnings	1,615	993	63	2,608	6,849	(62)
Weighted average number of fully paid ordinary shares (millions)	3,612	3,579	1	3,595	3,456	4
Cash earnings per ordinary share (cents)	**44.7**	**27.7**	**61**	**72.5**	**198.2**	**(63)**

Reconciliation of ordinary shares on issue before the effect of own shares held $m	Half Year Sept 2020	Half Year March 2020	Full year Sept 2020	Full Year Sept 2019
Balance as at beginning of period	**3,612**	**3,490**	**3,490**	**3,435**
Number of shares issues from capital raising	-	111	111	-
Number of shares issued under the Dividend Reinvestment Plan (DRP)	-	11	11	55
Balance as at end of period	**3,612**	**3,612**	**3,612**	**3,490**

1. Deferred expenses principally relate to a small number of capitalised costs in the wealth business. It does not include insurance deferred acquisition costs (which are offset to revenue) or mortgage broker costs (which are offset to net interest income).

For personal use only

Cash earnings financial information

Note 8. Group earnings reconciliation

Half Year Sept 2020 $m	Reported results	Fair value (gain)/loss on economic hedges	Ineffective hedges	Adjustments related to Pendal	Treasury shares	Operating leases	Policyholder tax recoveries	Cash earnings
Net interest income	**7,696**	**777**	**(53)**	**-**	**-**	**-**	**-**	**8,420**
Net fee income	837	-	-	-	-	-	-	837
Net wealth management and insurance income	286	-	-	-	2	-	(10)	278
Trading income	435	64	-	-	-	-	-	499
Other income	325	(9)	-	(47)	-	(18)	-	251
Non-interest income	**1,883**	**55**	**-**	**(47)**	**2**	**(18)**	**(10)**	**1,865**
Net operating income	**9,579**	**832**	**(53)**	**(47)**	**2**	**(18)**	**(10)**	**10,285**
Staff expenses	(2,571)	-	-	-	-	-	-	(2,571)
Occupancy expenses	(502)	-	-	-	-	18	-	(484)
Technology expenses	(1,366)	-	-	-	-	-	-	(1,366)
Other expenses	(2,119)	-	-	-	-	-	-	(2,119)
Operating expenses	**(6,558)**	**-**	**-**	**-**	**-**	**18**	**-**	**(6,540)**
Core earnings	**3,021**	**832**	**(53)**	**(47)**	**2**	**-**	**(10)**	**3,745**
Impairment charges	(940)	-	-	-	-	-	-	(940)
Profit before income tax	**2,081**	**832**	**(53)**	**(47)**	**2**	**-**	**(10)**	**2,805**
Income tax expense	(980)	(251)	16	15	1	-	10	(1,189)
Net profit	**1,101**	**581**	**(37)**	**(32)**	**3**	**-**	**-**	**1,616**
Net profit attributable to NCI	(1)	-	-	-	-	-	-	(1)
Net profit attributable to owners of WBC	**1,100**	**581**	**(37)**	**(32)**	**3**	**-**	**-**	**1,615**
Cash earnings adjustments:								
Fair value (gain)/loss on economic hedges	581	(581)	-	-	-	-	-	-
Ineffective hedges	(37)	-	37	-	-	-	-	-
Adjustment related to Pendal	(32)	-	-	32	-	-	-	-
Treasury shares	3	-	-	-	(3)	-	-	-
Cash earnings	**1,615**	**-**	**-**	**-**	**-**	**-**	**-**	**1,615**

For personal use only

Cash earnings financial information

Note 8. Group earnings reconciliation (continued)

Half Year March 2020 $m	Reported results	Fair value (gain)/loss on economic hedges	Ineffective hedges	Adjustments related to Pendal	Treasury shares	Operating leases	Policyholder tax recoveries	Cash earnings
Net interest income	**9,000**	**(300)**	**(34)**	**-**	**-**	**-**	**-**	**8,666**
Net fee income	755	-	-	-	-	-	-	755
Net wealth management and insurance income	465	-	-	-	(18)	-	34	481
Trading income	460	(31)	-	-	-	-	-	429
Other income	(76)	16	-	91	-	(21)	-	10
Non-interest income	**1,604**	**(15)**	**-**	**91**	**(18)**	**(21)**	**34**	**1,675**
Net operating income	**10,604**	**(315)**	**(34)**	**91**	**(18)**	**(21)**	**34**	**10,341**
Staff expenses	(2,444)	-	-	-	-	-	-	(2,444)
Occupancy expenses	(514)	-	-	-	-	21	-	(493)
Technology expenses	(1,277)	-	-	-	-	-	-	(1,277)
Other expenses	(1,946)	-	-	-	-	-	-	(1,946)
Operating expenses	**(6,181)**	**-**	**-**	**-**	**-**	**21**	**-**	**(6,160)**
Core earnings	**4,423**	**(315)**	**(34)**	**91**	**(18)**	**-**	**34**	**4,181**
Impairment charges	(2,238)	-	-	-	-	-	-	(2,238)
Profit before income tax	**2,185**	**(315)**	**(34)**	**91**	**(18)**	**-**	**34**	**1,943**
Income tax expense	(994)	96	10	(28)	1	-	(34)	(949)
Net profit	1,191	(219)	(24)	63	(17)	-	-	994
Net profit attributable to NCI	(1)	-	-	-	-	-	-	(1)
Net profit attributable to owners of WBC	**1,190**	**(219)**	**(24)**	**63**	**(17)**	**-**	**-**	**993**
Cash earnings adjustments:								
Fair value (gain)/loss on economic hedges	(219)	219	-	-	-	-	-	-
Ineffective hedges	(24)	-	24	-	-	-	-	-
Adjustment related to Pendal	63	-	-	(63)	-	-	-	-
Treasury shares	(17)	-	-	-	17	-	-	-
Cash earnings	**993**	**-**	**-**	**-**	**-**	**-**	**-**	**993**

For personal use only

Cash earnings financial information

Note 8. Group earnings reconciliation (continued)

Full Year Sept 2020 $m	Reported results	Fair value (gain)/loss on economic hedges	Ineffective hedges	Adjustments related to Pendal	Treasury shares	Operating leases	Policyholder tax recoveries	Cash earnings
Net interest income	**16,696**	**477**	**(87)**	**-**	**-**	**-**	**-**	**17,086**
Net fee income	1,592	-	-	-	-	-	-	1,592
Net wealth management and insurance income	751	-	-	-	(16)	-	24	759
Trading income	895	33	-	-	-	-	-	928
Other income	249	7	-	44	-	(39)	-	261
Non-interest income	**3,487**	**40**	**-**	**44**	**(16)**	**(39)**	**24**	**3,540**
Net operating income	**20,183**	**517**	**(87)**	**44**	**(16)**	**(39)**	**24**	**20,626**
Staff expenses	(5,015)	-	-	-	-	-	-	(5,015)
Occupancy expenses	(1,016)	-	-	-	-	39	-	(977)
Technology expenses	(2,643)	-	-	-	-	-	-	(2,643)
Other expenses	(4,065)	-	-	-	-	-	-	(4,065)
Operating expenses	**(12,739)**	**-**	**-**	**-**	**-**	**39**	**-**	**(12,700)**
Core earnings	**7,444**	**517**	**(87)**	**44**	**(16)**	**-**	**24**	**7,926**
Impairment charges	(3,178)	-	-	-	-	-	-	(3,178)
Profit before income tax	**4,266**	**517**	**(87)**	**44**	**(16)**	**-**	**24**	**4,748**
Income tax expense	(1,974)	(155)	26	(13)	2	-	(24)	(2,138)
Net profit	**2,292**	**362**	**(61)**	**31**	**(14)**	**-**	**-**	**2,610**
Net profit attributable to NCI	(2)	-	-	-	-	-	-	(2)
Net profit attributable to owners of WBC	**2,290**	**362**	**(61)**	**31**	**(14)**	**-**	**-**	**2,608**
Cash earnings adjustments:								
Fair value (gain)/loss on economic hedges	362	(362)	-	-	-	-	-	-
Ineffective hedges	(61)	-	61	-	-	-	-	-
Adjustment related to Pendal	31	-	-	(31)	-	-	-	-
Treasury shares	(14)	-	-	-	14	-	-	-
Cash earnings	**2,608**	**-**	**-**	**-**	**-**	**-**	**-**	**2,608**

For personal use only

Cash earnings financial information

Note 8. Group earnings reconciliation (continued)

Full Year Sept 2019 $m	Reported results	Fair value (gain)/loss on economic hedges	Ineffective hedges	Adjustments related to Pendal	Treasury shares	Operating leases	Policyholder tax recoveries	Cash earnings
Net interest income	**16,907**	**74**	**(28)**	**-**	**-**	**-**	**-**	**16,953**
Net fee income	1,655	-	-	-	-	-	-	1,655
Net wealth management and insurance income	1,029	-	-	-	6	-	(12)	1,023
Trading income	929	(22)	-	-	-	-	-	907
Other income	129	(1)	-	43	-	(54)	-	117
Non-interest income	**3,742**	**(23)**	**-**	**43**	**6**	**(54)**	**(12)**	**3,702**
Net operating income	**20,649**	**51**	**(28)**	**43**	**6**	**(54)**	**(12)**	**20,655**
Staff expenses	(5,038)	-	-	21	-	-	-	(5,017)
Occupancy expenses	(1,023)	-	-	-	-	54	-	(969)
Technology expenses	(2,319)	-	-	-	-	-	-	(2,319)
Other expenses	(1,726)	-	-	-	-	-	-	(1,726)
Operating expenses	**(10,106)**	**-**	**-**	**21**	**-**	**54**	**-**	**(10,031)**
Core earnings	**10,543**	**51**	**(28)**	**64**	**6**	**-**	**(12)**	**10,624**
Impairment charges	(794)	-	-	-	-	-	-	(794)
Profit before income tax	**9,749**	**51**	**(28)**	**64**	**6**	**-**	**(12)**	**9,830**
Income tax expense	(2,959)	(16)	8	(19)	(1)	-	12	(2,975)
Net profit	**6,790**	**35**	**(20)**	**45**	**5**	**-**	**-**	**6,855**
Net profit attributable to NCI	(6)	-	-	-	-	-	-	(6)
Net profit attributable to owners of WBC	**6,784**	**35**	**(20)**	**45**	**5**	**-**	**-**	**6,849**
Cash earnings adjustments:								
Fair value (gain)/loss on economic hedges	35	(35)	-	-	-	-	-	-
Ineffective hedges	(20)	-	20	-	-	-	-	-
Adjustment related to Pendal	45	-	-	(45)	-	-	-	-
Treasury shares	5	-	-	-	(5)	-	-	-
Cash earnings	**6,849**	**-**	**-**	**-**	**-**	**-**	**-**	**6,849**

For personal use only

Cash earnings financial information

Note 9. Divisional result and economic profit

Group economic profit is defined as cash earnings plus a franking benefit equivalent of 70% of the value of Australian tax expense less a capital charge calculated at 11% of average ordinary equity.

Divisional economic profit is defined as cash earnings plus the franking benefit less a capital charge. The capital charge is calculated at 11% on allocated capital.

Economic profit is used as a key measure of financial performance because it focuses on shareholder value generated by requiring a return in excess of a risk-adjusted cost of capital.

$m	Group	Consumer	Business	Westpac Institutional Banking	Westpac New Zealand[1]	Specialist Businesses
Half Year Sept 2020						
Reported results	**1,100**	**1,274**	**256**	**185**	**327**	**(567)**
Cash earnings adjustments	515	-	-	-	4	(32)
Cash earnings	**1,615**	**1,274**	**256**	**185**	**331**	**(599)**
Franking benefit	715	383	76	64	-	(31)
Adjusted cash earnings	**2,330**	**1,657**	**332**	**249**	**331**	**(630)**
Average equity[2]	68,403	21,331	11,999	9,158	6,341	4,873
Capital charge	(3,763)	(1,173)	(660)	(503)	(349)	(268)
Economic profit/(losses)	**(1,433)**	**484**	**(328)**	**(254)**	**(18)**	**(898)**
Return on average equity (including intangibles)	**4.7**	**10.2**	**3.3**	**3.8**	**9.7**	**(19.2)**
Half Year March 2020						
Reported results	**1,190**	**1,472**	**478**	**147**	**292**	**30**
Cash earnings adjustments	(197)	-	-	-	(11)	63
Cash earnings	**993**	**1,472**	**478**	**147**	**281**	**93**
Franking benefit	580	445	148	70	-	23
Adjusted cash earnings	**1,573**	**1,917**	**626**	**217**	**281**	**116**
Average equity[2]	67,625	20,343	11,167	8,014	6,403	4,777
Capital charge	(3,719)	(1,119)	(614)	(441)	(352)	(263)
Economic profit/(losses)	**(2,146)**	**798**	**12**	**(224)**	**(71)**	**(147)**
Return on average equity (including intangibles)	**2.9**	**12.2**	**6.5**	**3.5**	**8.1**	**3.0**
Full Year Sept 2020						
Reported results	**2,290**	**2,746**	**734**	**332**	**619**	**(537)**
Cash earnings adjustments	318	-	-	-	(7)	31
Cash earnings	**2,608**	**2,746**	**734**	**332**	**612**	**(506)**
Franking benefit	1,295	828	224	134	-	(8)
Adjusted cash earnings	**3,903**	**3,574**	**958**	**466**	**612**	**(514)**
Average equity[2]	68,014	20,837	11,583	8,586	6,372	4,825
Capital charge	(7,482)	(2,292)	(1,274)	(944)	(701)	(531)
Economic profit/(losses)	**(3,579)**	**1,282**	**(316)**	**(478)**	**(89)**	**(1,045)**
Return on average equity (including intangibles)	**3.8**	**11.2**	**4.9**	**3.7**	**8.9**	**(8.2)**
Full Year Sept 2019						
Reported results	**6,784**	**3,116**	**1,946**	**925**	**984**	**667**
Cash earnings adjustments	65	-	-	-	1	45
Cash earnings	**6,849**	**3,116**	**1,946**	**925**	**985**	**712**
Franking benefit	1,779	933	587	221	-	186
Adjusted cash earnings	**8,628**	**4,049**	**2,533**	**1,146**	**985**	**898**
Average equity[2]	63,714	19,422	10,729	7,158	5,251	4,733
Capital charge	(7,009)	(2,136)	(1,180)	(787)	(578)	(521)
Economic profit	**1,619**	**1,913**	**1,353**	**359**	**407**	**377**
Return on average equity (including intangibles)	**10.7**	**13.5**	**13.7**	**12.1**	**17.1**	**11.6**

1. In A$ equivalents. For the purpose of divisional results, the capital currently allocated to the Westpac New Zealand division is broadly aligned to the capital required for the New Zealand business measured under APRA requirements. This is different to, and lower than the capital held by Westpac New Zealand Limited (WNZL), which is regulated by the Reserve Bank of New Zealand. The WNZL Disclosure Statement contains further detail on WNZL's financial position.
2. For divisions average equity does not include intangible assets.

For personal use only

Other information

6.0 Other information

6.1 Disclosure regarding forward-looking statements

This Financial Results Announcement contains statements that constitute 'forward-looking statements' within the meaning of Section 21E of the *US Securities Exchange* Act of 1934.

Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in this Financial Results Announcement and include statements regarding Westpac's intent, belief or current expectations with respect to its business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. Words such as 'will', 'may', 'expect', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'estimate', 'anticipate', 'believe', 'probability', 'risk', 'aim' or other similar words are used to identify forward-looking statements. These forward-looking statements reflect Westpac's current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond Westpac's control, and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon Westpac. There can be no assurance that future developments will be in accordance with Westpac's expectations or that the effect of future developments on Westpac will be those anticipated. Actual results could differ materially from those expected, depending on the outcome of various factors, including, but not limited to:

- the effect of the global COVID-19 pandemic, which has had, and is expected to continue to have, a negative impact on our business and global economic conditions, adversely affect a wide-range of Westpac's customers, create increased volatility in financial markets and may result in increased impairments, defaults and write-offs;
- disruptions to our business and operations and to the business and operations of key suppliers, third party contractors and customers connected with the COVID-19 pandemic;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy, particularly changes to liquidity, leverage and capital requirements;
- regulatory investigations, reviews and other actions, inquiries, litigation, fines, penalties, restrictions or other regulator imposed conditions, including as a result of our actual or alleged failure to comply with laws (such as financial crime laws), regulations or regulatory policy;
- internal and external events which may adversely impact Westpac's reputation;
- information security breaches, including cyberattacks;
- reliability and security of Westpac's technology and risks associated with changes to technology systems;
- the stability of Australian and international financial systems and disruptions to financial markets and any losses or business impacts Westpac or its customers or counterparties may experience as a result;
- market volatility, including uncertain conditions in funding, equity and asset markets;
- an increase in defaults in credit exposures because of a deterioration in economic conditions;
- adverse asset, credit or capital market conditions;
- the conduct, behaviour or practices of Westpac or its staff;
- changes to Westpac's credit ratings or the methodology used by credit rating agencies;
- levels of inflation, interest rates (including low or negative interest rates), exchange rates and market and monetary fluctuations;
- market liquidity and investor confidence;
- changes in economic conditions, consumer spending, saving and borrowing habits in Australia, New Zealand and other countries (including as a result of tariffs and other protectionist trade measures) in which Westpac or its customers or counterparties conduct their operations and Westpac's ability to maintain or to increase market share, margins and fees, and control expenses;
- the effects of competition, including from established providers of financial services and from non-financial services entities, in the geographic and business areas in which Westpac conducts its operations;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by customers;
- the effectiveness of Westpac's risk management policies, including internal processes, systems and employees;
- the incidence or severity of Westpac-insured events;
- the occurrence of environmental change (including as a result of climate change) or external events in countries in which Westpac or its customers or counterparties conduct their operations;
- changes to the value of Westpac's intangible assets;
- changes in political, social or economic conditions in any of the major markets in which Westpac or its customers or counterparties operate;
- the success of strategic decisions involving diversification or innovation, in addition to business expansion activity, business acquisitions and the integration of new businesses; and
- various other factors beyond Westpac's control.

The above list is not exhaustive. For certain other factors that may impact on forward-looking statements made by Westpac, refer to 'Risk factors' in the 2020 Westpac Group Annual Report. When relying on forward-looking statements to make decisions with respect to Westpac, investors and others should carefully consider the foregoing factors and other uncertainties and events.

Westpac is under no obligation to update any forward-looking statements contained in this Financial Results Announcement, whether as a result of new information, future events or otherwise, after the date of this Financial Results Announcement.

For personal use only

Other information

6.2 References to websites

Information contained in or accessible through the websites mentioned in this Full Year Financial Results Announcement does not form part of this Full Year Financial Results Announcement unless we specifically state that it is incorporated by reference and forms part of this Full Year Financial Results Announcement. All references in this Full Year Financial Results Announcement to websites are inactive textual references and are for information only.

6.3 Credit ratings[1]

Rating agency	Long Term	Outlook	Short. Term
Fitch Ratings	A+	Negative	F1
Moody's Investor Services	Aa3	Stable	P-1
S&P Global Ratings	AA-	Negative	A-1+

On 7 April 2020, following an assessment of the economic impact of the COVID-19 pandemic on the Australian and New Zealand economies, Fitch Ratings (Fitch) have downgraded their long-term ratings for the major Australian banks (including Westpac Banking Corporation) by one notch, to A+ (from AA-). Fitch has maintained the rating outlook for the major Australian banks as "negative", reflecting the major downside risk to Fitch's economic outlook in light of the evolving global situation.

On 8 April 2020, S&P Global Ratings affirmed Australia's AAA/A-1+ ratings but revised the outlook on these ratings to "negative". As a result of the change in Australia's sovereign rating outlook, S&P Global Ratings affirmed Westpac Banking Corporation's current issuer credit rating of AA- long term and A-1+ short term but the outlook has been revised to "negative".

6.4 Dividend reinvestment plan

Westpac operates a dividend reinvestment plan (DRP) that is available to holders of fully paid ordinary shares who are resident in, and whose address on the register of shareholders is in, Australia or New Zealand. As noted in Section 2.5, the Directors have made certain determinations in relation to the calculation of the market price which will apply to the DRP for the 2020 final dividend only.

Shareholders who wish to commence participation in the DRP, or to vary their current participation election, must do so by 5.00pm (AEST) on 13 November 2020.

Shareholders can provide these instructions by:

- For shareholders with holdings that have a market value of less than $50,000 (for a single holding) or less than $1,000,000 per shareholding held within a Link Market Services portfolio), logging into the Westpac share registrar's website at www.linkmarketservices.com.au and electing the DRP or amending their existing instructions online; or
- Completing and returning a DRP Application or Variation form to Westpac's share registry. Registry contact details are listed in Section 6.6.

6.5 Information on related entities

a. Changes in control of Group entities

During the twelve months ended 30 September 2020 the following controlled entities were acquired, formed, or incorporated:

- Westpac Digital Partnerships Pty Ltd (incorporated 5 December 2019)
- Series 2020-1 WST Trust (created 22 January 2020)
- Red Bird Ventures Limited (incorporated 5 August 2020)
- Platin 1925. GmbH (renamed to Westpac Europe GmbH) (acquired 10 September 2020)

During the year ended 30 September 2020 the following controlled entities ceased to be controlled:

- Crusade Management Pty Limited (deregistered 1 December 2019)
- Hastings Investment Management Pty Ltd (deregistered 18 December 2019)
- Series 2011-1 WST Trust (terminated 14 February 2020)
- Westpac Databank Pty Limited (deregistered on 27 May 2020)
- Series 2011-2 WST Trust (terminated 4 August 2020)
- Crusade ABS Series 2016-1 Trust (terminated 1 September 2020)
- St. George Life Pty Limited (deregistered 24 September 2020)

1. As at 30 September 2020.

For personal use only

Other information

b. Associates

As at 30 September 2020	Ownership Interest Held (%)
Beat The Q Holdings Pty Ltd	23.90%
Data Republic Pty Ltd	24.90%
Digital Wallet Pty Ltd	29.81%
Ehealthme Pty Ltd	15.60%
Flare HR Pty Ltd	23.00%
InDebted Holdings Pty Ltd	20.40%
Lygon 1B Pty Ltd	25.20%
OpenAgent Pty Ltd	25.92%
PromisePay Pte Ltd	28.80%
Valiant Finance Pty Ltd	20.03%

6.6 Financial calendar and Share Registry details

Westpac shares are listed on the securities exchanges in Australia (ASX) and New Zealand (NZX) and as American Depository Receipts in New York (NYSE). Westpac Capital Notes 2, Westpac Capital Notes 3, Westpac Capital Notes 4, Westpac Capital Notes 5 and Westpac Capital Notes 6 are listed on the ASX. Westpac NZD Subordinated Notes are listed on the NZX.

Important dates to note are set out below, subject to change. Payment of any distribution, dividend or interest payment is subject to the relevant payment conditions and the key dates for each payment will be confirmed to the ASX for securities listed on the ASX.

Westpac Ordinary Shares (ASX code: WBC, NZX code: WBC, NYSE code: WBK)

New York ex-dividend date for final dividend	9 November 2020
New York record date for final dividend	10 November 2020
Ex-dividend date for final dividend	11 November 2020
Record date for final dividend	12 November 2020
Annual General Meeting	11 December 2020
Final dividend payable	18 December 2020
Financial Half Year end	31 March 2021
Interim results and dividend announcement	3 May 2021
New York ex-dividend date for interim dividend	12 May 2021
New York record date for interim dividend	13 May 2021
Ex-dividend date for interim dividend	13 May 2021
Record date for interim dividend	14 May 2021
Interim dividend payable	25 June 2021
Financial Year end	30 September 2021
Final results and dividend announcement	1 November 2021
New York ex-dividend date for final dividend	9 November 2021
New York record date for final dividend	10 November 2021
Ex-dividend date for final dividend	11 November 2021
Record date for final dividend	12 November 2021
Annual General Meeting	15 December 2021[1]
Final dividend payable	21 December 2021

1. Details regarding the location of the meeting and the business to be dealt with will be contained in a Notice of Meeting sent to shareholders in the November before the meeting.

For personal use only

Other information

Westpac Capital Notes 2 (ASX code: WBCPE)

Ex-date for quarterly distribution	14 December 2020
Record date for quarterly distribution	15 December 2020
Payment date for quarterly distribution	23 December 2020
Ex-date for quarterly distribution	12 March 2021
Record date for quarterly distribution	15 March 2021
Payment date for quarterly distribution	23 March 2021
Ex-date for quarterly distribution	11 June 2021
Record date for quarterly distribution	15 June 2021
Payment date for quarterly distribution	23 June 2021
Ex-date for quarterly distribution	14 September 2021
Record date for quarterly distribution	15 September 2021
Payment date for quarterly distribution	23 September 2021
Ex-date for quarterly distribution	14 December 2021
Record date for quarterly distribution	15 December 2021
Payment date for quarterly distribution	23 December 2021

Westpac Capital Notes 3 (ASX code: WBCPF)

Ex-date for quarterly distribution	11 December 2020
Record date for quarterly distribution	14 December 2020
Payment date for quarterly distribution	22 December 2020
Ex-date for quarterly distribution	11 March 2021
Record date for quarterly distribution	12 March 2021[1]
Payment date for quarterly distribution	22 March 2021
Ex-date for quarterly distribution	10 June 2021
Record date for quarterly distribution	11 June 2021[1]
Payment date for quarterly distribution	22 June 2021
Ex-date for quarterly distribution	13 September 2021
Record date for quarterly distribution	14 September 2021
Payment date for quarterly distribution	22 September 2021
Ex-date for quarterly distribution	13 December 2021
Record date for quarterly distribution	14 December 2021
Payment date for quarterly distribution	22 December 2021

Westpac Capital Notes 4 (ASX code: WBCPG)

Ex-date for quarterly distribution	21 December 2020
Record date for quarterly distribution	22 December 2020
Payment date for quarterly distribution	30 December 2020
Ex-date for quarterly distribution	19 March 2021
Record date for quarterly distribution	22 March 2021
Payment date for quarterly distribution	30 March 2021
Ex-date for quarterly distribution	21 June 2021
Record date for quarterly distribution	22 June 2021
Payment date for quarterly distribution	30 June 2021
Ex-date for quarterly distribution	21 September 2021
Record date for quarterly distribution	22 September 2021
Payment date for quarterly distribution	30 September 2021
Ex-date for quarterly distribution	21 December 2021
Record date for quarterly distribution	22 December 2021
Payment date for quarterly distribution	30 December 2021

1. Adjusted to immediately preceding business day as record date falls on a non-ASX business day or a date on which banks are not open for general business in Sydney.

For personal use only

Other information

Westpac Capital Notes 5 (ASX code: WBCPH)

Ex-date for quarterly distribution	11 December 2020
Record date for quarterly distribution	14 December 2020
Payment date for quarterly distribution	22 December 2020
Ex-date for quarterly distribution	11 March 2021
Record date for quarterly distribution	12 March 2021[1]
Payment date for quarterly distribution	22 March 2021
Ex-date for quarterly distribution	10 June 2021
Record date for quarterly distribution	11 June 2021[1]
Payment date for quarterly distribution	22 June 2021
Ex-date for quarterly distribution	13 September 2021
Record date for quarterly distribution	14 September 2021
Payment date for quarterly distribution	22 September 2021
Ex-date for quarterly distribution	13 December 2021
Record date for quarterly distribution	14 December 2021
Payment date for quarterly distribution	22 December 2021

Westpac Capital Notes 6 (ASX code: WBCPI)

Ex-date for quarterly distribution	9 December 2020
Record date for quarterly distribution	10 December 2020
Payment date for quarterly distribution	18 December 2020
Ex-date for quarterly distribution	9 March 2021
Record date for quarterly distribution	10 March 2021
Payment date for quarterly distribution	18 March 2021
Ex-date for quarterly distribution	9 June 2021
Record date for quarterly distribution	10 June 2021
Payment date for quarterly distribution	18 June 2021
Ex-date for quarterly distribution	9 September 2021
Record date for quarterly distribution	10 September 2021
Payment date for quarterly distribution	20 September 2021[2]
Ex-date for quarterly distribution	9 December 2021
Record date for quarterly distribution	10 December 2021
Payment date for quarterly distribution	20 December 2021[2]

Westpac NZD Subordinated Notes (NZX code: WBC010)

Ex-date for quarterly interest payment	19 November 2020
Record date for quarterly interest payment	20 November 2020[3]
Payment date for quarterly interest payment	1 December 2020
Ex-date for quarterly interest payment	18 February 2021
Record date for quarterly interest payment	19 February 2021
Payment date for quarterly interest payment	1 March 2021
Ex-date for quarterly interest payment	20 May 2021
Record date for quarterly interest payment	21 May 2021[3]
Payment date for quarterly interest payment	1 June 2021
Ex-date for quarterly interest payment	19 August 2021
Record date for quarterly interest payment	20 August 2021[3]
Payment date for quarterly interest payment	1 September 2021
Ex-date for quarterly interest payment	18 November 2021
Record date for quarterly interest payment	19 November 2021[3]
Payment date for quarterly interest payment	1 December 2021

1. Adjusted to immediately preceding business day as record date falls on a non-ASX business day or a date on which banks are not open for general business in Sydney.
2. Adjusted to next business day as payment date falls on a non-ASX business day or a date on which banks are not open for general business in Sydney.
3. Adjusted to immediately preceding business day as record date falls on a date on which banks are not open for general business in Wellington and Auckland, New Zealand and Sydney, Australia.

For personal use only

Other information

Registered Office

Level 18
275 Kent Street
Sydney NSW 2000
Australia
Telephone: +61 2 9155 7713
Facsimile: +61 2 8253 4128
International: +61 2 9155 7700
Website: www.westpac.com.au/westpacgroup

Share Registries

Australia

Ordinary shares on the main register, Westpac Capital Notes 2, Westpac Capital Notes 3, Westpac Capital Notes 4, Westpac Capital Notes 5, Westpac Capital Notes 6

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000 Australia
Postal Address: Locked Bag A6015, Sydney South NSW 1235, Australia

Website: www.linkmarketservices.com.au
Email: westpac@linkmarketservices.com.au
Telephone: 1800 804 255 (toll free in Australia)
International: +61 1800 804 255
Facsimile: +61 2 9287 0303

New York

Depositary in USA for American Depositary Shares Listed on New York Stock Exchange
(CUSIP 961214301)
BNY Mellon Shareowner Services
PO Box 505000, Louisville, KY 40233-5000, USA

Telephone: +1 888 269 2377 (toll free in US)
International: +1 201 680 6825

Email: shrrelations@cpushareownerservices.com
Website: https://www-us.computershare.com/investor

New Zealand

Ordinary shares on the New Zealand branch register and Westpac NZD Subordinated Notes

Link Market Services Limited
Level 11, Deloitte Centre, 80 Queen Street
Auckland 1010 New Zealand
Postal Address: P.O. Box 91976, Auckland 1142, New Zealand

Website: www.linkmarketservices.co.nz
Email: enquiries@linkmarketservices.co.nz
Telephone: 0800 002 727 (toll free in New Zealand)
International: +64 9 375 5998
Facsimile: +64 9 375 5990

For further information contact:

Media:
David Lording, Head of Media Relations
+61 419 683 411

Analysts and Investors:
Andrew Bowden, Head of Investor Relations
+61 438 284 863

For personal use only

Other information

6.7 Exchange rates

6.7.1 Exchange rates against A$

Six months to/as at	30 September 2020		31 March 2020		30 September 2019	
Currency	Average	Spot	Average	Spot	Average	Spot
US$	0.6866	0.7107	0.6711	0.6191	0.6926	0.6754
GBP	0.5418	0.5540	0.5228	0.5017	0.5504	0.5493
NZ$	1.0721	1.0803	1.0493	1.0264	1.0565	1.0790

Twelve months to/as at	30 September 2020		30 September 2019	
Currency	Average	Spot	Average	Spot
US$	0.6789	0.7107	0.7038	0.6754
GBP	0.5323	0.5540	0.5514	0.5493
NZ$	1.0607	1.0803	1.0574	1.0790

6.7.2 Impact of exchange rate movements on Group results

	Half Year Sept 2020 vs Half Year March 2020			Full Year Sept 2020 vs Full Year Sept 2019		
	Cash earnings growth	FX Impact $m	Growth ex-FX	Cash earnings growth	FX Impact $m	Growth ex-FX
Net interest income	(3%)	11	(3%)	1%	39	1%
Non-interest income	11%	21	10%	(4%)	19	(5%)
Net operating income	**(1%)**	**32**	**(1%)**	**-**	**58**	**-**
Operating expenses	6%	(5)	6%	27%	(22)	26%
Core earnings	**(10%)**	**27**	**(11%)**	**(25%)**	**36**	**(26%)**
Impairment charges	(58%)	(1)	(58%)	large	(6)	large
Operating profit before income tax	**44%**	**26**	**43%**	**(52%)**	**30**	**(52%)**
Income tax expense	25%	(9)	24%	(28%)	(8)	(28%)
Net profit	**63%**	**17**	**61%**	**(62%)**	**22**	**(62%)**
Profit attributable to NCI	-	-	-	(67%)	-	(67%)
Cash earnings	**63%**	**17**	**61%**	**(62%)**	**22**	**(62%)**

6.7.3 Exchange rate risk on future NZ$ earnings

Westpac's policy in relation to the hedging of the future earnings of the Group's New Zealand division is to assess the economic risk for volatility of the NZ$ against A$. Westpac manages these flows over a time horizon under which up to 100% of the expected earnings for the following 12 months and 100% of the expected earnings for the subsequent 12 months can be hedged. At the current elevated exchange rate level, Westpac has currently ceased hedging NZ future earnings and therefore as at 30 September 2020 Westpac has no outstanding NZ future earnings hedges.

For personal use only

Glossary

7.0 Glossary

Shareholder value	
Average ordinary equity	Average total equity less average non-controlling interests.
Average tangible ordinary equity	Average ordinary equity less average goodwill and other intangible assets (excluding capitalised software).
Cash earnings per ordinary share	Cash earnings divided by the weighted average ordinary shares (cash earnings basis).
Cash ROE	Cash earnings divided by average ordinary equity.
Cash earnings to average tangible equity (ROTE)	Cash earnings divided by average tangible ordinary equity.
Dividend payout ratio – cash earnings	Ordinary dividend paid/declared calculated on issued shares divided by cash earnings.
Dividend payout ratio – net profit	Ordinary dividend paid/declared on issued shares (net of Treasury shares) divided by the net profit attributable to owners of WBC.
Earnings per ordinary share	Net profit attributable to the owners of WBC divided by the weighted average ordinary shares (reported).
Economic profit – Divisions	Cash earnings less a capital charge calculated at 11% of allocated capital plus 70% of the value of Australian tax expense.
Economic profit – Group	Cash earnings less a capital charge calculated at 11% of average ordinary equity plus a value on franking credits calculated as 70% of the Group's Australian tax expense.
Fully franked dividends per ordinary shares (cents)	Dividends paid out of retained profits which carry a credit for Australian company income tax paid by Westpac.
Net tangible assets per ordinary share	Net tangible assets (total equity less goodwill and other intangible assets less minority interests) divided by the number of ordinary shares on issue (reported).
Return on equity (ROE)	Net profit attributable to the owners of WBC divided by average ordinary equity.
Weighted average ordinary shares (cash earnings)	Weighted average number of fully paid ordinary shares listed on the ASX for the relevant period.
Weighted average ordinary shares (reported)	Weighted average number of fully paid ordinary shares listed on the ASX for the relevant period less Westpac shares held by the Group ('Treasury shares').
Productivity and efficiency	
Expense to income ratio	Operating expenses divided by net operating income.
Full-time equivalent employees (FTE)	A calculation based on the number of hours worked by full and part-time employees as part of their normal duties. For example, the full-time equivalent of one FTE is 76 hours paid work per fortnight.
Revenue per FTE	Total operating income divided by the average number of FTE for the period.
Business performance	
Average interest-earning assets	The average balance of assets held by the Group that generate interest income. Where possible, daily balances are used to calculate the average balance for the period.
Average interest-bearing liabilities	The average balance of liabilities owed by the Group that incur an interest expense. Where possible, daily balances are used to calculate the average balance for the period.
Divisional margin	Net interest income (including capital benefit) for a division as a percentage of the average interest earning assets for that division.
Interest spread	The difference between the average yield on all interest-earning assets and the average rate paid on interest bearing liabilities.
Net interest margin	Calculated by dividing net interest income by average interest-earning assets.
Capital adequacy	
APRA leverage ratio	Tier 1 capital divided by 'exposure measure' and expressed as a percentage. 'Exposure measure' is the sum of on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off- balance sheet exposures.
Common equity tier 1 capital ratio	Total common equity capital divided by risk weighted assets, as defined by APRA.
Credit risk weighted assets (Credit RWA)	Credit risk weighted assets represent risk weighted assets (on-balance sheet and off-balance sheet) that relate to credit exposures and therefore exclude market risk, operational risk, interest rate risk in the banking book and other assets.
Internationally comparable capital ratios	Internationally comparable regulatory capital ratios are Westpac's estimated ratios after adjusting the capital ratios determined under APRA Basel III regulations for various items. Analysis aligns with the APRA study titled "International capital comparison study" dated 13 July 2015.
Risk weighted assets (RWA)	Assets (both on and off-balance sheet) are risk weighted according to each asset's inherent potential for default and what the likely losses would be in case of default. In the case of non-asset backed risks (i.e. market and operational risk), RWA is determined by multiplying the capital requirements for those risks by 12.5.
Tier 1 capital ratio	Total Tier 1 capital divided by risk weighted assets, as defined by APRA.
Total regulatory capital ratio	Total regulatory capital divided by risk weighted assets, as defined by APRA.

For personal use only

Glossary

Funding and liquidity	
Committed Liquidity Facility (CLF)	The RBA makes available to Australian Authorised Deposit-taking Institutions (ADIs) a CLF that, subject to qualifying conditions, can be accessed to meet LCR requirements under APS210 Liquidity.
Deposit to loan ratio	Customer deposits divided by total loans.
High Quality Liquid Assets (HQLA)	Assets which meet APRA's criteria for inclusion as HQLA in the numerator of the LCR.
Liquidity Coverage Ratio (LCR)	An APRA requirement to maintain an adequate level of unencumbered high quality liquid assets, to meet liquidity needs for a 30 calendar day period under an APRA-defined severe stress scenario. Absent a situation of financial stress, the value of the LCR must not be less than 100%, effective 1 January 2015. LCR is calculated as the percentage ratio of stock of HQLA and CLF over the total net cash out-flows in a modelled 30 day defined stressed scenario.
Net Stable Funding Ratio (NSFR)	The NSFR is defined as the ratio of the amount of available stable funding (ASF) to the amount of required stable funding (RSF) defined by APRA. The amount of ASF is the portion of an ADI's capital and liabilities expected to be a reliable source of funds over a one year time horizon. The amount of RSF is a function of the liquidity characteristics and residual maturities of an ADI's assets and off-balance sheet activities. ADI's must maintain an NSFR of at least 100%.
Term Funding Facility (TFF)	A facility established by the RBA to provide 3 year term funding to Australian ADIs via repurchase transactions, subject to qualifying conditions, to help support lending to Australian businesses.
Third party liquid assets	HQLA and non LCR qualifying liquid assets, but excludes internally securitised assets that are eligible for a repurchase agreement with the RBA and RBNZ.
Total liquid assets	Third party liquid assets and internally securitised assets that are eligible for a repurchase agreement with a central bank.
Asset quality	
90 days past due and not impaired	Includes facilities where: • contractual payments of interest and / or principal are 90 or more calendar days overdue, including overdrafts or other revolving facilities that remain continuously outside approved limits by material amounts for 90 or more calendar days (including accounts for customers who have been granted hardship assistance); or • an order has been sought for the customer's bankruptcy or similar legal action has been instituted which may avoid or delay repayment of its credit obligations; and • the estimated net realisable value of assets / security to which Westpac has recourse is sufficient to cover repayment of all principal and interest, or where there are otherwise reasonable grounds to expect payment in full and interest is being taken to profit on an accrual basis. These facilities, while in default, are not treated as impaired for accounting purposes.
Collectively assessed provisions (CAPs)	Collectively assessed provisions for expected credit loss under AASB 9 represent the Expected Credit Loss (ECL) which is collectively assessed in pools of similar assets with similar risk characteristics. This incorporates forward looking information and does not require an actual loss event to have occurred for an impairment provision to be recognised.
Default	For accounting purposes, a default occurs when Westpac considers that the customer is unlikely to repay its credit obligations in full, without recourse by the Group to action such as realising security, or the customer is more than 90 days past due on any material credit obligation. This definition of default is aligned to the APRA regulatory definition of default.
Impaired exposures	Includes exposures that have deteriorated to the point where full collection of interest and principal is in doubt, based on an assessment of the customer's outlook, cash flow, and the net realisation of value of assets to which recourse is held: • facilities 90 days or more past due, and full recovery is in doubt: exposures where contractual payments are 90 or more days in arrears and the net realisable value of assets to which recourse is held may not be sufficient to allow full collection of interest and principal, including overdrafts or other revolving facilities that remain continuously outside approved limits by material amounts for 90 or more calendar days; • non-accrual facilities: exposures with individually assessed impairment provisions held against them, excluding restructured loans; • restructured facilities: exposures where the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer; • other assets acquired through security enforcement (includes other real estate owned): includes the value of any other assets acquired as full or partial settlement of outstanding obligations through the enforcement of security arrangements; and • any other facilities where the full collection of interest and principal is in doubt.

For personal use only

Glossary

Asset quality (cont'd)	
Individually assessed provisions (IAPs)	Provisions raised for losses on loans that are known to be impaired and are assessed on an individual basis. The estimated losses on these impaired loans is based on expected future cash flows discounted to their present value and, as this discount unwinds, interest will be recognised in the income statement.
Non-performing exposures	Exposures which are in default.
Performing exposures	Exposures which are not in default.
Probability of default (PD)	The probability that a counterparty will default.
Provision for expected credit losses (ECL)	Expected credit losses (ECL) are a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe. They are determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.
Loss given default (LGD)	The loss that is expected to arise in the event of a default.
Exposure at default (EAD)	The estimated outstanding amount of credit exposure at the time of the default.
Stage 1: 12 months ECL - performing	For financial assets where there has been no significant increase in credit risk since origination a provision for 12 months expected credit losses is recognised. Interest revenue is calculated on the gross carrying amount of the financial asset.
Stage 2: Lifetime ECL - performing	For financial assets where there has been a significant increase in credit risk since origination but where the asset is still performing a provision for lifetime expected losses is recognised. Interest revenue is calculated on the gross carrying amount of the financial asset.
Stage 3: Lifetime ECL - non-performing	For financial assets that are non-performing a provision for lifetime expected losses is recognised. Interest revenue is calculated on the carrying amount net of the provision for ECL rather than the gross carrying amount.
Stressed exposures	Watchlist and substandard, 90 days past due and not impaired and impaired exposures. Stressed exposures do not include exposures which are on an active COVID-19 deferral package as of September 2020.
Total committed exposure (TCE)	Represents the sum of the committed portion of direct lending (including funds placement overall and deposits placed), contingent and pre-settlement risk plus the committed portion of secondary market trading and underwriting risk.
Watchlist and substandard	Loan facilities where customers are experiencing operating weakness and financial difficulty but are not expected to incur loss of interest or principal.
Other	
COVID-19	A viral disease, declared as a pandemic by the World Health Organisation on 12 March 2020.
Credit Value Adjustment (CVA)	CVA adjusts the fair value of over-the-counter derivatives for credit risk. CVA is employed on the majority of derivative positions and reflects the market view of the counterparty credit risk. A Debit Valuation Adjustment (DVA) is employed to adjust for our own credit risk.
Divisional results	Divisional results are presented on a management reporting basis. Internal charges and transfer pricing adjustments are included in the performance of each division reflecting the management structure rather than the legal entity (these results cannot be compared to results for individual legal entities). Where management reporting structures or accounting classifications have changed, financial results for comparative periods have been restated and may differ from results previously reported. Overhead costs are allocated to revenue generating divisions. The Group's internal transfer pricing frameworks facilitate risk transfer, profitability measurement, capital allocation and divisional alignment, tailored to the jurisdictions in which the Group operates. Transfer pricing allows the Group to measure the relative contribution of products and divisions to the Group's interest margin and other dimensions of performance. Key components of the Group's transfer pricing frameworks are funds transfer pricing for interest rate and liquidity risk and allocation of basis and contingent liquidity costs, including capital allocation.
IFTI	International Funds Transfer Instructions
First Half 2020	Six months ended 31 March 2020.
First Half 2019	Six months ended 31 March 2019.

For personal use only

Glossary

Other (cont'd)	
Net Promoter Score (NPS)	Net Promoter Score measures the net likelihood of recommendation to others of the customer's main financial institution for retail or business banking. Net Promoter ScoreSM is a trademark of Bain & Co Inc., Satmetrix Systems, Inc., and Mr Frederick Reichheld. • For retail banking, using a scale of 1 to 10 (1 means 'extremely unlikely' and 10 means 'extremely likely'), the 1-6 raters (detractors) are deducted from the 9-10 raters (promoters); and • For business banking, using a scale of 0 to 10 (0 means 'extremely unlikely' and 10 means 'extremely likely'), the 0-6 raters (detractors) are deducted from the 9-10 raters (promoters).
Prior corresponding period	Refers to the six months ended 31 March 2020.
Prior half / Prior period	Refers to the six months ended 30 September 2020.
Run-off	Scheduled and unscheduled repayments and debt repayments (from for example property sales and external refinancing), net of redraws.
Second Half 2019	Six months ended 30 September 2019.
SME	Small to medium sized enterprises
Women in Leadership	Women in Leadership refers to the proportion of women (permanent and maximum term) in leadership roles across the Group. It includes the CEO, Group Executive, General Managers, senior leaders with significant influence on business outcomes (direct reports to General Managers and their direct reports), large (3+) team people leaders three levels below General Manager, and Bank and Assistant Bank Managers.

For personal use only

For personal use only

westpac.com.au

Westpac GROUP