

# 3Q23

# Capital, Credit Quality and Funding Update

This document should be read in conjunction with Westpac's June 2023 Pillar 3 Report. Content principally covers and compares the 3Q23 and 1H23 quarterly average periods unless otherwise stated. All amounts are in Australian dollars.

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**FOR THE 3 MONTHS ENDED 30 JUNE 2023**

WESTPAC BANKING CORPORATION  
ABN 33 007 457 141

# 3Q23 summary.



## Strong capital position

- CET1<sup>1</sup> capital ratio of 11.86%, above target operating range<sup>2</sup>
- RWA<sup>3</sup> up \$7.1bn or 1.6%



## Credit quality resilient - well provisioned, modest increase in stress

- Stressed assets to TCE<sup>4</sup> 1.16%, up 6bps
- Mortgage 90+ day delinquencies:
  - Australia 0.80%, up 7bps
  - New Zealand 0.32%, up 3bps
- CAP<sup>5</sup> to credit RWA 137bps, up 4bps
- Impairment charge of \$275m
  - IAP<sup>6</sup> charge of \$19m mainly from a single exposure
  - CAP charge of \$256m mainly due to write-offs, portfolio movements and forward looking economic forecasts



## Strong funding and liquidity

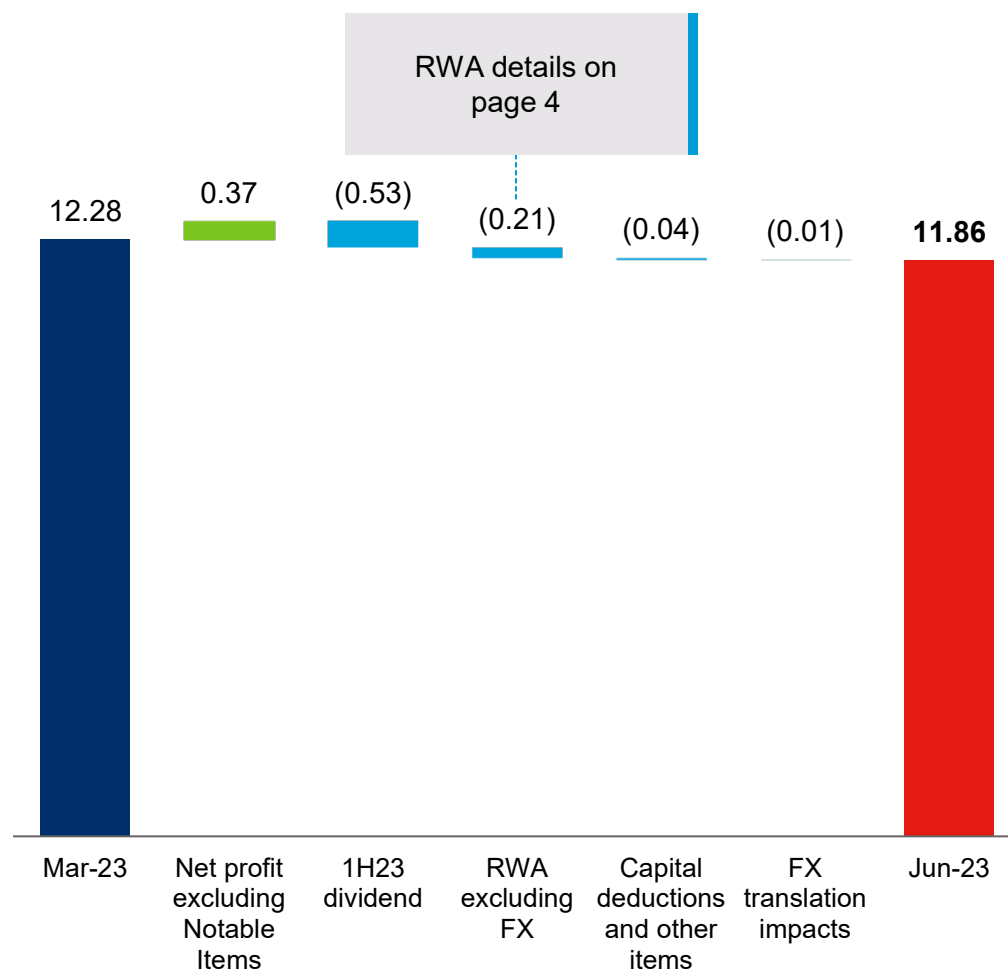
- LCR<sup>7</sup> at 138%, up 3 pts
- NSFR<sup>8</sup> at 118%, down 1 ppt
- Deposit to loan ratio 84.1%, up 0.4 pts
- Well progressed on wholesale funding plans

1 Level 2 common equity tier 1 (CET1). 2 Target operating range is 11.0-11.5%. 3 Risk weighted assets (RWA). 4 Total committed exposure (TCE). 5 Collectively assessed provisions (CAP). 6 Individually assessed provisions (IAP) includes new IAPs, write-backs and recoveries. 7 Liquidity coverage ratio (LCR). 8 Net stable funding ratio (NSFR).

# CET1 capital ratio 11.86%.

Capital

## Level 2 CET1 capital ratio movements (%)

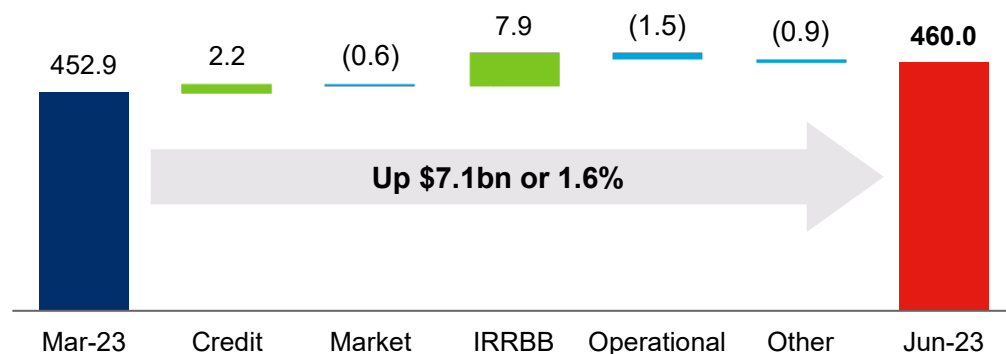


Key capital ratios (%)	Jun-22	Mar-23	Jun-23
<b>Level 2 CET1 capital ratio</b>	10.8	12.3	<b>11.9</b>
Additional Tier 1 capital ratio	2.0	2.2	<b>2.2</b>
Tier 1 capital ratio	12.8	14.5	<b>14.0</b>
Tier 2 capital ratio <sup>1</sup>	4.4	5.3	<b>5.7</b>
Total regulatory capital ratio	17.2	19.8	<b>19.7</b>
Risk weighted assets (RWA) (\$bn)	478	453	<b>460</b>
Leverage ratio	5.4	5.5	<b>5.4</b>
<b>Level 1 CET1 capital ratio</b>	10.6	12.5	<b>12.0</b>
<b>Internationally comparable ratios<sup>2</sup></b>			
Leverage ratio (internationally comparable)	5.8	5.9	<b>5.8</b>
CET1 capital ratio (internationally comparable)	17.1	18.1	<b>17.9</b>

<sup>1</sup> The 30 June 2023 Tier 2 capital ratio is 5.7%. This reflects issuance of A\$2.9 billion and redemptions of A\$0.9 billion in June 2023. The net impact of these transactions was an increase in total capital of approximately 43bps. <sup>2</sup> Internationally comparable methodology references the ABA study on the comparability of APRA's new capital framework and finalised reform released on 10 March 2023. The internationally comparable ratios for June 2022 reference APRA's study titled 'International Capital Comparison Study' dated 13 July 2015.

# Risk weighted assets movements.

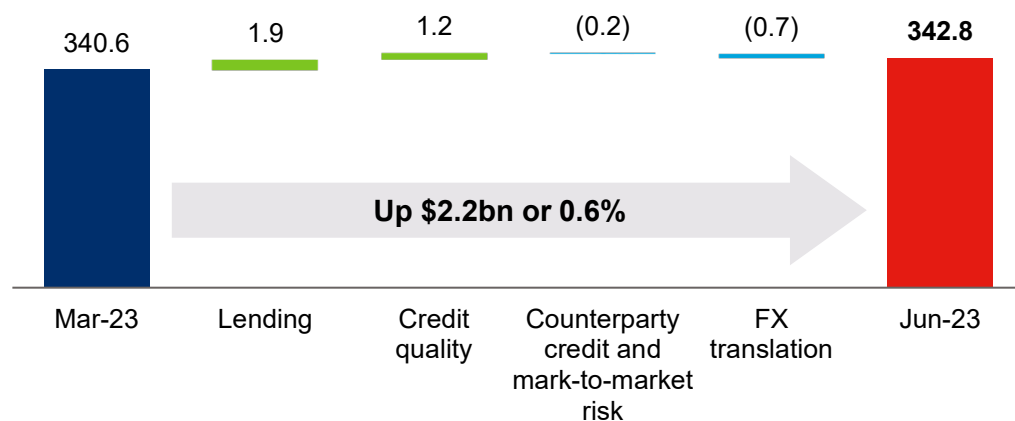
## Risk weighted assets (RWA) (\$bn)



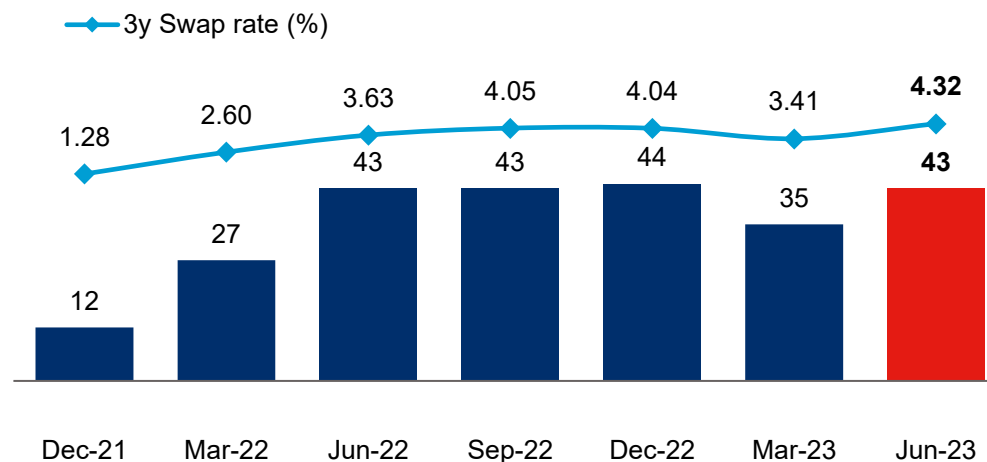
• RWA up \$7.1bn or 1.6%:

- Credit RWA increased due to loan growth and modest credit deterioration
- IRRBB<sup>1</sup> RWA increased \$7.9bn due to an increase in the regulatory embedded loss from higher interest rates and ongoing model changes of \$2.5bn

## Movement in credit risk weighted assets (\$bn)



## IRRBB RWA (\$bn)

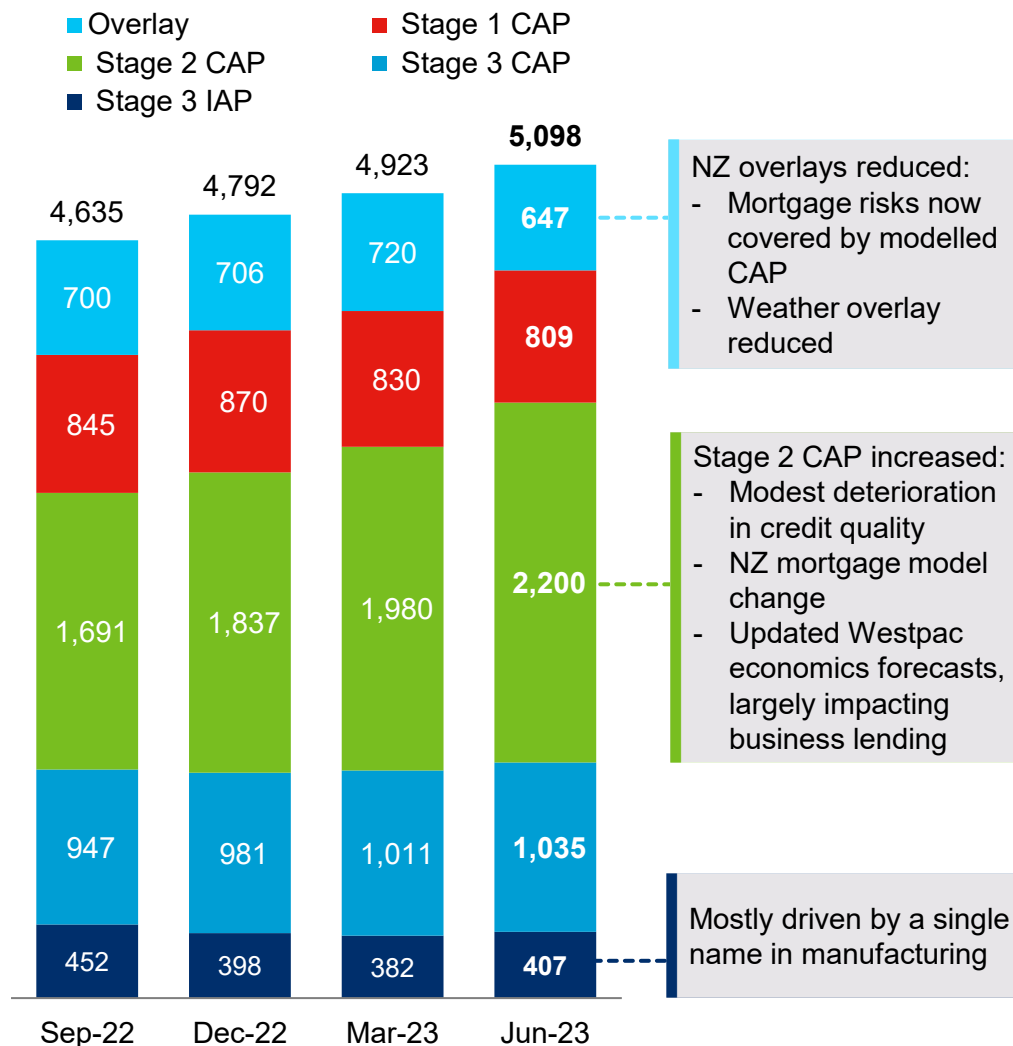


<sup>1</sup> Interest rate risk in the banking book (IRRBB).

# Provision coverage.

Provisioning

## Total impairment provisions<sup>1</sup> (\$m)



## Provision coverage

	Sep-22	Dec-22	Mar-23	Jun-23
Provisions to credit RWA <sup>2</sup>	128bps	132bps	145bps	<b>149bps</b>
CAP to credit RWA <sup>2</sup>	116bps	121bps	133bps	<b>137bps</b>
Provisions to TCE	39bps	40bps	40bps	<b>42bps</b>
Impaired provisions to impaired assets	48%	44%	43%	<b>46%</b>

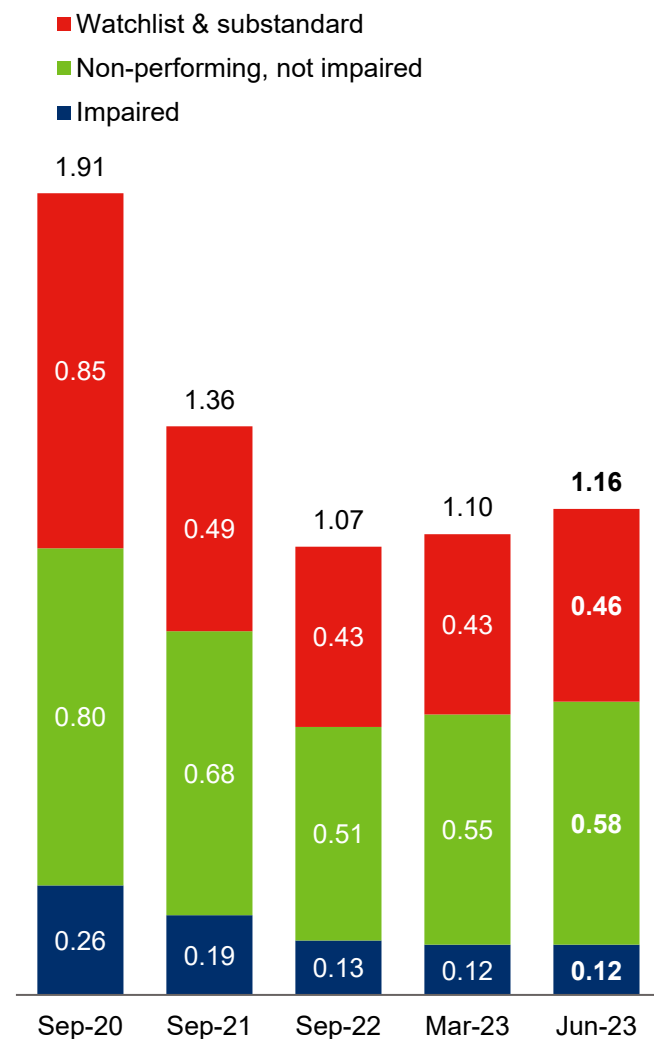
## Forecasts used in economic scenarios

Forecasts for base case economic scenario <sup>3</sup>	Base case		Downside
	2023	2024	Trough / peak <sup>4</sup>
GDP growth	0.6%	1.0%	(6%)
Unemployment	4.4%	5.3%	11%
Residential property prices	0.9%	5.1%	(27%)
Commercial property prices	(12.7%)	3.2%	(32%)

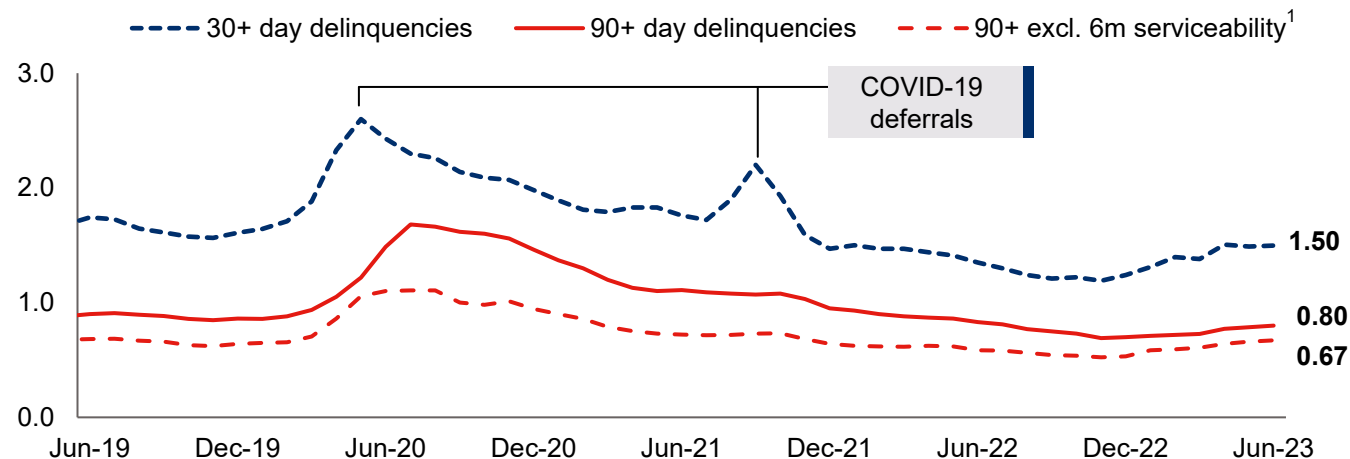
<sup>1</sup> Includes provisions for debt securities. <sup>2</sup> Data from March 2023 onwards reflects the adoption of APRA's revised capital framework. Prior periods have not been restated. <sup>3</sup> Forecast provided by Westpac Economics at 16 June 2023. <sup>4</sup> These key economic indicators represent trough or peak values that characterise the scenarios considered in setting downside severity. Residential and commercial forecasts represent cumulative reduction over a two-year period.

# Stressed exposures and delinquencies.

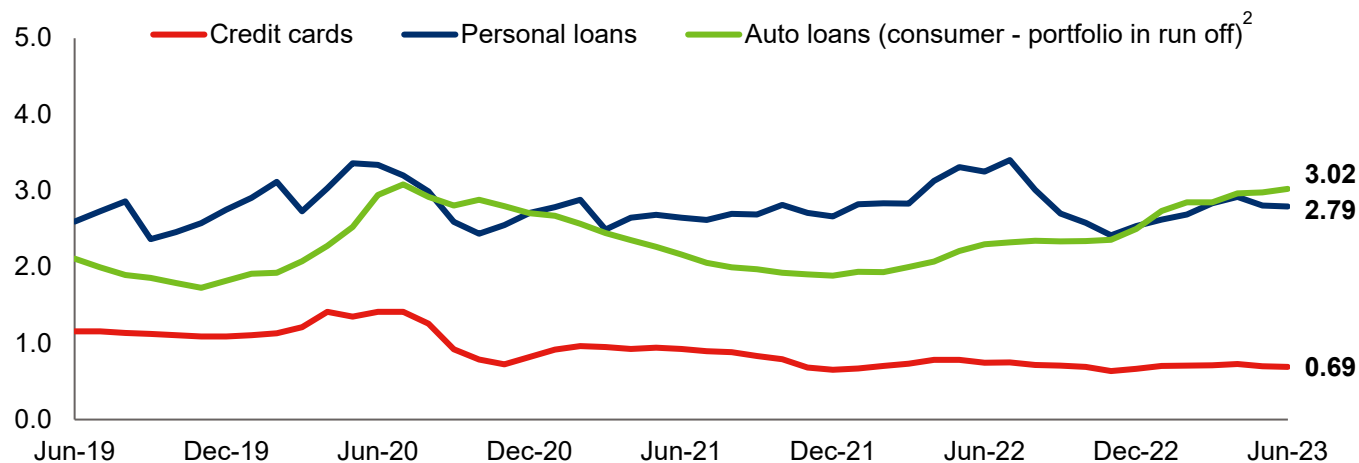
## Stressed exposures as a % of TCE



## Australian mortgage delinquencies (%)



## Australian consumer finance 90+ delinquencies (%)

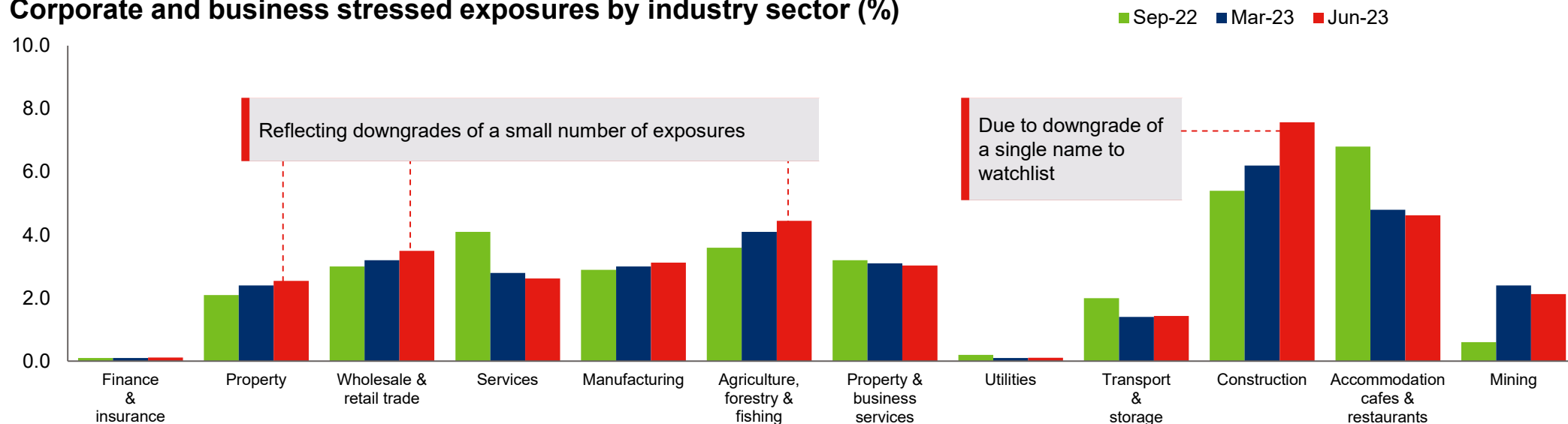


<sup>1</sup> Excludes accounts reported as 90+ delinquent during the 6 month serviceability period after a hardship arrangement has ended. <sup>2</sup> Portfolio has been in run off since March 2022.

# Credit quality across sectors.

Credit quality

## Corporate and business stressed exposures by industry sector (%)



## Exposure and credit quality by sector

Sector	Finance & Insurance <sup>1</sup>	Property <sup>2</sup>	Wholesale & retail trade	Services <sup>3</sup>	Manufacturing	Agriculture, forestry & fishing	Property & business services	Utilities	Transport & storage	Construction <sup>4</sup>	Accomm, cafes & restaurants	Mining	
<b>TCE (\$bn)</b>													
	<b>Jun-23</b>	<b>209.0</b>	<b>79.1</b>	<b>28.9</b>	<b>25.5</b>	<b>24.7</b>	<b>24.0</b>	<b>22.0</b>	<b>17.2</b>	<b>16.7</b>	<b>12.1</b>	<b>10.3</b>	<b>8.0</b>
	Mar-23	205.6	78.8	29.0	23.7	24.2	23.9	22.0	16.9	17.3	11.9	10.2	8.7
<b>Stressed (%)<sup>5,6</sup></b>													
	<b>Jun-23</b>	<b>0.1</b>	<b>2.5</b>	<b>3.5</b>	<b>2.6</b>	<b>3.1</b>	<b>4.4</b>	<b>3.0</b>	<b>0.1</b>	<b>1.4</b>	<b>7.6</b>	<b>4.6</b>	<b>2.1</b>
	Mar-23	0.1	2.4	3.2	2.8	3.0	4.1	3.1	0.1	1.4	6.2	4.8	2.4
<b>Impaired (%)<sup>6</sup></b>													
	<b>Jun-23</b>	<b>0.0</b>	<b>0.1</b>	<b>0.5</b>	<b>0.3</b>	<b>0.6</b>	<b>0.2</b>	<b>0.5</b>	<b>0.0</b>	<b>0.1</b>	<b>0.6</b>	<b>0.4</b>	<b>0.1</b>
	Mar-23	0.0	0.1	0.6	0.4	0.5	0.3	0.6	0.0	0.2	0.8	0.6	0.1

1 Finance and insurance includes banks, non-banks, insurance companies and other firms providing services to the finance and insurance sectors. Includes assets held for liquidity portfolio. 2 Property includes both residential and non-residential property investors and developers and excludes real estate agents. 3 Services includes education, health & community services, cultural & recreational and personal & other services. 4 Construction includes building and non-building construction, and industries serving the construction sector. 5 Includes impaired exposures. 6 Percentage of portfolio TCE.

# Australian mortgage portfolio composition.

Mortgage credit quality

Australian mortgage portfolio	Sep-22 balance	Mar-23 balance	Jun-23 balance
Total portfolio (\$bn)	467.6	472.7	<b>478.4</b>
Owner occupied (OO) (%)	65.8	66.4	<b>66.7</b>
Investment property loans (IPL) (%)	32.6	32.2	<b>31.9</b>
Portfolio loan/line of credit (LOC) (%)	1.6	1.4	<b>1.4</b>
Variable rate / Fixed rate (%)	63/37	67/33	<b>71/29</b>
Interest only (I/O) (%)	13.5	13.3	<b>13.1</b>
Proprietary channel (%)	51.8	51.5	<b>51.4</b>
First home buyer (%)	10.1	9.6	<b>9.4</b>
Mortgage insured (%)	14.7	14.2	<b>13.7</b>
	<b>Sep-22</b>	<b>Mar-23</b>	<b>Jun-23</b>
Average loan size <sup>1</sup> (\$'000)	286	292	<b>297</b>
Customers ahead on repayments including offset account balances (%)			
By accounts	74	74	<b>74</b>
By balances	68	69	<b>69</b>
Mortgage losses net of insurance <sup>2</sup> (\$m)	2	11	<b>9</b>
Annual mortgage loss rate <sup>3</sup> (bps)	0.6	0.5	<b>0.6</b>
Hardship balances (% of portfolio)	0.53	0.50	<b>0.60</b>

## Australian mortgage portfolio by product and repayment type (%)

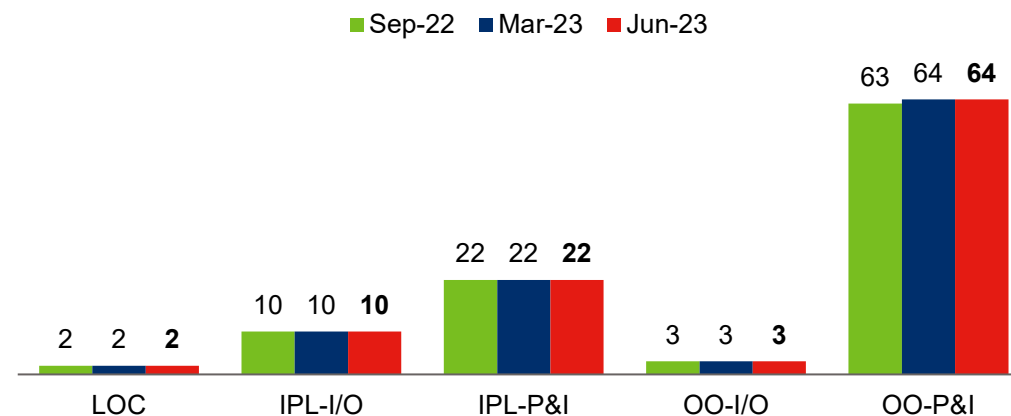
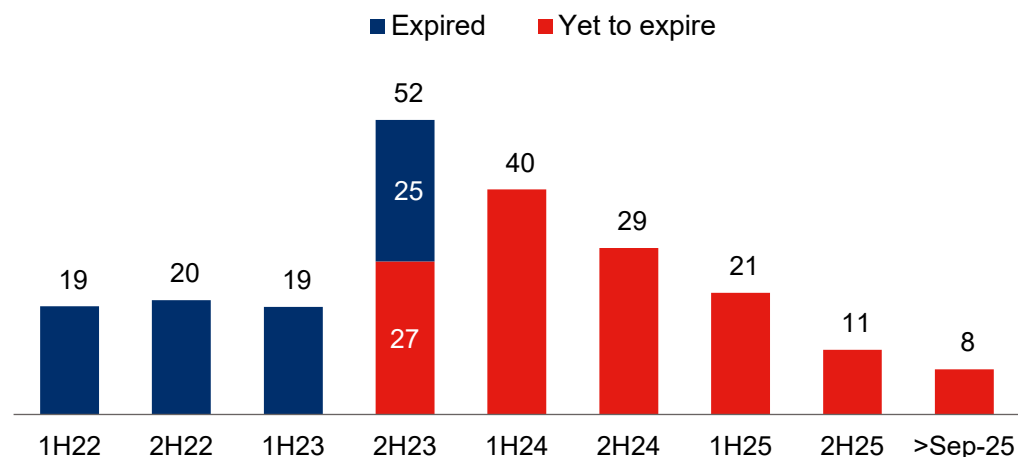


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## Australian fixed rate mortgage expiry schedule (\$bn)



1 Includes amortisation. Calculated at account level, where split loans represent more than one account. 2 Mortgage loss rates for Jun-23 are for the 3 months ending. Mortgage losses for Sep-22 and Mar-23 are for the 6 months ending. 3 Mortgage loss rates for Jun-23 balances are annualised, based on losses for the 9 months to June 2023. Mortgage loss rates for Mar-23 are annualised, based on losses for the 6 months to March 2023. Mortgage loss rates for Sep-22 are actual losses for the 12 months ending 30 September 2023.



# Australian mortgage portfolio buffers.

Mortgage credit quality

- Equity position for existing loans remain strong:
  - 0.6% of loans in negative equity, down from 0.8% at Mar-23
  - Loan-to-value ratios have improved, supported by recovery in house prices
- Customers ahead on repayments little changed over 3Q23:
  - 31% of accounts more than 2 years ahead (21% of balances)
- Offset account balances continue to provide an important buffer to mortgage customers

## Australian home loan customers ahead on repayments<sup>2</sup> (% by accounts)

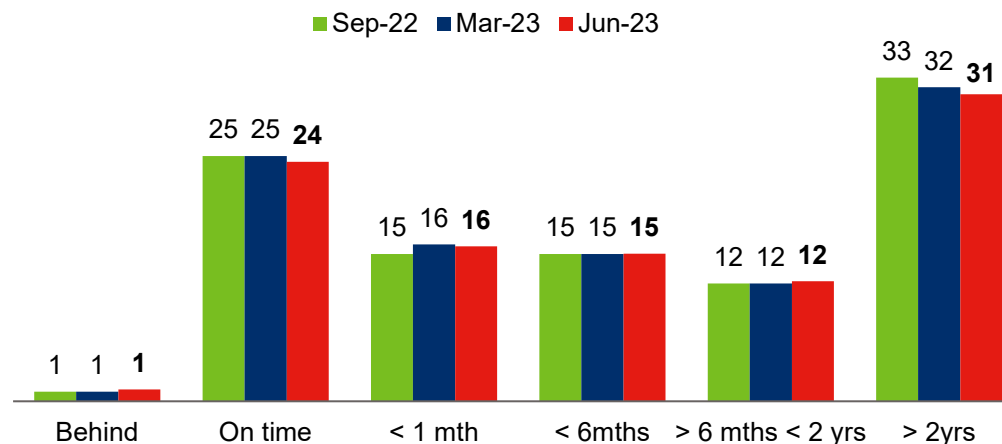
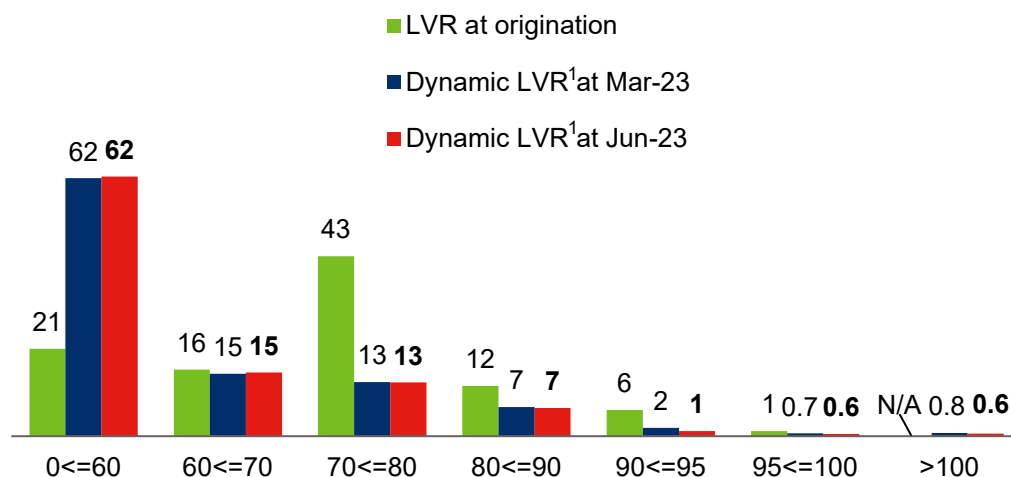
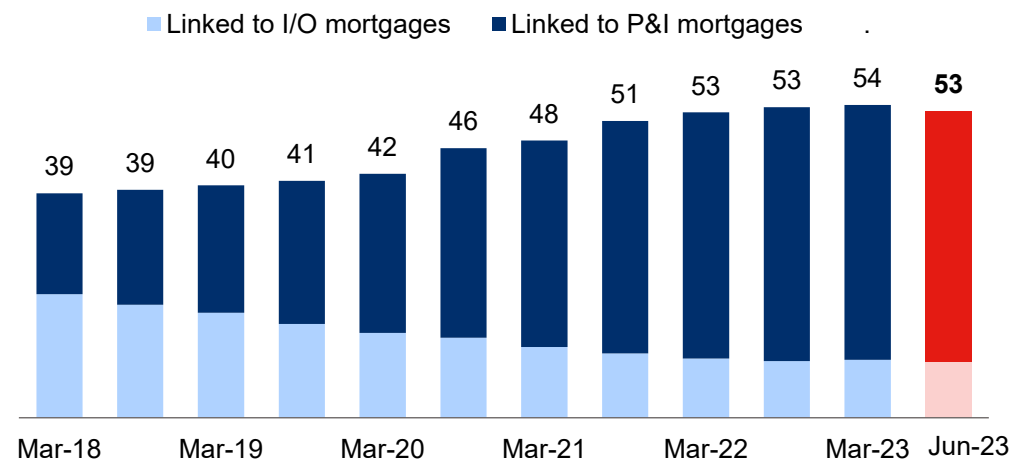


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## Australian housing loan-to-value ratios (LVR) (%)



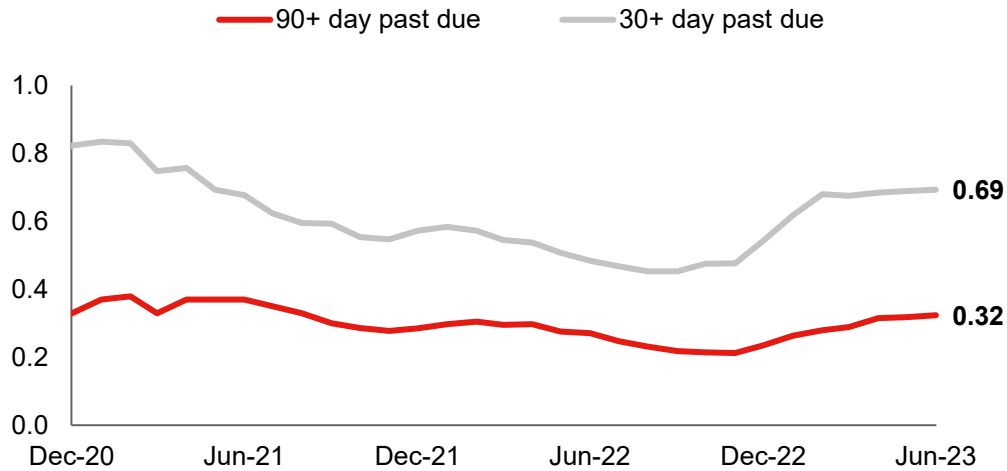
## Offset account balances<sup>3</sup> (\$bn)



<sup>1</sup> Dynamic LVR is the loan-to-value ratio taking into account the current loan balance, changes in security value, offset account balances and other loan adjustments. Property valuation source: CoreLogic. <sup>2</sup> Customer loans ahead on payments exclude equity/line of credit products as there are no scheduled principal payments. Includes mortgage offset accounts. 'Behind' is more than 30 days past due. 'On time' include up to 30 days past due. <sup>3</sup> Includes RAMS from Sep-20 onwards.

# New Zealand credit quality.

## Mortgage delinquencies (%)



## Mortgage portfolio LVR<sup>1</sup> (% of portfolio)

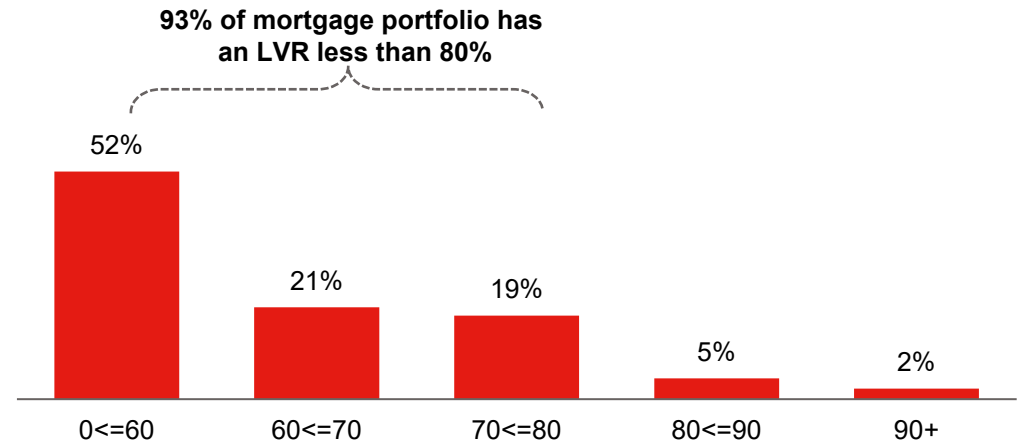


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## Business stressed exposures to business TCE (%)

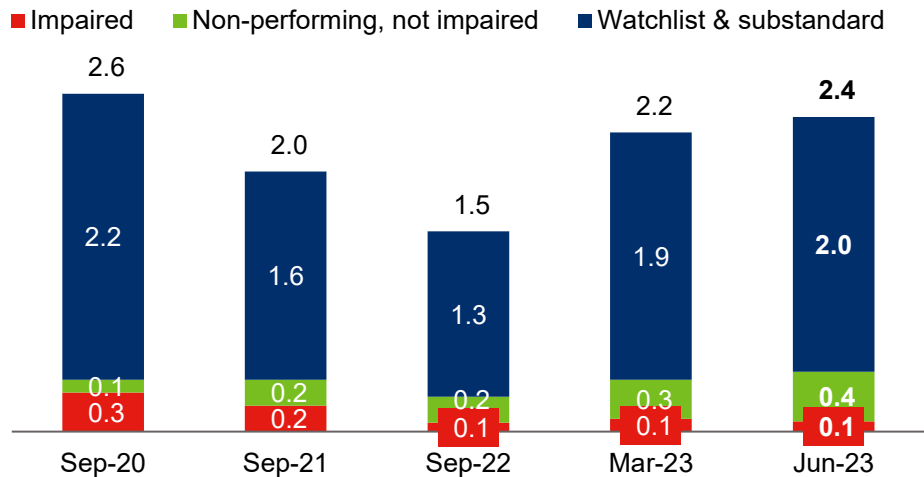
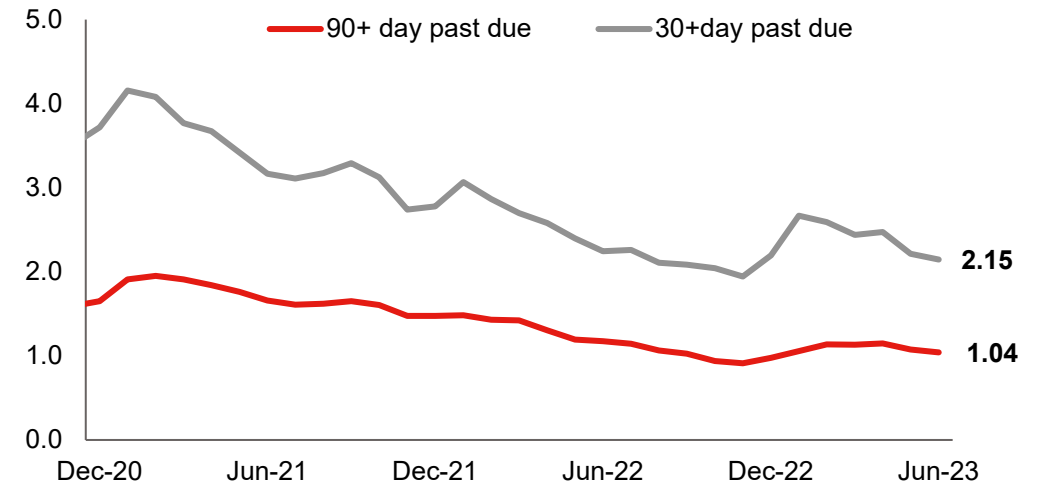


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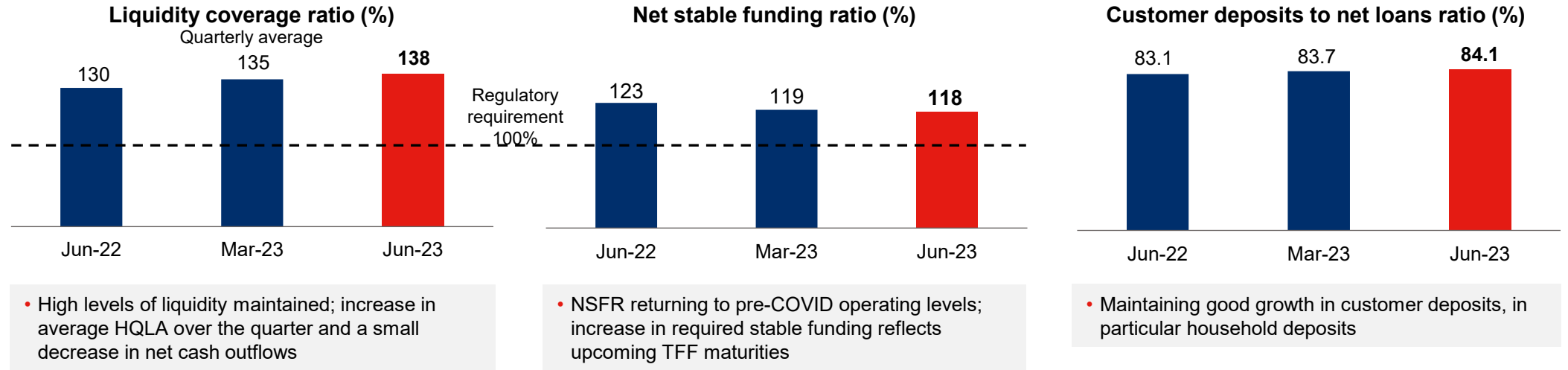
<sup>1</sup> LVR based on current exposure and property valuation at the latest credit event.

## Unsecured Consumer delinquencies (%)

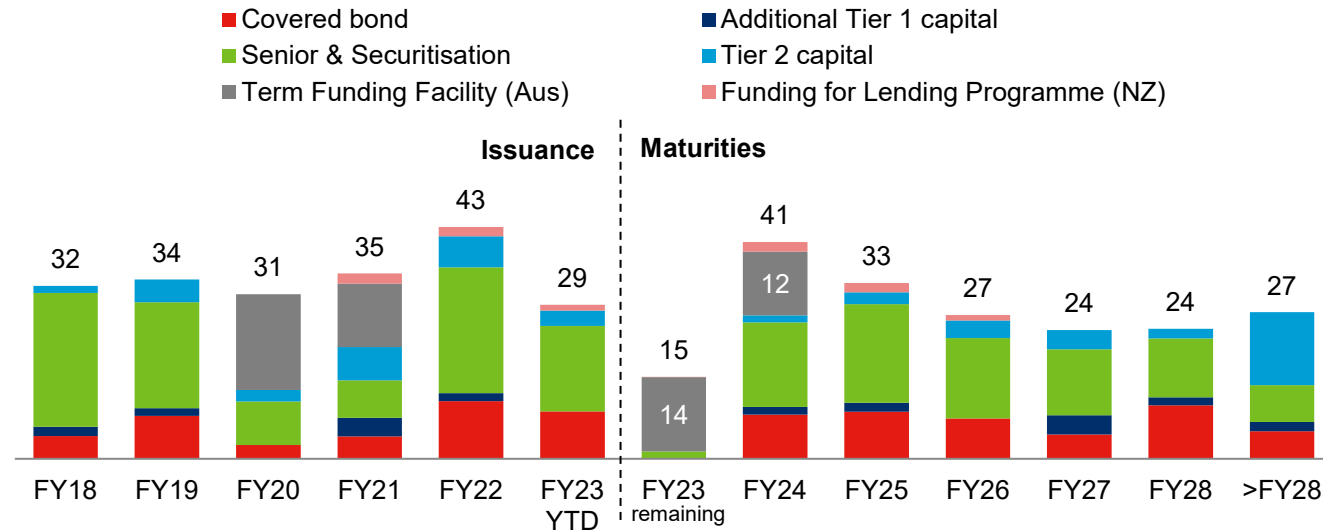


# Funding and liquidity.

## Key funding and liquidity measures



## Term debt issuance and maturity profile<sup>1</sup> (\$bn)



## Term debt issuance by program (% financial year to date)

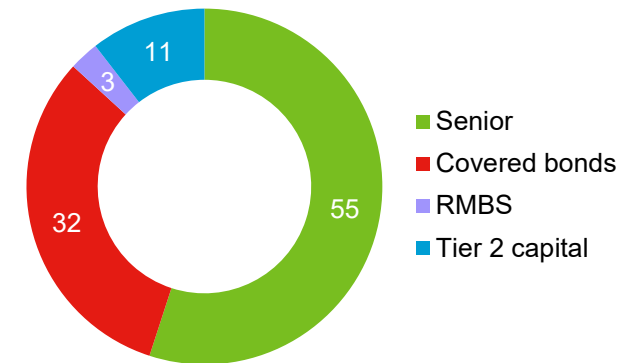


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<sup>1</sup> Based on residual maturity and FX spot currency translation. Includes all debt issuance with contractual maturity greater than 13 months excluding US Commercial Paper and Yankee Certificates of Deposit. Contractual maturity date for hybrids and callable subordinated instruments is the first scheduled conversion date or call date for the purposes of this disclosure. Perpetual sub-debt has been included in >FY28 maturity bucket, however Westpac has announced an intention to redeem on 29 September 2023. Maturities exclude securitisation amortisation.

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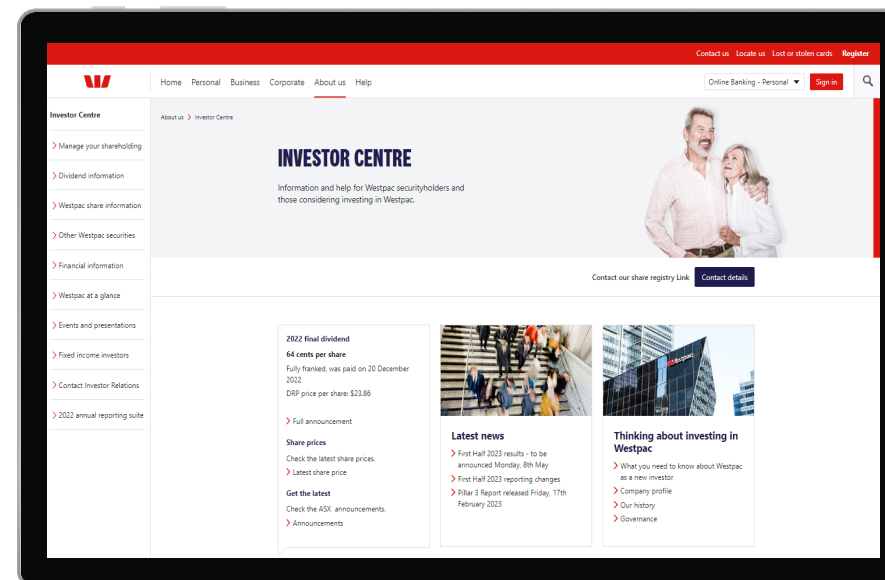
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