BELL POTTER

8 April 2022

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Westpac Banking Corporation (WBC)

1H22 result preview

Recommendation
Hold (unchanged)
Price
$24.11
Target (12 months)
$25.00 (previously $24.00)

GICS Sector

Banks

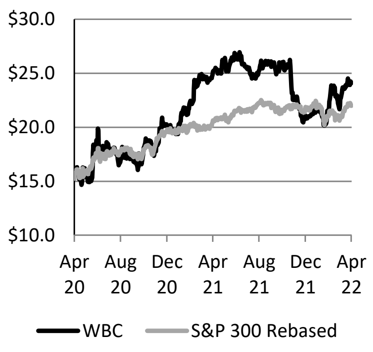
Expected Return	
Capital growth	3.7%
Dividend yield	4.9%
Total expected return	8.6%

Company Data & Ratios	
Enterprise value	n/m
Market cap	$84,412m
Issued capital	3,501m
Free float	100%
Avg. daily val. (52wk)	$217.1m
12 month price range	$20.00 - $27.12

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	21.77	21.35	24.54
Absolute (%)	10.75	12.93	-1.75
Rel market (%)	4.99	13.10	-10.95

Absolute Price



SOURCE: IRESS

Expecting $3.11bn cash earnings, 59¢ interim dividend

WBC will release its 1H22 result on Monday 9 May. Our forecasts are: 1) statutory earnings $3.09bn; 2) statutory EPS 84¢; 3) cash earnings $3.11bn; 4) cash EPS 85¢; 5) cash earnings ex-notable items $3.64bn; 6) cash EPS ex-notable items 99¢; 7) fully franked interim dividend 59¢, cash payout 70%; 8) cash ROE 8.6%; 9) group NIM 1.86%; 10) credit impairment charge $0.26bn/7bp GLA; 11) CIR 54%; and 12) level 2 CET1 ratio 11.8%.

We expect cash earnings of $3.11bn in 1H22e. This compares with $1.82bn in 2H21 (the miss being revenue shortfalls – i.e. largely lower Consumer other banking income – and higher overall operating expenses including a slew of one-off expenses) and $3.54bn in 1H21. The negative trend should then reverse and the 1H22e number appears to be in line with the 1Q22 cash earnings of $1.58bn. WBC's balance sheet remains strong with a Level 2 CET1 ratio of 11.8% (vs. APRA's new benchmark of 10.25%), down from 12.2% previously. The rest of the ratios also remain adequate with LCR over 142%, NSFR around 127% and the deposits to net loans ratio close to 84%.

Price target now $25.00 but maintain Hold rating

We have decreased cash earnings as follows: 1) FY22e nil; 2) FY23e -6%; 3) FY24e -8%; and 4) FY25e -8%. This is due to: 1) lower other income (up to 2% lower); and 2) higher operating expenses (up to 5% higher, the change being expenses at around $9.5bn in FY24e compared to $9.0bn previously). On the other hand and based on lower overall risk metrics, we have cut the discount rate by 0.25% to 10.00% and the dividend sustainable yield by 0.50% to 4.00%. The net impact is therefore a small increase in the valuation and price target from $24.00 to $25.00 per share, all else being equal. Based on a 12-month Total Shareholder Return of less than 15%, we continue to rate WBC as a Hold.

Earnings Forecast

Year end 30 September	2021	2022e	2023e	2024e
Statutory earnings (A$m)	4,634	4,699	6,674	7,433
Cash earnings (A$m)	5,352	6,035	6,710	7,469
EPS (cash) (A¢)	146	168	190	212
EPS (cash) growth (%)	102%	15%	13%	11%
PER (x)	16.5	14.4	12.7	11.4
P/Book (x)	1.2	1.2	1.1	1.1
P/NTA (x)	1.4	1.4	1.3	1.3
Dividend (A¢)	118	120	127	139
Yield (%)	4.9%	5.0%	5.3%	5.8%
ROE (%)	7.6%	8.4%	9.3%	10.0%
NIM (%)	2.04%	1.86%	1.82%	1.82%
Franking (%)	100.0%	100.0%	100.0%	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

1H22 result preview

Expecting $3.11bn cash earnings, 59¢ interim dividend

WBC will release its 1H22 result on Monday 9 May. Our forecasts are:

1. Statutory earnings $3.09bn;
2. Statutory EPS 84¢;
3. Cash earnings $3.11bn;
4. Cash EPS 85¢;
5. Cash earnings ex-notable items $3.64bn;
6. Cash EPS ex-notable items 99¢;
7. Fully franked interim dividend 59¢, cash payout 70%;
8. Cash ROE 8.6%;
9. Group NIM 1.86%;
10. Credit impairment charge $0.26bn/7bp GLA;
11. CIR 54%; and
12. Level 2 CET1 ratio 11.8%.

We expect cash earnings of $3.11bn in 1H22e. This compares with $1.82bn in 2H21 (the miss being revenue shortfalls – i.e. largely lower Consumer other banking income – and higher overall operating expenses including a slew of one-off expenses) and $3.54bn in 1H21. The negative trend should then reverse and the 1H22e number appears to be in line with the 1Q22 cash earnings of $1.58bn.

To recap, WBC kept unaudited cash earnings growth excluding notable items at around 1% – that reflected lower expenses and strong T&M contribution that more than offset lower NIM, reversion of the impairment charge to a small cost and the absence of revenue from sold businesses. Mind you, total loans grew only 0.7% across Australian mortgages, institutional lending and overall New Zealand. However, total AIEA growth was much stronger at 5% based on the extra boost from $29bn liquidity in lowering the CLF. Deposit growth was also strong and included new $12bn wholesale funding.

Our 1H22e forecasts are as follows.

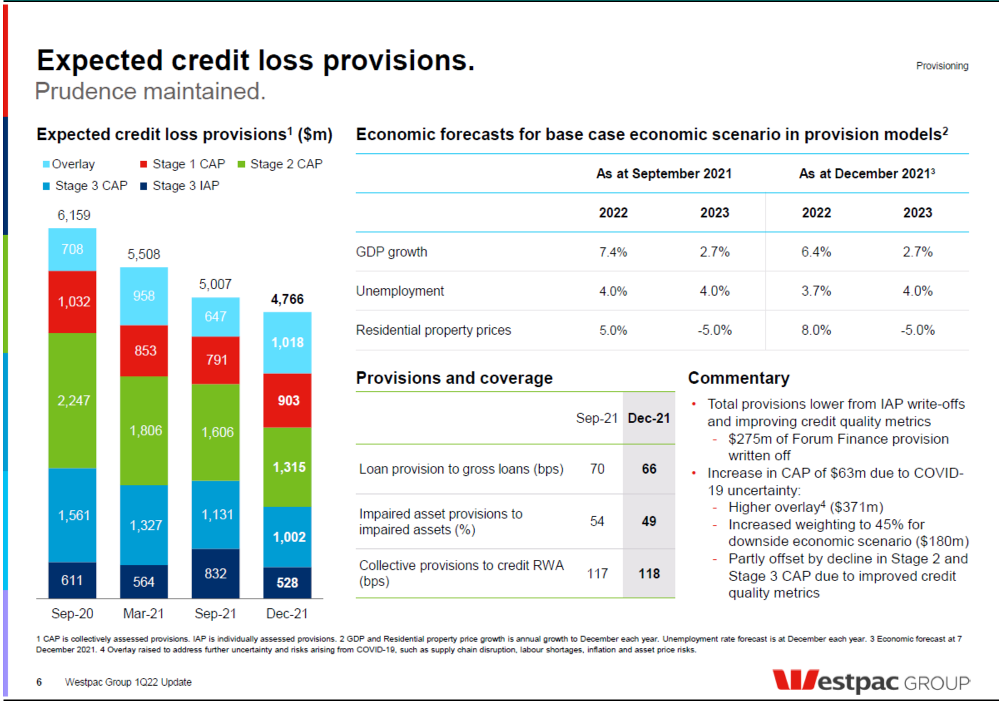
NIM – We expect NIM to be 1.86%, falling another 5bp since 2H21a. This was again mainly due to higher liquidity, pressure on mortgages – consumer and business lending – and growth in lower spread fixed rate mortgages. On the other hand, the bank continues to enjoy cheaper funding rates especially in deposits. NIE is expected to be $7.93bn, lower than the annualised figure of $8.36bn in 1Q22a, and WBC still expects FY22e NIM to decline further as a result.

Non-interest income – As opposed to 2H21a and from the sale of the General Insurance and LMI businesses earlier, we expect other income to climb again. The reason is due to higher banking and financial markets income helped by increased market volatility. Net of lower NIE, this almost saved the day by bringing net operating income back to almost par with 2H21a.

Operating expenses – We expect this to be $5.45bn in 1H22e (54% CIR and down from $5.98bn in 1H21a and a massive $7.30bn in 2H21a) and broadly in line with $2.70bn in 1Q22a. As suggested and excluding notable items, cost reduction was $191m in 1Q22 mainly from cost resets including lower FTEs and third party contractors (by more than 1,100, and was despite further investment in risk management activity). We think there may be more cost savings in this space but the $8.00bn as suggested by the bank in FY24e is highly unachievable we think. Our forecast is for $9.00bn operating expenses instead that is still a large decrease from the current environment.

Impairment charges – This is still off to a slow start, being $255m credit impairment charge in 1H22e (7bp GLA), and in line with the charge of $118m in 1Q22a. As such, asset quality should remain strong as stressed assets in 1Q22a were still down by 21bp to 1.15% despite ongoing difficulties with COVID-19.

Figure 1 – Asset quality in 1Q22a



SOURCE: COMPANY DATA

WBC's balance sheet remains strong with a Level 2 CET1 ratio of 11.8% (vs. APRA's new benchmark of 10.25%), down from 12.2% previously. The rest of the ratios also remain adequate with LCR over 142%, NSFR around 127% and the deposits to net loans ratio close to 84%.

In the meantime, WBC has completed its $3.5bn off-market share buy-back on 14 February 2022. This is 167.5m WBC shares bought (4.6% of issued capital) at roughly $20.90 (6% discount) and will reduce CET1 ratio by 79bp.

WBC has also completed a $382m (NZD400m) sale of its NZ life business on 28 February 2022. A post-tax gain of roughly $93m (NZD98m) subject to completion of adjustments and separation costs will happen in 1H22e and this adds to around 8bp to CET1 ratio. In addition, the bank in New Zealand will receive ongoing payments under a 15-year distribution agreement.

Price target now $25.00 but maintain Hold rating

We have decreased cash earnings as follows: 1) FY22e nil; 2) FY23e -6%; 3) FY24e -8%; and 4) FY25e -8%. This is due to: 1) lower other income (up to 2% lower); and 2) higher operating expenses (up to 5% higher, the change being expenses at around $9.5bn in FY24e compared to $9.0bn previously). On the other hand and based on lower overall risk metrics, we have cut the discount rate by 0.25% to 10.00% and the dividend sustainable yield by 0.50% to 4.00%. The net impact is therefore a small increase in the valuation and price target from $24.00 to $25.00 per share, all else being equal. Based on a 12-month Total Shareholder Return of less than 15%, we continue to rate WBC as a Hold.

Table 1 – Composite valuation

Composite Valuation	Value ($m)	Per share	Weighting	Composite value per share
DCF	95,494	$27.28	25%	$6.82
Dividend yield (sustainable)	105,034	$30.00	25%	$7.50
ROE (sustainable)	64,091	$18.31	25%	$4.58
Sum-of-Parts	76,780	$21.93	25%	$5.48
Surplus capital *	2,838	$0.81		$0.81
Total				**$25.19**

* Less estimated NZ new capital requirement

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 2 – SOP valuation

SOP Valuation	FY22e NPAT	Pros. PE (times)	Value ($m)	Per share
Consumer Bank	3,101	13.0	40,318	$11.52
Business Bank	1,264	13.0	16,434	$4.69
Westpac Institutional Bank	469	12.5	5,867	$1.68
Specialist Businesses	506	10.0	5,062	$1.45
Westpac New Zealand	842	13.0	10,942	$3.13
Group	-147	12.5	-1,842	-$0.53
Total	**6,035**	**12.7**	**76,780**	**$21.93**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 3 – Estimate changes

Westpac Group	FY22e			FY23e			FY24e			FY25e		
Y/e September 30 ($m)	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Profit & Loss												
Net interest income	15,904	15,904	0%	15,945	15,945	0%	16,252	16,252	0%	16,609	16,609	0%
Other income	4,658	4,658	0%	4,792	5,098	-6%	4,921	5,373	-8%	5,054	5,519	-8%
Net operating income	**20,562**	**20,562**	**0%**	**20,737**	**21,043**	**-1%**	**21,173**	**21,625**	**-2%**	**21,663**	**22,128**	**-2%**
Operating expenses	-11,422	-11,422	0%	-10,320	-9,999	-3%	-9,519	-9,054	-5%	-9,536	-9,058	-5%
Impairment charges	-523	-523	0%	-839	-839	0%	-993	-993	0%	-1,155	-1,155	0%
Operating profit before income tax	**8,616**	**8,616**	**0%**	**9,578**	**10,205**	**-6%**	**10,662**	**11,578**	**-8%**	**10,972**	**11,915**	**-8%**
Income tax expense	-2,575	-2,575	0%	-2,863	-3,051	7%	-3,187	-3,462	9%	-3,280	-3,563	9%
Net profit to non-controlling interests	-6	-6	n/m	-6	-6	n/m	-6	-6	n/m	-6	-6	n/m
Cash earnings	**6,035**	**6,035**	**0%**	**6,710**	**7,149**	**-6%**	**7,469**	**8,111**	**-8%**	**7,687**	**8,347**	**-8%**
Cash earnings ex-notable items	**7,087**	**7,087**	**0%**	**7,060**	**7,499**	**-6%**	**7,469**	**8,111**	**-8%**	**7,687**	**8,347**	**-8%**
DPS (cps)	**120**	**120**	**0%**	**127**	**127**	**0%**	**139**	**139**	**0%**	**145**	**145**	**0%**
EPS (cash basis) (cps)	168	168	0%	190	204	-7%	212	231	-8%	218	238	-8%
Cash payout ratio (target 70-75%)	72%	71%	0%	67%	62%	4%	66%	60%	6%	67%	61%	6%
- Ex-notable items	61%	61%	0%	63%	59%	4%	66%	60%	6%	67%	61%	6%
ROE	8.4%	8.4%	0.0%	9.3%	9.8%	-0.6%	10.0%	10.7%	-0.7%	9.9%	10.6%	-0.6%
NIM	1.86%	1.86%	0.00%	1.82%	1.82%	0.00%	1.82%	1.82%	0.00%	1.82%	1.82%	0.00%
Cost ratio	56%	56%	0%	50%	48%	-2%	45%	42%	-3%	44%	41%	-3%
Impairment expense as % of GLA	0.07%	0.07%	0.00%	0.11%	0.11%	0.00%	0.13%	0.13%	0.00%	0.14%	0.14%	0.00%
Effective tax rate	30%	30%	0%	30%	30%	0%	30%	30%	0%	30%	30%	0%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Westpac Banking Corporation

Company description

WBC is Australia's oldest bank with a focus in Australia and New Zealand. Following the transformational merger with SGB in December 2008, the bank is now the leading financial services player in the country (with 10m customers, ~1,000 branches and ~2,700 ATMs) and the largest provider of wealth platforms.

Investment strategy

Our current rating reflects WBC's relatively lower credit risk profile and ROE and also value upside from productivity and efficiency gains within Westpac Retail & Business Banking in the medium term in terms of rationalising the branch network with St George. The other key value drivers are scale in banking and wealth management and traditional exposure to the important NSW market.

Valuation

The price target is closely aligned with the bank's composite valuation, weighted as follows:

Table 4 – Composite valuation

Composite Valuation	Value ($m)	Per share	Weighting	Composite value per share
DCF	95,494	$27.28	25%	$6.82
Dividend yield (sustainable)	105,034	$30.00	25%	$7.50
ROE (sustainable)	64,091	$18.31	25%	$4.58
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Table 5 – SOP valuation

SOP Valuation	FY22e NPAT	Pros. PE (times)	Value ($m)	Per share
Consumer Bank	3,101	13.0	40,318	$11.52
Business Bank	1,264	13.0	16,434	$4.69
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Specialist Businesses	506	10.0	5,062	$1.45
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Group	-147	12.5	-1,842	-$0.53
Total	**6,035**	**12.7**	**76,780**	**$21.93**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

SWOT analysis

Strengths

1. Conservative board/management with relevant banking experience;
2. Strong execution capabilities;
3. Scale in domestic wealth management and global markets; and
4. Domestic retail and SME banking franchise, including service and sales.

Weaknesses

1. Multiple brands – lack of synergies; and
2. Overweight NZ (but the risks are partially mitigated by exposure to relatively lower risk retail assets).

Opportunities

1. Radical restructuring of the combined WBC/SGB network especially in NSW; and
2. East coast leverage.

Threats

1. Macroeconomic factors, e.g. higher unemployment rate and slowing credit growth;
2. Changes in regulatory environment; and
3. Increased competition specifically from the other majors on the domestic front in retail and wholesale banking and wealth management.

Sensitivities

Table 6 – Sensitivities

Y/e September 30	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sensitivities									
Group NIM +10bp									
- NPAT upside (cash basis)	9.9%	9.1%	8.4%	8.3%	8.2%	8.1%	8.0%	8.0%	8.0%
- Price target upside	$2.49	$2.28	$2.09	$2.08	$2.06	$2.02	$2.01	$2.00	$1.99
Group Loans +1%									
- NPAT upside (cash basis)	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
- Price target upside	$0.19	$0.19	$0.19	$0.19	$0.19	$0.19	$0.19	$0.19	$0.19
Consumer Bank loans +1%									
- NPAT upside (cash basis)	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
- Price target upside	$0.13	$0.12	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11
Business Bank loans +1%									
- NPAT upside (cash basis)	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
- Price target upside	$0.05	$0.05	$0.04	$0.04	$0.05	$0.05	$0.05	$0.05	$0.05
NZ loans +1%									
- NPAT upside (cash basis)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
- Price target upside	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03
Other income +1%									
- NPAT upside (cash basis)	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%
- Price target upside	$0.14	$0.12	$0.12	$0.12	$0.11	$0.11	$0.11	$0.11	$0.11
BDD +1%									
- NPAT upside (cash basis)	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
- Price target upside	-$0.02	-$0.02	-$0.02	-$0.03	-$0.03	-$0.03	-$0.03	-$0.03	-$0.03
Costs +1%									
- NPAT upside (cash basis)	-1.3%	-1.1%	-0.9%	-0.9%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%
- Price target upside	-$0.33	-$0.27	-$0.22	-$0.22	-$0.21	-$0.20	-$0.20	-$0.20	-$0.20

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Westpac Banking Corporation
as at 8 April 2022

Recommendation	Hold
Price	$24.11
Target (12 months)	$25.00

Table 7 – Financial summary

Westpac Bank		Share Price (A$)	24.11
As at	8-Apr-22	Market Cap (A$M)	84,412

PROFIT AND LOSS					
Y/E September 30 ($m)	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Net interest income	17,086	16,714	15,904	15,945	16,252
Other banking income	3,540	4,324	4,658	4,792	4,921
Total banking income	**20,626**	**21,038**	**20,562**	**20,737**	**21,173**
Funds management income	0	0	0	0	0
Insurance income	0	0	0	0	0
Net operating income	**20,626**	**21,038**	**20,562**	**20,737**	**21,173**
Operating expenses	-12,700	-13,283	-11,422	-10,320	-9,519
Impairment charges	-3,178	590	-523	-839	-993
Operating profit before income tax	**4,748**	**8,345**	**8,616**	**9,578**	**10,662**
Income tax expense	-2,138	-2,988	-2,575	-2,863	-3,187
Net profit to non-controlling interests	-2	-5	-6	-6	-6
Preference dividends	0	0	0	0	0
Cash earnings	**2,608**	**5,352**	**6,035**	**6,710**	**7,469**
Adjustments	-318	-718	-1,336	-36	-36
Statutory earnings	**2,290**	**4,634**	**4,699**	**6,674**	**7,433**

CASHFLOW					
Y/E September 30 ($m)	**2020**	**2021**	**2022e**	**2023e**	**2024e**
NPAT (cash basis)	2,608	5,352	6,035	6,710	7,469
Increase in divisional loans	18,040	-18,012	-20,620	-19,326	-19,864
Increase in other assets	-10,991	32,860	-5,450	-5,670	-5,900
Capital expenditure	-2,755	1,057	-86	-89	-92
Investing cashflow	**4,294**	**15,905**	**-26,156**	**-25,085**	**-25,855**
Increase in deposits & borrowings	30,857	24,800	21,470	20,800	21,543
Increase in other liabilities	-28,104	-4,887	5,566	1,963	1,565
Ordinary equity raised	2,751	0	0	0	0
Other	-2,336	54	-6,915	-4,387	-4,722
Financing cashflow	**3,168**	**19,967**	**20,121**	**18,376**	**18,386**
Net change in cash	10,070	41,224	0	0	0
Cash at end of period	**30,129**	**71,353**	**71,353**	**71,353**	**71,353**

BALANCE SHEET					
Y/E September 30 ($m)	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Cash and liquid assets	30,129	71,353	71,353	71,353	71,353
Divisional gross loans	689,120	705,999	727,180	747,108	767,617
Provisions	-6,132	-4,999	-5,560	-6,162	-6,807
Other gross loans	9,541	8,374	8,374	8,374	8,374
Other IEA	166,355	134,907	140,357	146,028	151,927
Intangibles	11,497	10,109	10,109	10,109	10,109
PP&E	3,910	2,853	2,939	3,028	3,120
Insurance assets	0	0	0	0	0
Other assets	7,526	7,281	7,281	7,281	7,281
Total assets	**911,946**	**935,877**	**962,033**	**987,119**	**1,012,973**
Divisional deposits	539,800	564,600	586,070	606,870	628,413
Other borrowings	291,834	290,937	296,503	298,466	300,030
Other liabilities	12,238	8,248	8,248	8,248	8,248
Total liabilities	**843,872**	**863,785**	**890,821**	**913,584**	**936,692**
Ordinary share capital	39,946	40,995	37,495	37,495	37,495
Other equity instruments	0	0	0	0	0
Reserves	1,544	2,227	2,227	2,227	2,227
Retained profits	26,533	28,813	31,433	33,755	36,502
Minority interests	51	57	57	57	57
Total shareholders' equity	**68,074**	**72,092**	**71,213**	**73,535**	**76,281**
Total sh. equity & liabs.	**911,946**	**935,877**	**962,033**	**987,119**	**1,012,973**
WANOS - statutory (m)	**3,590**	**3,653**	**3,596**	**3,523**	**3,523**
WANOS - cash (m)	**3,595**	**3,657**	**3,599**	**3,526**	**3,526**

PROFITABILITY RATIOS					
Y/e September 30	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Return on assets	0.3%	0.6%	0.6%	0.7%	0.7%
Return on equity	**3.8%**	**7.6%**	**8.4%**	**9.3%**	**10.0%**
Leverage ratio	6.4%	6.9%	6.6%	6.6%	6.7%
Net interest margin	**2.08%**	**2.04%**	**1.86%**	**1.82%**	**1.82%**
Cost / income ratio	62%	63%	56%	50%	45%
Cost / average assets	1.35%	1.46%	1.21%	1.07%	0.96%
Growth in operating income	0%	2%	-2%	1%	2%
Growth in operating expenses	27%	5%	-14%	-10%	-8%
Jaws	**-27%**	**-3%**	**12%**	**10%**	**10%**

ASSET QUALITY					
Y/e September 30	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Impairment expense / GLA	**0.45%**	**-0.08%**	**0.07%**	**0.11%**	**0.13%**
Impairment expense / RWA	0.73%	-0.14%	0.11%	0.17%	0.19%
Total provisions ($m)	**6,132**	**4,999**	**5,560**	**6,162**	**6,807**
Total provisions / GLA	**0.88%**	**0.70%**	**0.76%**	**0.82%**	**0.88%**
IAP / GIA	22%	39%	25%	25%	25%
IBL / IEA	97%	101%	101%	101%	101%
Total provisions / RWA	1.40%	1.14%	1.18%	1.25%	**1.32%**

VALUATION DATA					
Y/e September 30	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Cash earnings ($m)	2,608	5,352	6,035	6,710	7,469
EPS (statutory basis) (¢)	64	127	131	189	211
- Growth	-68%	99%	3%	45%	11%
EPS (cash basis) (¢)	73	146	168	190	212
- Growth	-63%	102%	15%	13%	11%
P / E ratio (times)	33.2	16.5	14.4	12.7	11.4
P / Book ratio (times)	1.2	1.2	1.2	1.1	1.1
P / NTA ratio (times)	1.5	1.4	1.4	1.3	1.3
Net DPS (¢)	31	118	120	127	139
Yield	1.3%	4.9%	5.0%	5.3%	5.8%
Franking	100%	100%	100%	100%	100%
Payout (cash basis)	43%	81%	72%	67%	66%

CAPITAL ADEQUACY					
Y/e September 30	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Risk weighted assets ($m)	437,905	436,650	469,650	492,382	516,075
Average risk weight	50%	51%	53%	54%	55%
Tier 1 ratio	**13.2%**	**14.6%**	**13.4%**	**13.0%**	**12.9%**
CET1 capital ratio	**11.1%**	**12.3%**	**11.46%**	**11.3%**	**11.3%**
Total capital ratio	16.4%	18.9%	17.3%	16.7%	16.5%
Equity ratio	7.5%	7.7%	7.4%	7.4%	7.5%

DIVISIONAL					
Y/E September 30 ($m)	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Consumer & Business Banks					
Net interest income	12,710	12,470	11,731	11,756	12,006
Other income	1,133	1,037	947	975	1,004
Net operating income	**13,843**	**13,507**	**12,678**	**12,731**	**13,010**
Operating expenses	-6,474	-7,152	-6,106	-5,830	-5,733
Impairment charges	-2,386	609	-336	-590	-720
Operating profit before income tax	**4,983**	**6,964**	**6,236**	**6,310**	**6,557**
Income tax expense	-1,503	-2,094	-1,871	-1,893	-1,967
Cash earnings	**3,480**	**4,870**	**4,365**	**4,417**	**4,590**
Home loans	440,900	455,700	467,093	478,770	490,739
Other loans	93,700	89,300	91,533	93,821	96,166
Deposits	371,200	394,300	408,101	422,384	437,167
Westpac Institutional Bank					
Net interest income	1,111	919	1,034	1,021	1,041
Other income	1,182	1,102	1,049	1,127	1,197
Net operating income	**2,293**	**2,021**	**2,082**	**2,147**	**2,239**
Operating expenses	-1,316	-2,574	-1,278	-1,164	-1,120
Impairment charges	-404	-162	-134	-137	-140
Operating profit before income tax	**573**	**-715**	**671**	**846**	**979**
Income tax expense	-241	45	-201	-254	-294
Cash earnings	**332**	**-670**	**469**	**592**	**685**
Loans	66,600	67,600	69,290	71,022	72,798
IBL	102,900	97,800	101,223	104,766	108,433
Westpac New Zealand					
Net interest income	1,832	1,987	1,890	1,960	2,033
Other income	319	323	321	334	346
Net operating income	**2,151**	**2,310**	**2,211**	**2,294**	**2,380**
Operating expenses	-998	-1,062	-984	-917	-879
Impairment charges	-302	79	-39	-80	-104
Operating profit before income tax	**851**	**1,327**	**1,188**	**1,297**	**1,397**
Income tax expense	-239	-377	-346	-378	-407
Net profit to non-controlling interests	0	0	0	0	0
Investment experience	0	0	0	0	0
Cash earnings	**612**	**950**	**842**	**919**	**990**
Loans	81,788	88,400	93,705	97,333	101,106
Deposits	65,700	72,500	76,747	79,721	82,813
Notable items					
Net interest income	-143	56	0	0	0
Net fee income	-133	0	0	0	0
Net wealth mgt, insurance & other income	-130	145	0	0	0
Net operating income	**-406**	**201**	**0**	**0**	**0**
Operating expenses	-2,539	-1,816	-1,500	-500	0
Operating profit before tax	**-2,945**	**-1,615**	**-1,500**	**-500**	**0**
Income tax expense	326	150	448	149	0
Cash earnings	**-2,619**	**-1,465**	**-1,052**	**-351**	**0**
Group cash earnings ex-notable items	**5,227**	**6,817**	**7,087**	**7,060**	**7,469**
EPS ex-notable items (cash basis)	**145**	**186**	**197**	**200**	**212**
- Growth	**-36%**	**28%**	**6%**	**2%**	**6%**
Return on equity ex-notable items	**7.7%**	**9.6%**	**9.9%**	**9.8%**	**10.0%**
Payout ratio ex-notable items	**21%**	**63%**	**61%**	**63%**	**66%**
Net operating income ex-notable items	**21,032**	**20,837**	**20,562**	**20,737**	**21,173**
Operating expenses ex-notable	**10,161**	**11,467**	**9,922**	**9,820**	**9,519**
CIR ex-notable items	**48%**	**55%**	**48%**	**47%**	**45%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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