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Media Release

Westpac CEO warns of multi-speed economy

(6 May 2011 – Australia) Westpac, Australia's second largest bank beat analysts' forecasts with cash earnings of A$3.17 billion and a record A$3.96 billion net profit – up 38 percent for the first half of 2011.

Westpac also became the first Australian bank and one of only a handful in the world to restore return on shareholders' equity to above 20 percent.

On a cash basis, which removes the impacts of one offs such as the belated A$1.1 billion tax benefit associated with the St George Bank merger; return on equity came in at a more modest but still respectable 16.5 percent, up from 15.8 percent in the proceeding half.

Westpac's improved profitability in a subdued lending market is all about exploiting the scale of having 13 million customers across multiple bank brands, in total claiming 26 percent of the Australian mortgage market and 23 percent of the national deposit market.

In a briefing to analysts and fund managers, Westpac chief executive Gail Kelly said the economy was well placed with an "envious" position on growth, inflation and unemployment.

"Australia has a sound and flexible growth path," Mrs Kelly said.

"But there are clear different dynamics at play in the so-called multi speed economy. That is something we need to get used to."

"There are global uncertainties that remain very challenging and that is not surprising given the magnitude of the financial crisis we have just been through."

The bank noted that overall lending growth of 2 percent over the year was partially offset by a A$6 billion reduction in Australian business lending as the bank continued to de-leverage corporate Australia and a run-down in commercial property exposures.

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According to business banking research specialist, East & Partners, Westpac has continued to grow its primary lending market share with its institutional business customers over the last year to 18.8 percent. The bank however has lost ground as a provider of long term domestic debt slipping back 1.1 percent over a six month period.

“Given the expected head winds confronting commercial banking in Australia in the near term, especially subdued business credit demand, Westpac’s focus has to remain on improving the level and breadth of product engagement with customers,” Paul Dowling East & Partners’ Principal Analyst said.

“Effective execution here alongside growth in wallet share where it is engaged with customers will deliver sustainable margin and revenue growth. However, the Bank currently sits mid-range amongst its peers on these measures and has some work to do.”

“The Group’s multi-brand strategy, as an attempt to differentiate itself competitively, is brave given the complexities of managing different customer facing platforms in such a small market” , Mr Dowling added

Westpac quietly cut 5 percent or 569 positions from its giant retail and business banking division and 6 percent or 328 positions from its St George business while adding staff in other parts of the group.

The bank’s cost-to-income ratio is now at a sector leading 41.2 percent from 42.4 percent in the proceeding half.

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