



Magic wand at Westpac

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AS Westpac's home borrowers absorb the pain of the most expensive home loans in the country, its 539,000 shareholders are set to dine out on record profits.

Chief executive Gail Kelly yesterday stunned investors after reporting a windfall \$1.6 billion cash profit for the three months to the end of December.

The profit beat analysts' forecasts by more than \$300 million and means Westpac threatens Commonwealth Bank as the country's most profitable financial services provider.

Westpac's share price soared \$1.44, or 6.1 per cent, to \$24.74.

Mrs Kelly moved to stifle concerns the result was driven by the group's controversial slug on home borrowers in December when it boosted its variable loan rate by almost double the Reserve Bank increase.

She attributed the earnings surge to a 50 per cent fall in impairment charges from \$800 million to \$400 million.

"Although we remain cautious on the economic outlook, we believe that the worst of the crisis is now behind us and this is reflected in the significant fall in impairment charges," she said.

"Consumer asset quality remains strong although we expect a small increase in delinquencies

throughout the year." However, the bank provided only limited disclosure on the impact of the December home loan repricing on its bottom line, stating merely that customer margins had "declined by 5 basis points in the first quarter".

Westpac reported a sharp rise in its net interest margin last year which means that it has boosted rates faster than the growth in funding costs.

Banking analysts reacted positively to the profit announcement, noting that the group was

well positioned to report an annual bottom line of about \$6 billion.

"This result shows the economy is recovering well and banks are leveraged to it," UBS analyst Jonathon Mott said.

"Westpac had a great December quarter because corporate borrowers recapitalised and paid down their debt."

The bank's chief financial officer Phil Coffey cautioned investors that charges for bad and doubtful debts could rise above the surprisingly low level of the December quarter.

"We were not expecting them (impairment charges) to fall this quickly," Mr Coffey said.

The record profits come as market research shows Westpac has become the lowest-rated bank in the country for customer satisfaction.

A report published by online financial comparison site Mozo suggests Westpac is poised to lose customers to its rivals.

Mrs Kelly attributed the profit rise partly to "actively supporting our customers", but said the bank needed to deliver better service.

"We have a lot more to do in customer advocacy and improving customer service," she said.

National Australia Bank chief Cameron Clyne will reveal details of his bank's December quarter performance on Friday.