

CHAIRMAN'S REPORT



Dear fellow shareholders,

I am very pleased to have become the Chairman of such an important Australian company as Westpac in what has become a difficult time for us and the industry more broadly.

The country, the banking sector and Westpac have been here before, but in different circumstances, and as before, recovery will re-emerge.

This is my first Annual Report letter to you as Chairman, and there are three messages I would like to deliver.

The first is to express my disappointment at a number of issues we are facing, in particular, the AUSTRAC matters, subdued financial performance, as well as our inability to pay a first half dividend this year. Despite the subdued economic environment, these issues are partly of our own making, and therefore simply not good enough. For this I apologise sincerely on behalf of the Company.

The decision on the first half dividend was particularly disappointing for shareholders, especially those relying on dividends. Many shareholders have written to me expressing their disappointment and anger at this, as well as at the loss of the value of their investments. Shareholders legitimately are aggrieved and deserve better outcomes.

I am fully aware that in a low growth environment, a solid dividend yield is important to total shareholder return. We have been able to declare a final dividend of 31 cents per share. This dividend represents a payout ratio of 49% of our Full Year 2020 statutory earnings.

It is important we work quickly towards a consistent dividend each half by improving the performance of our portfolio of businesses and maintaining our capital strength. With respect to the latter, our capital position remains strong and we have options to ensure we maintain capital strength, without resorting to external sources.

It is my role as Chairman, that of my Board colleagues, and our management team to assist the country and our customers to manage through this difficult period. As we undertake this task, we must fix our issues and boost performance and shareholder value. We are committed to seeing this through, and we have made good progress already.

We are taking firm and urgent steps to resolve matters. While we can continue to address some issues quickly, many will however take time, and I ask for your patience, which I believe will be rewarded. I look forward to updating you on this progress.

The second is while there remain matters to fix, we are primarily focused on the future. I am genuinely pleased at the way the Board and management have responded to these past challenges as well as setting out a new agenda for the Company. While it may not yet be transparent externally, there has been considerable progress over the past six months, which will set a new foundation for the Company.

Westpac's heritage and foundations are strong, and there is much we can build upon, particularly our strong core domestic franchises.

There have been few times in history where we have needed to move so rapidly. Circumstances are different now, and our approach must change.

Third, we are well advanced to improve the way we manage and respond to the challenges before us. For example, we have moved from committee-based decision making, to faster decision making with clear individual accountabilities.



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Immediately on my appointment and that of the CEO, we announced a strategy reset to get back to core banking. We transferred several businesses into a new division and many of these will be exited, adding additional capital strength. This will also help us to become leaner, more agile and more accountable while maintaining our caring and helping orientation. Managing fewer things should also ensure we do them better and resolve issues more quickly.

We are also responding to an increasingly digital world and making it easier for customers to do business with us online and with mobile technology. A great example has been the completion of our new generation Westpac Banking app that will be available to all iPhone customers in the year ahead.

In designing and delivering our strategy, there is no substitute for having a best-in-class management team and Board.

The Board was renewed with the appointments of Chris Lynch and Michael Hawker during the year. Chris has a strong management and finance background, having been the CFO at both Rio Tinto and BHP, as well as the CEO of Transurban. Mike is a highly experienced director and given his extensive financial services experience will complement the Board's skills. As part of the Board's renewal we expect to appoint additional Directors in the period ahead, adding to the Board's skills, experience and diversity.

We've already made significant changes to the management team, including the appointment of Peter King as CEO. Peter's experience in banking, and of Westpac, is extensive, and he has a strong execution bias, as have the team overall.

Peter has announced and implemented a new business-line management structure which will give the heads of these businesses, end-to-end personal accountability for progress and results, and he has also launched comprehensive business and cultural transformation programmes across the Group.

Central to our change has been to improve accountability, and this year significant consequences were applied in relation to the AUSTRAC matters. In addition to the management and Board changes, remuneration consequences of more than \$20 million¹ were applied to decrease remuneration outcomes across 38 executives, managers and other employees.

This included cancelling all short-term variable reward for the Group Executive Team this year. With the AUSTRAC proceedings settled and remuneration consequences applied, we must now look ahead and implement the necessary change to rebuild Westpac.

We have also changed the way the Board works, taking steps to improve processes and oversight, to ensure we are focusing on all elements of success including strategy, management, customer service, economic performance, capital, dividends and importantly given our current regulatory issues, financial and non-financial risk management compliance and culture. With respect to compliance, we have established a new Board Legal, Regulatory and Compliance Committee to give greater focus to this area and have also given separate management focus to these functions.

We have made changes to the conduct of Board and committee meetings, to improve decision making and allow us to focus on the most important matters.

All of these changes have been necessary as a foundation to ensure we get and put things right, get them done, ensure they have been done and don't happen again.

During the year, Brian Hartzler, our former CEO, stepped down, a number of Directors retired from the Board – Lindsay Maxsted our former Chairman, Ewen Crouch and Anita Fung, Non-executive Directors – and Alison Deans has elected to step down at this year's Annual General Meeting. I would like to take this opportunity to thank them for their service to the Company.

Looking forward, it is unfortunate that COVID-19, and its impact, will likely be with us for a while yet. It will take some time before we fully understand the impact on our customers and the bank. This said, while uncertainty remains, we are working hard to produce better results in 2021, but it is unlikely that we will see a return to a more normal situation until 2022, at the earliest. Rest assured, the Board and management are fully committed to restoring Westpac to its rightful position at the earliest possibility, and I am confident that this will happen.

Your sincerely,

John McFarlane
Chairman

¹ Refer to explanation in Remuneration Report in the Directors' Report.