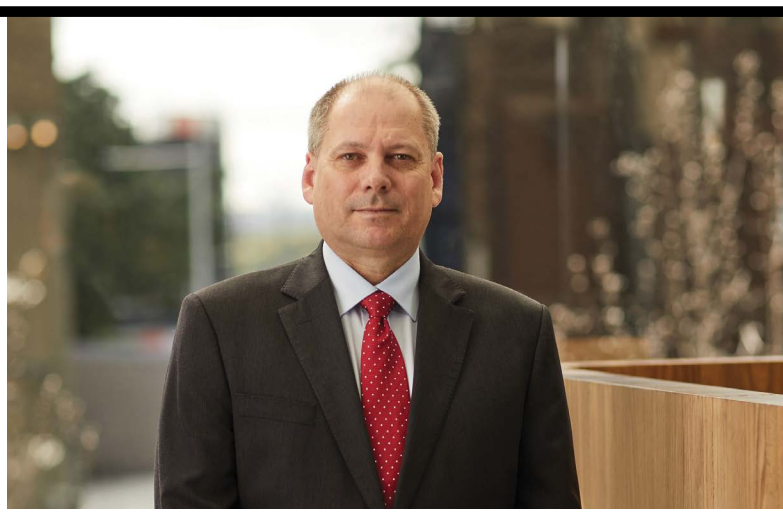
CEO's report



Dear shareholders,

2021 has been both a challenging and significant year for Westpac, as we progress to become a simpler, stronger bank.

Managing through the uncertainties of COVID-19 has been a dominant feature of the last two years and our decisions have been focused on supporting customers whilst keeping our people safe and adapting the way we work. During the year we improved financial returns, continued to reshape our Company, and maintained a strong balance sheet.

Much of our effort has been directed to strengthening our foundations – particularly in the areas of risk management and financial crime – as part of our Fix strategic priority. We have made significant progress and are now increasingly shifting our focus to simplifying Westpac and improving financial performance and shareholder returns.

Managing the impacts of COVID-19

COVID-19, and associated lockdowns, has disrupted life for many of us. With the support of governments, regulators and the banking sector, the economies of Australia and New Zealand have proved resilient, although the effects on individual customers have been varied and, in some instances, devastating.

We have worked hard to support businesses and consumers through this uncertainty. Since the onset of the pandemic, we have provided approximately 160,000 mortgage deferrals and processed over 200,000 requests for early release of superannuation. For businesses, we have granted over 35,000 loan deferrals, provided more than $564 million in government guaranteed business loans and waived certain fees.

Keeping our people safe has also been a priority. We have introduced additional protections for those working in branches and operational sites whilst enabling over 20,000 employees to work from home. We were also one of the first companies to set up workplace-based vaccination hubs for employees and their families and have been trialling rapid antigen testing.

Transforming Westpac

In 2020, we announced a major change in our strategy to focus on banking in Australia and New Zealand and become a simpler, stronger bank. This included a new purpose and strategic priorities, establishing a 'lines of business' operating model, and commencing a program to improve our management of risk and our culture.

Our focus in 2021 has been on implementing these changes and embedding them in everything we do. Our strategic priorities of Fix, Simplify and Perform are providing clarity for the Company and we explain these in more detail in this Annual Report.

There is much to do, but we have a clear plan and are making progress.

Having the right executive team to lead our transformation is critical, and over the year we welcomed Scott Collary as our Chief Operating Officer, Anthony Miller to run our Institutional Bank, while Chris de Bruin is now responsible for our Consumer and Business divisions. In 2022 we will also welcome Shannon Finch as our Group General Counsel and Catherine McGrath as our new CEO for Westpac New Zealand. This will see 73% of Group Executives new to the bank or new to the Group Executive team since December 2019 when I commenced in the CEO role, and I am very pleased with the calibre and external experience I have in this team.

A key plank of our plan is the simplification of the Westpac business portfolio. Having completed the sale of four businesses, we have a further three sales due for completion by the end of the 2022 calendar year. We have also reduced our international footprint, closing our Mumbai and Jakarta offices. Three more international offices are expected to close by the end of the 2022 calendar year.

Central to our plans is the digitisation of our business. In 2021 we launched a new mobile banking app, made better use of intelligent technologies, and improved the stability of our infrastructure. This has been particularly important in making banking easier and more accessible for customers who have been in lockdown for much of the year.

Looking ahead, our digitisation roadmap will help us develop single product solutions for all our brands supported by a common infrastructure. We now have a new mortgage origination process with plans underway across our other lines of business as part of a multi-year program of work.

Our simplification program also includes consolidating products and streamlining our processes. We retired more than 200 products through the year and began to optimise end-to-end processes through our lines of business.

Our management of risk and risk culture has been a weakness, and this was reinforced by APRA's review of our risk governance in late 2020. We are addressing this through our Customer Outcomes and Risk Excellence (CORE) program. The program has oversight of over 300 activities which aim to improve how risks are captured and managed, provide clarity on risk ownership and accountability, lift the quality of our data, and enhance oversight. We are one year into this program, and it will remain a priority for the next few years.

Strengthening our financial crime approach has also been an imperative. Through the year we rebuilt our processes, systems and practices and closed out all the matters referenced in AUSTRAC's statement of claim. As with the CORE program, the end goal is to embed financial crime risk management into everything we do.

These changes and initiatives require significant investment, particularly in the early stages. We are balancing this with an ambitious plan to reduce expenses to meet our $8 billion cost target by 2024 (compared with $13.3 billion in FY21). Part of this reduction will be from the exit of businesses, but we will also improve efficiency by streamlining our head office to reflect our more simplified and focused business.

We are also dealing with a range of regulatory matters, mostly historical, and expect these to reduce next year.

Alongside these changes we are stepping up our actions on climate change. Reflecting the increased urgency for all our stakeholders, we have elevated our management of climate change to a key priority. This has been backed with Board-approved initiatives that will strengthen our actions, accelerate our understanding, and clarify our plans to support the transition to a net zero emissions economy by 2050.

The success of our change program relies on our people, and I could not be prouder of the way they have stepped up to the COVID-19 related challenges and embraced our transformation.

This was reflected this quarter with our OHI (Organisational Health Index) score of 74, up 4 points from our September 2020 baseline of 70. The OHI is part of our culture measurement approach which monitors our progress against our desired culture.

Performance

Full Year cash earnings increased 105% to $5.3 billion. As the Chairman indicated, the result was due to lower notable items and a turnaround in impairment provisioning. The lower notable items was due to lower write downs and lower provisioning for remediation and litigation and reflected some large items in Full Year 2020.

Cash earnings excluding notable items were $7.0 billion, 33% higher this year, mostly due to the turnaround in impairment charges. In FY20 impairment charges were high (at $3.2 billion) as we expected a large increase in stress linked to COVID-19. In FY21 there was an impairment benefit as some of the increase in provisions was no longer required.

Excluding notable items, core earnings (net profit before impairment charges and tax) were down 12% from lower income and higher expenses. Operating income was impacted by low interest rates, heightened competition, and a change in the mix of mortgages to lower spread fixed rate products. Higher expenses were primarily due to increased resourcing for our Fix priority.

Outlook

The economic environment remains difficult to predict. To date, the Australian and New Zealand economies have managed through COVID-19 well, however there is still much uncertainty, particularly as economic stimulus measures unwind.

For Westpac, lending demand is expected to be sound as the economy rebounds, although net interest margins will remain under pressure from low interest rates and competition. Expenses are expected to be lower as we simplify our business and work towards our $8 billion cost target by 2024. Our asset sales will improve our capital position however they will also reduce earnings.

Reflecting the strength of our capital position, we announced an off-market buy-back of up to $3.5 billion that will reduce our share count and which is expected to support our return metrics in the future.

It's a privilege to lead Westpac through this defining time and I thank our 40,000 people, management team and Board for their commitment and passion. I am especially grateful to shareholders for your ongoing support and confidence as we steer the business onto the path of improved performance.

Yours sincerely,

Peter King
CEO