Chairman's report

Dear fellow shareholders,

It has been a privilege to complete my first full year as your Chairman. I am genuinely pleased at the progress the Company is making in its transformation and value creation, but equally disappointed at current and historical issues that persist as we pursue this journey.

Pleasingly, our earnings have recovered, our capital position is strong, and our share price has improved. Accordingly, we have been able to determine a higher dividend of 60 cents for the second half, and 118 cents for the year.

Our efforts to strengthen the balance sheet and exit non-core businesses have created surplus capital and enabled us to announce an off-market share buy-back of up to $3.5 billion. The buy-back will make us more capital-efficient while retaining sufficient capital for growth and unplanned events.

Reported profit was materially higher in FY21, up 138%. The better result was principally due to lower impairments and notable items. FY20 included provisions for the AUSTRAC civil penalty, large customer remediation-related provisions and write-downs linked to business exits as well as large credit impairment provisions as the COVID-19 pandemic emerged.

Through the year we restored growth in mortgages although we suffered margin attrition, as well as higher temporary costs to implement the Fix, Simplify and Perform priorities. Our main concern is the possibility of further margin attrition should interest rates remain low and competition remain intense. However, we remain committed to maintaining our market position, whilst securing a significantly reduced cost base with our $8 billion target for 2024.

Shareholders will also recall that on my appointment as Chair and Peter King's as CEO last year, we announced a comprehensive program to transform Westpac into a simpler, more agile accountable organisation, building on our strong domestic banking franchises in Australia and New Zealand.

We announced plans for the exit of businesses that were inconsistent with that focus. This program is being executed well and is ahead of schedule. This is radically simplifying the bank and allows for increased management focus on our traditional core businesses.

To deliver our agenda, there is no substitute for a strong management team. Peter King has consolidated his position as CEO and has grown in the role. He has overseen a significant change in the senior management team as well as in the executives reporting to them. I believe we now have the right management team for the future.

The team is genuinely making progress including moving from a heavily centralised model to a decentralised one that is closer to customers and where decision making is faster.

Unfortunately, with all transformation programs, as we turn over stones, more issues reveal themselves. We faced several issues, particularly, but not exclusively, risk related, that continue to detract from our reputation and performance, while also absorbing considerable management attention, time, and remediation cost. These issues are not acceptable for a company of our quality and heritage.

For example, this year we entered into an enforceable undertaking with our regulator to lift our risk governance, while the Reserve Bank of New Zealand has required us to remediate similar weaknesses in our New Zealand operations. Other regulatory investigations are also underway that highlight the inadequacy of our past risk practices. Disappointingly, we also uncovered a significant potential external fraud relating to a portfolio of equipment leases and we are investigating how that happened, and strengthening our corresponding processes and controls. Drawing a line under these matters is a major priority for us and we are working towards a future where the news is predominantly good rather than mixed.

The challenges created by COVID-19 remained during the year, and our teams continued to manage both its health and economic impacts. The Board and I have been proud of the way management has led and our people have responded. We kept our doors open to help customers in need and provided comprehensive support packages. These efforts have contributed to Australia and New Zealand's economic resilience and demonstrate that our purpose – helping Australians and New Zealanders succeed – is reflected in our actions.

While uncertainty remains around the pandemic's lasting impact, the rise in vaccination rates towards the end of the year has been cause for optimism about the path forward to economic recovery.

Operating sustainably has long been a part of Westpac's culture and aligns with our purpose although expectations from the community, customers, shareholders and regulators have been increasing rapidly. We built on our plans during the year with the Board approving a detailed environmental, social and governance plan to deepen the integration of these areas into the business.

On the topic of climate change, we are carefully balancing our responsibility to move to a net zero economy, while supporting customers and the economy as they transition to a low carbon environment. In 2021 we provided $1.9 billion in new lending to climate change solutions and retained our position as largest bank lender to greenfield renewable energy projects in Australia for the past five years.[1]

Diversity also remains a focus and this year we joined the investor-led '40:40 Vision' initiative to achieve 40:40:20 gender balance by 2030 for the Executive Team. As part of this commitment we set clear interim targets of 30% female representation by 2023 and 35% by 2027 and are tracking ahead of these targets with an expected 36% female representation by December this year. We have also reinforced our target of 50% Women in Leadership – an objective we have consistently achieved for the last 5 years.

Balancing the skills and diversity of the Board has also been a priority. We have also agreed the target of 40:40:20 gender balance for Board members, and by the end of calendar 2021 our female representation is expected to be 40%.

During the year, there were changes to the Board. Alison Deans stepped down at last year's Annual General Meeting (AGM), Steven Harker retired in October, and Craig Dunn retires at this year's meeting in December. I would like to thank them all for their dedication and service to the Company.

Two new Directors have joined us since last year's AGM, Nora Scheinkestel and Audette Exel. Both are contributing well to the Board and committees.

Nora is an experienced company director and currently serves on several major Australian boards. She has experience across a range of public, private and government entities as well as the not-for-profit sector. Nora was an Associate Professor at the Melbourne Business School and has been a member of the Takeovers Panel.

Audette brings senior banking experience as Managing Director of Bermuda Commercial Bank and as a non-executive Director at Suncorp. She is the founder and CEO of Adara Group and was formerly Chair of the Bermuda Stock Exchange and a board member of the Bermuda Monetary Authority.

I would like to thank my colleagues on the Board and the management team for their commitment to Westpac's success and for their effective participation in incredibly difficult circumstances due to COVID-19. I also thank our employees for continuing to serve customers both face-to-face and remotely.

Turning to the future, we are reshaping Westpac to be a bolder, different company for our customers and other stakeholders. We are embracing digital ways of dealing with customers, which we expect to have future economic benefits.

Our current view is that the Australian and New Zealand economies will continue to do well over the next few years, but this is partly dependent on COVID-19 which is likely to be with us for some time, in various forms.

At the same time, we expect that margins will continue to be under competitive pressure. At some point however, it is inevitable that interest rates will rise, which would create a more favourable banking environment.

For Westpac, we are working to lift returns as we simplify our business, harness improved performance from the new management team, dispose of non-core businesses and improve capital and expense efficiency. Together they should augur well for shareholders and customers over the next few years.

Yours sincerely,

John McFarlane
Chairman

1 IJGlobal and Westpac Research data.