



Westpac Banking Corporation
2021 Annual General Meeting

Sydney, Australia

Wednesday, 15th December 2021

Chairman's Address

John McFarlane

For the banking sector, 2021 was a very positive year, with good earnings recovery, dividend enhancements, stock buybacks and significant increases in market value.

Westpac generally benefitted from this environment with significant earnings and dividend recovery.

Specifically, earnings more than doubled, capital was maintained at a healthy ratio of 12.3%, enabling dividends to be raised to a more normal full-year payment of 118 cents per share fully franked. This also allowed us to announce the return of up to \$3.5 billion of capital to shareholders in the form of an off-market buyback.

However, these outcomes benefited from lower notable items and impairment charges which obscured an overall decline in core earnings following significant and necessary cost increases to fund operational and regulatory improvements. While the decisions we made restored mortgage growth following several periods of decline, this was at the expense of net interest margin, principally due to severe competition in the mortgage market. But also due to our desire to grow our book at market.

Overall, the result was disappointing, leading to a drop in our market value for which I apologise unreservedly on behalf of the Board.

Be assured, remedial action has been instituted by the Board and management to improve performance going forward, including a plan to reduce costs materially over the next three years without jeopardising investment in infrastructure and revenue opportunities.

There is some scepticism as to whether we can achieve this cost outcome. The Board is nevertheless confident that we will be able to execute this, and we fully expect costs to be down in 2022. Why are we confident about this?

Last year's total expenses were \$13.3 billion. Excluding notable items these were \$10.9 billion. Of this, \$1.1 billion was temporary investment associated with our Fix and Simplify programs which we expect to roll-off. Additionally, some \$800 million of our costs relate to businesses that are in the process of being sold, leaving an underlying cost base of around \$9 billion. Accordingly, to achieve the \$8 billion target in 2024 requires a net reduction in costs of 11%. We believe this is possible given the approved plans now in place.

It should also give shareholders some comfort that action is being taken to stabilise margins and lift growth in some of the higher margin parts of our portfolio – particularly business banking.

Strategy

Standing back from all of this, on the one hand, as Australia's oldest company and bank, we are a company with strong customer franchises, good brands, staff who are genuinely helpful to customers, and with leading climate and sustainability programs.

However, on the other, it is self-evident that Westpac has, and continues to face, considerable challenges, many longstanding, some of which I alerted shareholders to when I assumed the role of Chairman in April last year.

I indicated that we lacked strategic focus and were operating businesses that no longer made strategic sense. Our financial returns and market share had been weakening over recent years, caused by bureaucratic management processes, alongside operational and technological complexity.

We were also faced with the need to resolve material longstanding legal, risk and regulatory issues, as well as discovering new issues as we carry out our investigations.

Accordingly, we designed and began to implement, a comprehensive and ambitious turnaround program through to the end of 2023, such that Westpac would not only be free from these issues but performing well across the board.

At the end of 2020, we announced a strategy to return to core banking and to focus on our home markets of Australia and New Zealand. We designated nine main businesses for exit, and this has been particularly successful, and faster than we expected. We have sold three, announced the sale of three, and are working to announce the sale of the remaining three, hopefully in 2022.

We had also been trailing the market in main bank relationships and mortgage market share over recent years but we reversed this in 2021. However, this higher growth was at the cost of a decline in margins. While mortgage margin pressure is an ongoing sector issue, it affected us disproportionately, given our large mortgage portfolio and strong demand for fixed rate mortgages. We were also slower to grow business lending, which is higher margin and I'm pleased to say this trend is now reversing.

We have also put in place plans to make the company more streamlined, more efficient, and more digitally capable, with significantly lower costs. This, combined with ongoing work to improve effectiveness in capital allocation should enable us to improve performance and return to more appropriate dividend levels.

On a personal note, in the early days, I found Westpac's embedded culture and processes quite frustrating, which made getting traction on the outcomes we needed more difficult. Fortunately, with the changes to management this has improved considerably. Two-thirds of the senior management are new, mainly from outside the company. The move to a decentralised management system with individual accountability, from a heavily centralised and collective decision system has also improved execution across the board, particularly in key areas.

I have been particularly surprised at our performance in exiting non-core businesses as well as improvements in culture.

I believe our new team led by Peter King, the updated strategy, and the changes we are making will improve the performance and the value of the company going forward.

AGM Resolutions

Now, turning to the AGM, we have the traditional resolutions around remuneration and some updates to the constitution.

Some shareholders have voted against our remuneration this year. In speaking to many, their decision was mostly due to our lower underlying performance and the view that we did not adequately reflect this in short term incentive decisions. While disappointing, I respect this view and we will work on our remuneration structure in the year ahead considering new regulatory requirements as well as changing shareholder expectations.

We also have two shareholder resolutions related to climate change reporting. These resolutions relate to our disclosure on climate change, which is already industry leading. Of the major Australian banks, we have the greatest exposure to greenfield renewables and the least to fossil fuel extraction. We're happy with our climate change position, action plan and disclosures, so we're not recommending these resolutions.

The Board strongly supports Westpac's approach to climate change which has been based on science and comprehensive feedback from various experts and stakeholders. The Board and management discuss these matters at length.

We publicly disclose our commitments and action on climate change, and we update our progress twice a year. Further research is also underway to develop Paris-aligned sector financing strategies and portfolio targets for six of our most climate-exposed sectors representing most of our emissions. Our analysis will consider the latest developments from the International Energy Agency and the IPCC.

We are happy to be judged on our actions. We're committed to exiting thermal coal mining by 2030, with our lending to coal mining and to oil and gas extraction declining by 33% over the last two years. Any new oil and gas customers must have public Paris aligned business goals and disclosures. Of our lending to electricity generation, almost 80% is to renewables, and we have set emission intensity targets for electricity generation for 2025 and 2030.

Apart from our own progress, we are working to be the bank that helps customers in their transition, supporting Australia to reach net zero by 2050.

Your Board

Turning to the Board, there have been very significant changes in its membership over the past two years. During that time, apart from the change of CEO, six non-executives retired from the Board, and five new appointments were made, including my own.

During 2021 Steve Harker retired from the board due to ill health, and Craig Dunn has decided to stand down today after two three-year terms on the Board. I would like to take this opportunity to thank Steve and Craig for their contribution to the company. Our thoughts are particularly with Steve and his family as he faces a major operation.

An important milestone has also been achieved on diversity where post the AGM, we will have 40% female directors all of whom are up for election today. Margie Seale and Nerida Caesar are seeking re-election and Nora Scheinkestel and Audette Exel joined this year and seek election. Each of the candidates will address the meeting later.

Nora, originally a lawyer, is a former bank executive and more recently a seasoned non-executive director and committee chair for several major Australian companies.

Audette, also a former lawyer, is Chair and founder of Adara Group and CEO of Adara Advisors. She has been both a bank CEO and non-executive director.

Each of the directors standing for election today bring unique skills and experience to the Board and contribute to its culture.

I would like to thank the Board, the Executive Team and all our people, who have shown immense resilience over the year and embraced incredible change internally. With their support, our commitment to customers has remained constant.

Most of all, I thank shareholders for your support and understanding during this challenging time, and for your patience as we steer ourselves into a better future.

Now let me hand over to Peter King, our CEO.