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12 December 2019

Dear Sir / Madam

Westpac Banking Corporation (Westpac) – Chairman’s Address, 2019 Annual General Meeting

Please find attached the Chairman’s address to be delivered at the 2019 Annual General Meeting.

Yours sincerely,



Timothy Hartin
Group Company Secretary
Westpac Banking Corporation

Westpac Banking Corporation
2019 Annual General Meeting

Sydney, Australia
Thursday, 12 December 2019

Chairman's Address
Lindsay Maxsted

Given the significance of the civil proceedings brought by AUSTRAC against Westpac a few weeks ago, and the impact this has on you, I will start my address today by discussing this issue, before turning to some of the broader areas of interest to today's meeting.

AUSTRAC proceedings

Let me say up front that your Board is deeply distressed about the issues raised by AUSTRAC in its Statement of Claim of 20 November 2019.

In particular, as a Board and as individuals, we are devastated that anyone may have been exposed to the risk of harm as a result of a failing by Westpac.

For this, we are truly sorry.

Every one of us in this company has been shaken by the events of the past few weeks and we know this feeling is shared widely throughout the community, and in this room.

Many of you are here today because of your long association with Westpac. You believe in this company and we have let you down.

I will be as transparent as possible about these matters, but I hope you will understand that, as legal proceedings are still underway, we don't yet have all the answers.

For context to the issue, like other banks, Westpac has a role in helping Australia's financial intelligence agency and regulator, AUSTRAC, and the Government, to fight financial and other serious crimes.

We need to have systems and controls in place to prevent our services being exploited for financial and other serious crime, including monitoring and reporting certain transactions, and advising AUSTRAC of any suspicious activity.

We have been investing to improve our management of financial crime risks, as have other banks around the world. We've strengthened our policies, data systems, processes and controls, and have substantially increased the number of financial crime specialists at Westpac.

We have also been working with the industry to tackle financial crime, including being a founding member of the Fintel Alliance, a private-public partnership established by AUSTRAC that brings together organisations involved in the fight against money laundering, terrorism financing and other serious crimes.

However, clearly the events of the past few weeks have shown we have significantly more work to do.

There are a number of serious allegations made in AUSTRAC's Statement of Claim. I will discuss two that have attracted the greatest attention.

One related to Westpac's failure to report international funds transfer instructions – a compliance breach that is deeply concerning.

The other allegation, which is very disturbing, relates to the way we monitor transactions to detect those that indicate potential child exploitation risk.

Let me explain these two issues, based on what we know to date, again noting that investigations are ongoing.

First, on the international funds transfer instructions – which I'll call IFTIs.

Westpac is required to report to AUSTRAC all IFTIs it receives or sends.

In 2018, when senior management became aware of the failure to report a large number of IFTIs over a long period, Westpac reported the breach to AUSTRAC, and began to fix the issue.

The IFTIs generated through the Australasian Cash Management – or ACM – product were mainly low value, recurring payments from foreign government pension funds and corporates to people living in Australia. But there were a lot of them – more than 20 million – because we failed to report them over a number of years.

The root cause of this issue stems back to 2010 when the requirement to report began. We had set up the system properly for the majority of correspondent banks using this product, but due to a mistake, it was not correctly set up for two global banks. That is what caused our failure to report them.

The second major allegation raised by AUSTRAC is particularly disturbing.

AUSTRAC alleges that Westpac failed to appropriately monitor and identify transactions to the Philippines and South East Asia that were indicative of potential child exploitation risks.

It claims we failed to introduce appropriate detection scenarios, consistent with AUSTRAC guidance and our own risk assessments.

In particular, it highlights customers whose transactions we allegedly had not monitored in accordance with the rules.

It's these claims that have deeply affected all of us. That a possible failing of the bank could put anyone at risk of harm is incredibly upsetting and completely at odds with everything that Westpac stands for.

Westpac's monitoring had identified and filed suspicious matter reports for the customers outlined in AUSTRAC's claims. However, we acknowledge we should have implemented more robust transaction monitoring earlier than we did. This would have generated more suspicious matter reports to AUSTRAC.

Westpac absolutely accepts responsibility for this mistake.

We have changed our processes and implemented additional transaction monitoring and will continue to review our processes.

These actions are in addition to work already underway to improve Westpac's financial crime management, based on issues identified previously by our financial crime and internal audit teams over a number of years. This work had seen us:

- consolidate a number of different financial crime technology systems into a Group-wide system;
- substantially increase the number of specialists dedicated to addressing financial crime;
- develop and make progress on a Financial Crime Strategic Plan, which has been shared with AUSTRAC; and
- make changes to the leadership of Westpac's risk and financial crime areas, including a number of external appointments.

But clearly we have more to do.

In the wake of AUSTRAC's allegations, the Board and management team are fully committed to taking all steps necessary to urgently close any remaining gaps, and complete the Financial Crime Strategic Plan.

We have established a new Board Financial Crime Committee that has appointed Promontory to undertake an External Accountability and Financial Crime Program Review. Promontory is a global leader in managing financial crime risk.

To provide an additional layer of oversight, we are also appointing three leading governance experts to consider Promontory's report and provide recommendations on governance and accountability.

When the reviews conclude, you have our commitment we will publicly release the recommendations, and will share these findings with the other banks and participants involved in the broader fight against financial crime.

I also want to assure everyone, where responsibility for failings are confirmed through these reviews, further action will be taken.

Culture

Since AUSTRAC's claims came to light, many shareholders have expressed to me their shock, disappointment and concern.

In addition to questions on how this could possibly have occurred, many have asked if these weaknesses are representative of a broader cultural problem, or a failure of capability or technology.

These are questions that will be further tested through the reviews underway.

They are also questions the Board has been focusing on for some time since completing Westpac's Culture, Governance and Accountability self-assessment last year, or what we've called our CG&A self-assessment.

This report, which is available on our website, was produced for the Board and APRA by a dedicated team, supported by global independent experts Oliver Wyman, and its purpose was to assess our risk culture, governance and accountability.

The overall conclusion of the CG&A self-assessment was that Westpac's governance, accountability and culture settings in their totality generally support sound management of the Group's non-financial risks. However, the report also confirmed that Westpac's management of non-financial risks remains less mature than its management of financial risks and this fact is likely near, or at the root cause of, many of Westpac's risk and compliance issues.

This is a lesson which has been reinforced by the findings of the Royal Commission; our separate issues within Westpac's financial planning business, and by actions taken by regulators against financial institutions generally, including Westpac, over the last few years.

As a result, we have undertaken a series of initiatives over the last 1 to 2 years designed to focus on operational risk, conduct risk and compliance and to improve our execution and governance in these areas. By way of example this has included the introduction of a Group-wide consequence management framework, the removal of sales incentives at the front line, and a new behaviours and outcomes-oriented performance management framework.

We are also conscious we need to strengthen our 'speak up' culture, which is work underway, and we have rolled-out a single whistle-blower approach and introduced 'Navigate' – a quarterly, Group-wide cultural training session that helps staff explore difficult situations that require judgement.

Clearly, we have more to do. A company's culture is something that requires constant review, and I want to assure you we are taking this seriously and will reassess our approach as we learn more from the findings of the external reviews that I have talked about.

We see this as a positive and necessary investment in Westpac's long-term sustainability, but, I do not underestimate the task ahead of us.

It is complex and it will take time, but we are determined to invest what is necessary to build a better organisation.

Board and executive changes

Your Board accepts the gravity of the issues raised by AUSTRAC.

On 26 November 2019, the Board announced various changes at the Board and management level. These decisions were taken in the best interest of the Bank.

These changes included Brian Hartzler stepping down as Group Chief Executive.

Board Director Ewen Crouch is not seeking re-election at today's Annual General Meeting.

As Chairman I have also brought forward my retirement to the first half of 2020, a timeframe chosen to allow for stability and an orderly transition as the remaining Board members identify and nominate a new Chair, appoint new Non-executive Directors, and undertake the global search for a permanent CEO.

Peter King has been appointed Acting Chief Executive. Peter has had a long and distinguished 25-year career at Westpac and has been Chief Financial Officer since 2014. He is the right choice to provide stability to the bank. You will hear from Peter when he addresses the meeting shortly.

The Board has commenced the search for new Directors, and will select new members based on the skills, experience and diversity needed to complement the existing Board and be in the best position to continue to guide your

company. In light of recent events, there will also be an assessment of where the Board would benefit from additional skills.

During the past year, we welcomed two new members to the Board, Margie Seale and Steve Harker, who are both seeking election at today's meeting. Both members have proved to be beneficial additions to your Board contributing valuable insights.

I would like to assure you that your Board is here to represent the interests of shareholders and act on your behalf. It is a responsibility we take very seriously.

Strength of the Bank

The Board is acutely aware of the impact of recent events on Westpac.

But your company remains strong, we are well capitalised, our funding and liquidity is sound, and asset quality is strong. Our franchise is also in good shape with a highly committed workforce dedicated to supporting customers.

Operating conditions remain challenging for the whole financial services industry and, while this contributed to a disappointing financial performance for the 2019 financial year, we are committed to ensure your company turns performance around.

We made progress against our strategic priorities during the past financial year and, while some of our actions affected 2019 cash earnings, they were taken with a view to lifting performance over the longer term.

Peter will talk more to performance shortly.

Capital and dividends

As I just mentioned, Westpac's capital position remains strong. We have materially strengthened the bank's capital over many years with our average ordinary equity doubling over the last decade. Our Common Equity Tier One capital ratio started the decade below 7% and at September 2019 was 10.67%.

The Board made the decision in early November 2019 to raise capital to increase our buffer above APRA's unquestionably strong benchmark of 10.5%. The capital we've raised gives us the extra capacity to support customers, as we face into a weakening economy, and deal with further regulatory actions, changes in APRA or RBNZ capital requirements or potential litigation.

We raised more than \$2.7 billion through a combination of an institutional placement and the Share Purchase Plan for our retail shareholders.

The Board also took the difficult decision to reduce the final 2019 dividend to 80 cents per share, fully franked, down from 94 cents per share in the first half. This represents a final dividend pay-out ratio of 79%.

The Board is very aware of the impact of this decision, but we believe it was in the best long-term interests of the company as we continue to prioritise strength of the balance sheet.

Executive remuneration

I will now turn to executive remuneration structure and outcomes.

At last year's AGM, Westpac incurred a first strike against the adoption of the 2018 Remuneration Report.

This sent a strong message to your Board that our decisions on executive remuneration in 2018 were not in line with shareholder expectations.

Over the past year we have engaged extensively with institutional and retail shareholders and advisory groups to gather feedback and to take action on the key concerns raised.

This included much greater variability and lower short-term variable reward outcomes overall; reducing the total target and maximum remuneration for the CEO and Group Executives; changing the long-term variable reward allocation approach from a fair to face value approach; introducing clawback as an additional remuneration adjustment tool; and enhancing disclosure in the Remuneration Report.

As you will have seen in the 2019 Remuneration Report, the 2019 remuneration outcomes were down significantly on last year.

The former CEO did not receive any short-term variable reward and the average short-term variable reward for Group Executives was 56% of the target opportunity.

Material risk and compliance matters contributed to the Board applying a zero outcome for management of non-financial risk in Group Executive scorecards; downward remuneration adjustments, reducing some 2019 short-term variable reward outcomes to zero; and a downward adjustment to prior year deferred short-term variable reward for two former Group Executives.

In addition, the Board reduced its fees for 2019 by 20%.

All of these decisions were made before we knew the extent of the claims made by AUSTRAC on 20 November 2019. Following the release of AUSTRAC's Statement of Claim, we did not retrospectively alter these determinations however we have resolved that actual payment of either all or part of the 2019 variable rewards will be withheld for the full Executive team subject to the assessment of accountability for AUSTRAC's claims.

Where accountability issues are identified, appropriate consequences will be applied.

The Board will provide an update on the final decision regarding the 2019 remuneration outcomes ahead of publication of the 2020 Remuneration Report.

My final comments on remuneration relate to the CEO change since AUSTRAC's allegations.

On stepping down from his role, the former CEO Brian Hartzler forfeited any unvested deferred short-term variable reward and unvested long-term variable reward, and is not eligible for variable reward going forward. As a result, the Board has withdrawn resolution 3 for today's meeting, the grant of equity to the Managing Director and Chief Executive Officer.

We have also announced Peter King's remuneration arrangements since commencing as Acting CEO from 2 December 2019.

Over the course of 2020, we will continue to maintain an open dialogue on remuneration with shareholders and listen to your feedback and respond accordingly.

Environmental issues

One further issue of great importance to shareholders and other stakeholders is the environment and climate change. This topic is the subject of a resolution requisitioned by a group of shareholders for today's meeting.

There is, rightly, much passion on this topic and I reiterate Westpac's long history of action on climate change, including being the first Australian bank to sign up to the Paris Agreement. We accept the science of climate change and that global emissions must reach net zero by 2050.

We provide extensive climate change disclosures and we enhanced this again last year supporting our approach to the Paris agreement and in response to growing stakeholder interest. We have framed these disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

Westpac continues to evaluate the potential impacts of climate change on its business and communities. As a bank we can play an important role in helping our customers transition and adapt to climate change impacts.

We recognise that the science and tools available to understand and respond to climate change are constantly evolving. Westpac's Climate Change Position Statement is due to be updated by mid-2020 and will be based on a practical, science-based and responsible approach that incorporates feedback from a range of stakeholders, including shareholders.

Future

I recognise that recent events may have set back the progress Westpac had been making on many fronts, and there is enormous work to do to earn back the trust that you, the community and customers have placed in us.

But I have full confidence that Peter King as acting chief executive, and the people across Westpac will continue to do their absolute best for customers every day, and ensure the bank comes through this challenging period stronger.

Thank you for your ongoing support of Westpac and particularly your support as your Board endeavours to respond to the Bank's operational and compliance issues, at the same time as providing the stability of leadership required to protect, and ultimately enhance, value for shareholders.