



<b>Company</b>	Westpac Banking Corporation
<b>Code</b>	WBC
<b>Meeting</b>	AGM
<b>Date</b>	12 December 2019
<b>Venue</b>	International Convention Centre, Darling Harbour, Sydney
<b>Monitor</b>	Carol Limmer with Lewis Gomes

<b>Number attendees at meeting</b>	797 voting shareholders 96 non-voting shareholder and 172 visitors
<b>Number of holdings represented by ASA</b>	1,802
<b>Value of proxies</b>	\$204 million
<b>Number of shares represented by ASA</b>	8.3 million (equivalent to 14 <sup>th</sup> largest shareholder in Top 20 )
<b>Market capitalisation</b>	\$88 billion
<b>Were proxies voted?</b>	Yes, on a poll
<b>Pre AGM Meeting?</b>	Yes, with Chairman Lindsay Maxsted and Head of Investor Relations Andrew Bowden

## Anger and scorn as Westpac receives second strike

Chairman Lindsay Maxsted managed to keep his cool while hundreds of shareholders vented their anger at recent events at Westpac following on from the AUSTRAC claim announced in mid-November. Shocked by the revelations that more than 23 million International Fund Transfer Instructions (IFTI's) had not been reported to the regulator over a period of at least 7 years and, even worse, that some of the Bank's customers had been using its Litepay product to procure internet access to extreme child abuse, shareholders were in no mood for smoothing talk.

Profuse apologies were repeatedly offered by Mr Maxsted and by Peter King, the new Acting CEO and former CFO throughout the long and tortuous 6-hour meeting. To their credit, they openly acknowledged the criticism and the failures of the Bank and, more specifically, of the Board. There were no excuses offered and none would have been accepted. Mr Maxsted said to shareholders that "You believe in this company and we have let you down". Mr King pledged to "own our mistakes, fix them and to do everything we can to make sure they don't happen again". More

specifically, Mr King said he had two priorities, namely to fix the problems and to stay focused on the business. In regards to fixing the problems, he listed immediate fixes, lifting standards of compliance and assisting those affected.

Questions were wide-ranging but almost all focused on AUSTRAC and related matters. Shareholders repeatedly asked why the Board only found out about the IFTI problems in August 2018 while the problems had been going on for years previously. Mr Maxsted could only repeat that this would be one of the matters investigated by Promontory Financial Group. He did not or could not give a direct answer. He was also quizzed on why the matter had not been elevated in importance in the Annual Report nor in the recent capital raising as a potential major issue. His response was that he believed the disclosure in respect of AUSTRAC matters was adequate as any potential liability cannot be stated unless it can be quantified. As Jennifer Hewett wrote in the Australian Financial Review on the following day, "Try selling that one over the counter".

Interestingly, the share offer to retail shareholders through the Share Purchase Plan (SPP) was oversubscribed by \$220 million to reach \$770 million even though some \$68 million of acceptances from 3,000 applicants were withdrawn subsequent to the AUSTRAC revelations and following approval from ASIC to allow Westpac to accept withdrawals. The total capital raising was therefore \$2.77 billion. It remains to be seen if this will be enough to cover the costs of fines, computer software upgrades and other costs over and above the original intended purposes of the raising.

The ASA Monitors Carol Limmer and Lewis Gomes probed the Chair on why Board members had not done "deep dives" looking for assurances on IFTI reporting given the circumstances of the recent Commonwealth Bank experiences and why the Auditor (Price Waterhouse Coopers) had not undertaken specific reviews of IFTI reporting. We were somewhat disappointed with the Auditor's defensive answers to questions directed to her. It is difficult to understand why the Auditor did not in some way pursue the AUSTRAC matters given that to some extent the non-reporting was known.

Questions were raised in respect of Westpac's whistle blower policies and former employee Amanda Wood's departure from Westpac, Ms Wood having apparently first raised the IFTI problems within Westpac's senior management. Mr Maxsted stated that Ms Wood was not sacked but resigned after being offered an alternative position within Westpac. A number of shareholders queried why former CEO Brian Hartzler was able to leave with an almost \$2.7 million payout. Mr Maxsted said this payment was made under the terms of Mr Hartzler's contract to avoid protracted legal action. Shareholders were quite unconvinced at this explanation and continued to voice their anger. Several hecklers joined the fray, at times trying to interrupt the Chair.

There were questions from a number of special interest groups including the self-titled Bank Warriors of disaffected bank customers claiming poor treatment in respect of their personal financial matters and from climate activists challenging the Bank's lending practices to carbon-based clients such as Origin Energy which is seeking to frack for gas in the Northern Territory. By this time many shareholders had begun to drift away from the meeting and the climate activists found themselves at times being heckled and losing traction with the audience. Mr Maxsted

continued to re-iterate Westpac's commitment to the Paris Accord and its leading position on matters relating to climate change.

There was very little questioning around the actual financial results which were relatively poor for the year, mainly as a result of remediation and other costs associated with the outcomes of the recent Royal Commission into the finance industry. From a 12 month high share price of about \$30 at the time of release of the Royal Commission findings and recommendations (which were seen as comparatively favourable to Westpac), the shares had slipped to a little below \$28 in early November but are now trading at around \$24.50, a drop of around 10% since the AUSTRAC revelations emerged. One shareholder reminded the Board that the share price had been as high as \$40 during Gail Kelly's tenure as CEO.

Voting finally got underway after about 5 hours of vigorous debate and venting of frustrations. First up was Nerida Caesar seeking re-election since being appointed just over 2 years ago. While speaking on her own behalf and offering the by now routine but genuine apology, she gained the support of only 75% of votes which gave a sense of the mood of the entire voting base. Ewan Crouch as Chair of the Risk Committee and a Board member for nearly 7 years had wisely withdrawn his re-election nomination and so the next motion was for the election of new director Steven Harker. As a former investment banker, he received a very respectable 96.5% of votes while Margaret Seale, with a publishing and professional director background and experience in taking an organisation from traditional business models to the digital environment, did even better with a 98.6% vote.

However, the pressure was clearly on Peter Marriott, another long serving Board member who was seeking re-election after just over 6 years on the Board. A number of shareholders spoke against his re-election on the basis of his tenure and apparent lack of diligence in probing the AUSTRAC matters given his "deep" banking experience. An ASA member directly sought his resignation, if re-elected, and invoked Gough Whitlam's famous line of "It's Time" and noted that Mr Marriott had presided over a double whammy of unacceptable events. However, Mr Marriott survived with 58% of votes but hardly an endorsement of his continuing role. Former Labor Senator Chris Schacht and now a Westpac shareholder had sought the removal of the entire Board, as had some others, but clearly most shareholders were satisfied with some blood on the floor while retaining enough capacity and determination on the Board to get the Bank back on track.

Given the resignation of the former CEO, the approval of the equity grant to him was withdrawn which then led to the Remuneration Report. Not surprisingly, many shareholders expressed objections to the Report. The ASA Monitor spoke against the Report on the basis that while it included most of the recommendations previously sought by the ASA after the unsatisfactory FY18 Report (which recorded an against vote of 68%), it failed to adequately address the current situation. In particular, the ASA Monitors sought a reduction in all Short-Term Variable Rewards for executive staff for FY19 to zero and a continuing reduction in director fees for FY20 on the basis of collective responsibility. In the event, the Report was passed by 64% of votes but a second strike was secured because more than 25% of votes were against its acceptance. Westpac has therefore become the first Australian bank to receive two consecutive strikes. However, the

resulting spill motion was lost with 91% of votes against the motion. Finally, the motion to amend the Bank's constitution sought by Market Forces was lost with 92% of votes against the motion.

So after 6 hours of torrid inquisitions and venting of anger, Westpac survived largely intact but severely shaken as well as stirred. By now the sausage rolls were cold but the mood was more reflective and ASA representatives were able to have some useful discussions with some of the remaining directors. It's far too early to draw any conclusions but Peter King looks and sounds like he can get the train back on track and Margaret Seale is likely to bring some fresh vigour to the conductor's cabin. However, the Board collectively needs to demonstrate much better attention to issues with a focus on fixing operational and cultural problems before it can start to recover the trust of its shareholders, customers and broader stakeholders. The ASA will stay on the case and will be seeking further opportunities to meet with relevant directors to press the ASA's recommendations and to be a constructive agent of change. Let's hope that Mr King can keep shovelling the coal into the furnace and that we can hear a few cheery steam whistles at the next AGM.

The AUSTRAC issues and the AGM received considerable TV and print media attention. The ASA was called upon by many media outlets for comments and interviews both before and after the AGM. Up-to-date versions of the Chair's and Acting CEO's addresses and media reports are available on the Bank's website. A video recording of the AGM can also be found on the Westpac website at [www.westpac.com.au/agm](http://www.westpac.com.au/agm). Also of note is an open letter of apology from Acting CEO Peter King presented in full page advertisements in a range of newspapers over the weekend following the AGM. Mr King's letter ends with the words: "We've let you down. I give you my personal assurance that we will do everything we can to make this right and to earn back your trust." There will be millions of Australians including shareholders, customers, employees and others looking to hold Mr King to that promise.