



CHAIRMAN'S REPORT

A message from David Gonski AC

I am pleased to enclose with this Shareholder Update the advice that your 2019 Interim Dividend payment is 80 cents per share fully franked.

This half we recorded a balanced result with a statutory profit for the six months ending 31 March 2019 of \$3.17 billion, down 5% on the prior comparable period. Cash Profit for our continuing operations over the same period was up 2% to \$3.56 billion, with the difference largely attributable to the impact of economic hedges and the results of our discontinued businesses.

Return on Equity increased slightly to 12.0% and Cash Earnings per share was up 5%. This was driven by our actions to reduce shares on issue through our \$3 billion buy-back that was completed in March 2019.

Our interim dividend this year will see \$2.27 billion paid to shareholders and we have maintained a tier-one capital ratio comfortably above the Australian Prudential Regulation Authority's 'unquestionably strong' benchmark.

While the banking sector in Australia is experiencing strong headwinds, the progress made to simplify our business and strengthen our balance sheet has helped deliver a solid outcome for customers and shareholders.

Costs have remained an intense focus with absolute expenses down for another half. In fact, since we started on our simplification journey three years ago, we have reduced costs by \$300 million per annum while also absorbing more than \$550 million in inflation.

We have taken a conservative approach to capital management and what we have not been able to use for business initiatives has been returned to shareholders.

Credit conditions for this half remained favourable with the total provision charge down 4% from the same period last year to \$393 million. This is due to both a benign economic environment and deliberate steps taken over recent years to improve the composition of our loan book, particularly in Institutional Banking.

Turning to the performance of our divisions, our business in Australia found the conditions tough with demand for home loans slowing further during the half.

This was compounded by our prudent decision to step back from certain parts of the market as well as temporary operational issues in implementing our new risk settings.

We have taken steps to improve momentum in Australia through initiatives such as the introduction of a single home loan origination system for all our channels and increasing the number of loan assessors.

Institutional had a good half and is providing consistent and diversified returns for the group, given our exposure to the faster growing markets of Asia. Pleasingly we retained our leading market position in Australia and New Zealand as well as our number one ranking for overall relationship quality in Asia.

New Zealand had a good result, however there will be challenges ahead with slowing housing demand, increased competition and the potential for increased capital requirements for all New Zealand banks.

While the impact of these proposed capital changes won't be known until later in the year, we are in a better position to manage any change given the transformation of our business in recent years.

Of course this half also marked the conclusion of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The commission, including its final recommendations, caused everybody at the bank, including myself, to reflect on how we can ensure the failures that impacted our customers never occur again.

As you may be aware, we responded within weeks of the final report with the first phase of our response with a range of key initiatives that will improve the way we engage with our customers. We will continue to publicly report on our progress twice yearly.

I can assure all shareholders that we are not treating this as a compliance exercise and we are responding to both the recommendations and the spirit of the final report.

We are working hard to earn the trust of the community. This will take time and considerable resources. However, it will be in the best interests of all our stakeholders and in particular our shareholders.

DAVID GONSKI AC
CHAIRMAN

2019 HALF YEAR HIGHLIGHTS

▲ 2.0%	flat	▲ 5.0%
\$3,564 million	80 cents	124.8 cents
CASH PROFIT (Continuing operations)	DIVIDEND PER SHARE	CASH EARNINGS PER ORDINARY SHARE (Continuing operations)
1H18 \$3,493 million	1H18 80 cents	1H18 119.4 cents

Note:

All financials are on a Cash Profit Continuing Operations basis with growth rates compared to First Half 2018 unless otherwise stated. Cash Profit Continuing Operations excludes non-core items from Statutory Profit and excludes the financial results of the Wealth Australia businesses being divested and associated Group reclassification and consolidation impacts.