



CHAIRMAN'S REPORT

A message from David Gonski AC

I am pleased to enclose with this Shareholder Update the advice of your 2018 Interim Dividend payment of 80 cents per share fully franked.

We posted a solid result with statutory profit for the six months ending 31 March 2018 up 14% to \$3.32 billion, compared with the first half of 2017. Cash Profit on a continuing basis - providing a better comparison of our ongoing businesses - was up 4% to \$3.49 billion.

The payout ratio of our interim dividend is broadly in-line with our preferred payout range of 60-65% of cash profit, while also maintaining a tier-one capital position above the Australian Prudential Regulation Authority's 'unquestionably strong' benchmark well ahead of the 2020 implementation.

I'm pleased with the progress we have made in building a simpler, better capitalised, better balanced bank despite the continued headwinds impacting the sector.

As we promised, we have continued to simplify our business. During the half we announced the sale of both our Australian Pensions and Investments and Life Insurance businesses to IOOF and Zurich respectively. We also completed the sale of our minority stake in Shanghai Rural Commercial Bank and announced the sale of our share in the Philippines based Metrobank Card Corporation joint venture.

A particular highlight was completing the complex separation of six retail and wealth businesses in Asia on time and under budget. The successful transfer of these assets allows us to further increase our focus on our institutional business in Asia, where we remain a top-four corporate bank.

The progress of our transformation combined with our peer leading capital position meant we were also able to return surplus capital to shareholders with the purchase of more than 40 million shares on-market during the half.

We continued our disciplined approach in the way we manage costs and allocate shareholders' funds with expenses down for the fourth consecutive half. Return on Equity of our continuing business increased 32 basis points to 11.9%, while earnings-per-share grew 4% versus a year ago.

Our retail markets in Australia and New Zealand continued to perform well with both lending and deposits in our targeted segments growing strongly. In Australia we launched a new mobile banking app that is currently the top rated app in the Australian Apple store and attracting over 15,000 new users each day.

In New Zealand the introduction of home loan coaches helped grow our home lending by 5%, while we maintained market leadership across our key products.

The difficult trading conditions impacting institutional banking globally persisted during the half and we continue to rebalance our portfolio by focusing on customers that value our differentiated international network. This will see returns in institutional banking continue to improve.

The credit environment remains benign with our total provision charge of \$408 million, down from \$720 million the previous year. This has been driven by both positive macro-economic factors impacting the sector as well as the strategic changes made to improve the composition of our loan portfolio.

Looking ahead, we expect the difficult trading conditions to continue into the foreseeable future and this reinforces our strategy to simplify our business remains appropriate for the times. Moreover I'm confident we have an executive team in place, led by our Chief Executive Officer Shayne Elliott, with the necessary experience to manage our business into the future.

Finally, the Royal Commission into the Banking, Superannuation and Financial Services Industry is rightly having a significant impact on the sector. We have engaged with the Commission in an open and constructive manner and we will continue to support its work as well as making the meaningful changes the community, our customers and our shareholders expect. It is in all of our interests.

DAVID GONSKI AC
CHAIRMAN

2018 HALF YEAR HIGHLIGHTS

▲ 4.1%	flat	▲ 4.0%
\$3,493 million	80 cents	119.4 cents
CASH PROFIT (Continuing operations)	DIVIDEND PER SHARE	CASH EARNINGS PER ORDINARY SHARE (Continuing operations)
1H17 \$3,355 million	1H17 80 cents	1H17 114.8 cents

Note:

All financials are on a Cash Profit Continuing Operations basis with growth rates compared to First Half 2017 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.