

CHAIRMAN'S LETTER

May 2017



Dear shareholder,

EARNINGS CONTINUE DELIVERING DIVIDENDS FOR SHAREHOLDERS

Over the past six months, BOQ has faced a number of industry headwinds including low credit growth and intense competition for both loans and deposits. This has placed increasing pressure on Bank margins and reduced our revenue.

Despite the tough operating environment, our focus on asset quality and expense management has ensured we've been able to continue delivering solid profits for shareholders. At our 2017 half year results, we announced cash earnings of \$175 million, down 2% on the prior year. On a statutory basis, our profit of \$161 million was down 6%, largely driven by revenue headwinds from a lower Net Interest Margin in an intensely competitive market.

Our strong capital position however, has allowed the Board to maintain a fully franked interim dividend of 38 cents per share.

GOOD PROGRESS ON OUR STRATEGIC PRIORITIES

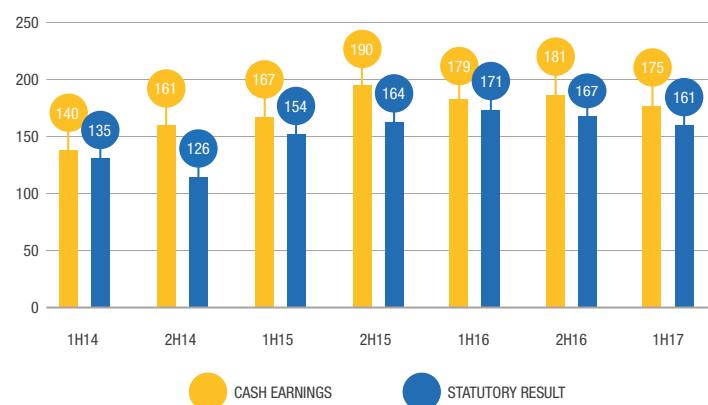
We continue to realise the benefits of our strategy which focuses on niche segments that value a more intimate customer relationship.

We experienced strong lending growth of 15% across a number of our targeted niche commercial segments including retirement living, hospitality, franchising and agribusiness. Our BOQ Specialist business, which predominantly services medical professionals, also delivered another strong growth performance, with annualised commercial and home loan growth of 8% and 27% respectively. Whilst BOQ Finance enjoyed another strong half, buoyed by an improved business mix and the recent acquisition of Centrepoint Alliance Limited's Premium Funding business in December.

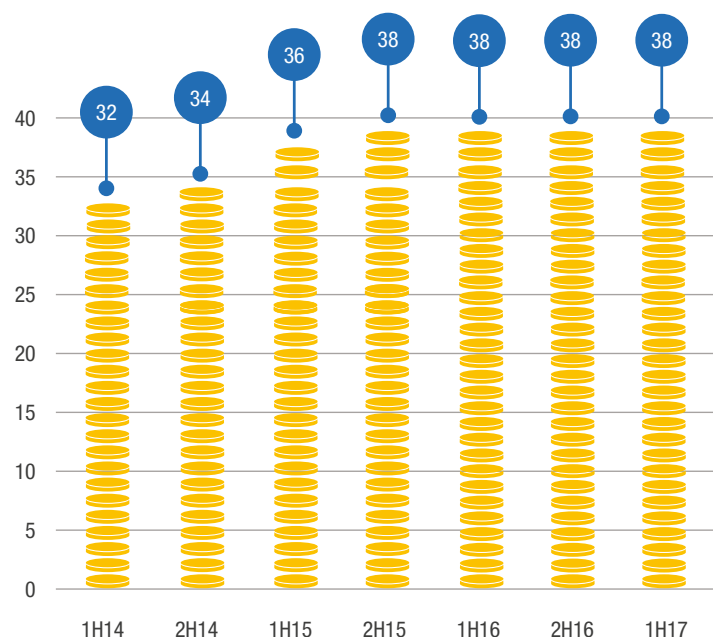
We also saw momentum build behind our new Virgin Money mortgage product, with \$200 million of loan growth across the half in new customer segments. We see a lot more potential in this business.

Pleasingly, we've continued to be disciplined with our focus on profitable growth. BOQ's strong risk management practices have seen our loan impairment expense reduce a further 25% on the prior corresponding period to 13 basis points of gross loans. Despite pockets of weakness across the economy, BOQ's loan portfolio is not showing signs of stress.

PROFIT RESULTS (\$ MILLION)



CONSISTENT DIVIDENDS (CENTS PER SHARE)



In order to strengthen our long-term growth prospects, we've also further accelerated our productivity and efficiency programs, which are delivering cost savings across the business. In this regard, we reduced operating expenses by 2% on the prior corresponding period and will maintain underlying expense growth to 1% this financial year. We'll achieve this while delivering key projects to digitise the Bank.

Another key focus for us this year is ensuring everything we do is underpinned by the highest ethical standards. All of our Executive team and many of our staff have voluntarily adopted the Banking and Finance Oath. We've also completed extensive ethics training across the Group.

BOARD CHANGES

For those of you who didn't have the opportunity to meet Warwick Negus at our Annual General Meeting, Warwick joined us as a Non-Executive Director in September 2016 replacing outgoing Director Neil Berkett as the Virgin nominated Director on our Board. Warwick has a distinguished financial services career in investment banking and funds management. The depth of his experience will be invaluable as BOQ continues to implement our strategy against a backdrop of economic transition and an evolving regulatory environment.

WELL POSITIONED FOR CURRENT ENVIRONMENT

The Australian economy is holding up well as the impact of the mining sector downturn diminishes and other industries such as tourism, education, construction and exports continue to help fill the gap.

The banking sector is likely to remain very competitive, although we did see some pricing pressures ease late in the half. This was particularly evident in the term deposit market. Given BOQ's

reliance on term deposits, we believe this improvement will contribute to more positive margin outlook in the second half.

Momentum in mortgage application volumes in February and March also provides positive signs for improved asset growth in the second half.

We have a healthy capital position with a Common Equity Tier One ratio of 9.29%, which when combined with our strong retail funding base provides plenty of room for lending growth and for us to respond to any potential regulatory changes.

We remain committed to our strategy of disciplined and profitable growth supported by a program of targeted ongoing efficiency improvements that emphasise the increasing digitisation of the Bank. This should continue to deliver a high quality portfolio of profitable assets and sustained earnings for shareholders through the cycle.

Even though it has been a tough operating environment of late, our recent increase in mortgage momentum, the improved outlook for revenue growth and our strong capital position all provide a strong framework to continue delivering returns to shareholders.

I would like to thank everyone in the BOQ team whose tireless efforts continue to make our company a success and of course, thank you to all of our loyal shareholders for your ongoing support.

Yours sincerely,



Roger Davis
Chairman

2017 FINANCIAL CALENDAR

Full year results and dividend announcement	12 October 2017
Ex-dividend date	2 November 2017
Record date	3 November 2017
Final dividend payment date	23 November 2017
Annual General Meeting	30 November 2017

SHAREHOLDER CENTRE

For further information of interest to shareholders such as shareholder services, financial disclosures and announcements, please visit BOQ's Shareholder Centre at www.boq.com.au/shareholder

SHARE REGISTRY SERVICES

For information about your specific shareholding or to update your details please contact Link Market Services:

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