



I'm pleased to update you on another successful six months for BOQ

**CHAIRMAN'S LETTER
MAY 2016**

Dear shareholder,

**SOLID EARNINGS
& DIVIDEND INCREASE**

At our 2016 half year results, we announced a solid financial performance with a cash earnings after tax result of \$179 million, up 7% on the prior year. On a statutory basis our profit after tax was up 11% to \$171 million.

Pleasingly, our financial results demonstrated the progress we are making against our strategic objectives. During the first half, we achieved healthy lending growth while maintaining net interest margin, asset quality and cost control.

The Board has therefore determined an increase in the interim dividend to 38 cents per share, up 6% on last year's interim dividend.

**GOOD PROGRESS AGAINST
STRATEGIC PRIORITIES**

A major highlight of the result was increased growth across our key business units and channels. For the first time in many years, we were back above system growth with total new lending of almost \$2 billion.

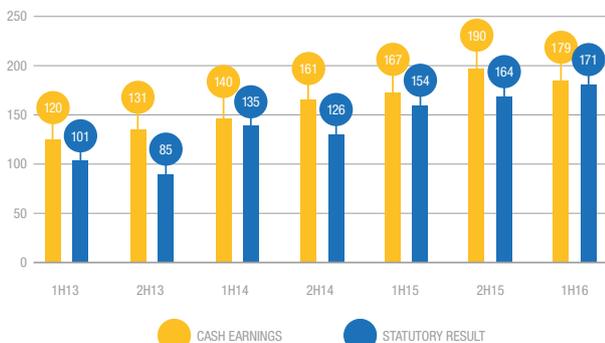
The growth momentum in the broker channel and BOQ Specialist demonstrates

the effectiveness of our strategy to expand our distribution channels and make it easier for our customers to do business with us. We also made good progress growing our presence in target niche commercial segments with overall commercial lending growth of \$300 million.

Importantly, we achieved this growth without compromising on credit quality, which is key to our strategy. The overall risk quality of our loan book has continually improved, benefitting from the geographical diversification that our new channels bring.

PROFIT RESULTS
(\$ million)

From 1H15 to 1H16
Cash Earnings **UP 7%**
Statutory Result **UP 11%**



CONSISTENT DIVIDENDS
(Cents per share)

From 1H15 to 1H16
UP 6%





Our net interest margin of 1.97% remained unchanged in a fiercely competitive market and against a backdrop of increased funding spreads and hedging costs. We also made the difficult decision to increase our variable rate home loans by between 12 and 25 basis points to help achieve the appropriate balance between growth, asset quality and profitability.

Our underlying cost to income during the period remained flat as we continued to reinvest in strategic initiatives such as the retail lending origination project and a new lease management system which will enable the retirement of 22 legacy systems.

We also saw the benefit of our continued investment in our risk processes and systems, evidenced by a further 1 basis point reduction in our loan impairment expense this half. We make no apologies for taking a cautious approach and have strengthened our program of monitoring and supervision across the entire Bank.

These achievements show the good progress we are making in implementing our strategy. We remain focused on delivering the priorities we have set for the remainder of the financial year, including the roll out of Virgin Money's new mortgage product.

BOARD RENEWAL

Over the first half, we continued to renew our Board to ensure we have the right skills and experience in place to meet the needs of our rapidly changing market.

We were therefore delighted to welcome Karen Penrose and John Lorimer as Non-Executive Directors in November and January respectively.

Karen has 30 years' business experience in the finance and corporate sectors, including 20 years in banking with Commonwealth Bank and HSBC Bank Australia. She offers specialist knowledge in finance and capital markets, risk management and compliance to the Board.

John has spent more than 20 years in financial services and held executive roles in Australia, Asia and Europe, most recently for Standard Chartered Bank. He brings to the Board significant expertise in retail financial services, governance and oversight, regulation and risk management.

At our Annual General Meeting in November we also farewelled long-standing director Carmel Gray when she retired from the Board.

Carmel joined the Board in 2006 and her wise counsel was a constant as BOQ navigated the many highs and occasional lows that inevitably emerge over nearly a decade. I thank Carmel for her service and wish her all the very best for the future.

POSITIONED WELL

Australia continues to transition from a resources growth led economy to one that is more balanced. At a national level, the economy is holding its own, helped by relatively lower exchange rates and interest rates while, across the states, performance remains mixed.

We continue to carefully monitor economic conditions and remain cautious. The Australian economy's transition presents opportunities for growth in the niche segments we are targeting, as should the evolving regulatory environment.

We remain well placed to capitalise on the opportunities that emerge as we implement our strategy and continue to be confident about meeting our goal to outperform the industry in earnings per share growth over the longer term.

I'd like to thank everyone at BOQ for their work in delivering our results. We could not have achieved what we have in challenging market conditions without your efforts.

Finally, I would also like to thank all of our shareholders for their ongoing support.

Yours sincerely,

ROGER DAVIS
Chairman

2016 FINANCIAL CALENDAR

ORDINARY SHARES

Full year results & dividend announcement	6 October 2016
Ex-dividend date	27 October 2016
Record date	28 October 2016
Final dividend payment date	22 November 2016
Annual General Meeting	30 November 2016

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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