

# CHAIRMAN'S LETTER

May 2018



Dear Shareholder,

I am pleased to update you on the first six months of BOQ's 2018 financial year. Certainly, we believe our niche segment strategy is starting to deliver despite an ever changing operating environment. We are now getting back to a steady rate of growth, with pleasing results especially in our Business bank.

Cash earnings after tax for the period increased four per cent from 1H17 to \$182 million, whilst cash basic earnings per share was 46.5 cents per share, an increase of two per cent from 1H17. Cash return on equity also showed positive momentum, increasing 10 basis points to 9.9 per cent, whilst overall lending growth was \$671 million in the half. Net interest margin increased one basis point from 2H17 to 1.97 per cent, despite intensifying competition for lending and deposits.

Other key drivers of our first half results included a 20 basis point increase in our cash cost to income ratio to 47.6 per cent and a decrease of \$5 million or 19 per cent in our loan impairment expense to \$22m compared to the same period in 2017. The ordinary dividend was maintained at 38 cents per share.

Reflecting on these results, BOQ's capital position remains very strong at 9.42 per cent. Following the release of further information during the half from regulators, including the Basel Committee on Banking Supervision and the Australian Prudential Regulation Authority, our capital position compares favourably to many others in the industry. This provides us with the flexibility to consider other capital management options in the future that will further enhance shareholder returns.

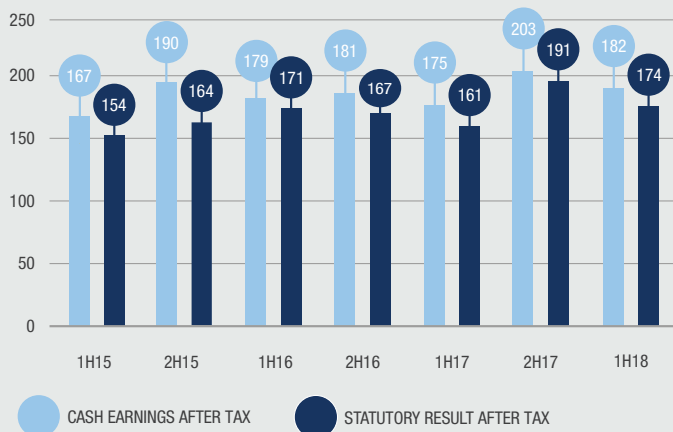
## RETAIL BANKING & BOQ BUSINESS DELIVERING ON STRATEGY

We have proactively sought to diversify our lending across the Group over the past five years and we are seeing good results.

Retail Banking has continued to diversify its channels of home loan origination with BOQ Broker and Virgin Money Australia contributing 40 per cent of Retail Banking's home loan settlements in 1H18.

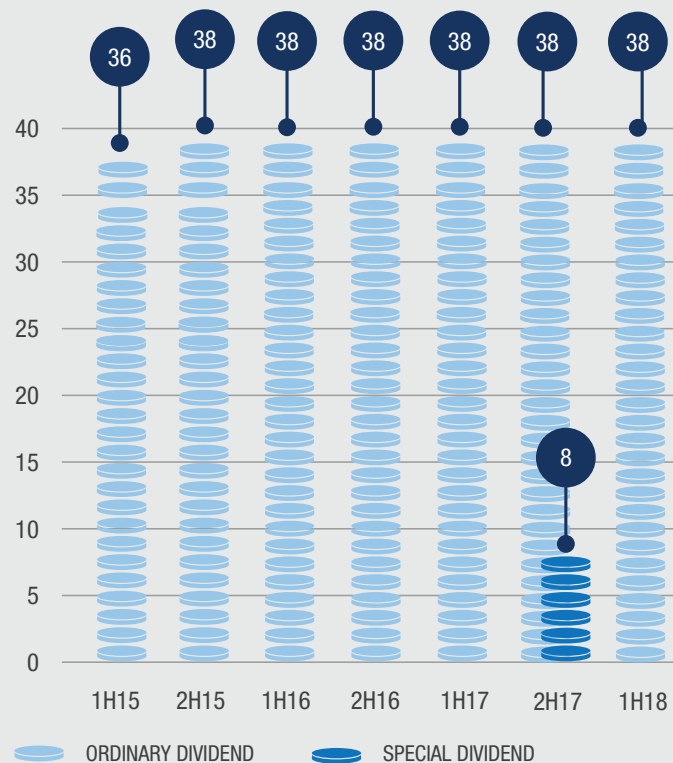
The BOQ Business division has continued to benefit from maturing its niche strategy, with asset growth of nearly \$300 million in the half. This has been delivered across target segments that seek a relationship banking proposition and value industry expertise, including medical & dental, corporate healthcare & retirement living, hospitality & tourism and the agribusiness sectors.

## PROFIT RESULTS (\$ MILLION)



2H17 includes \$16m one-off vendor finance entity disposal.

## CONSISTENT DIVIDENDS (CENTS PER SHARE)



## CONDUCT & CULTURE

With the Royal Commission into misconduct in financial services underway, there is no doubt that conduct and trust are a core focus for the industry. At BOQ we are very aware of these challenges and have worked hard and will continue to work hard to look after our customers to ensure their needs are met and respected.

Certainly, there has been a heavy load of regulatory change since 2007, with 57 external inquiries or reviews at a Federal level being conducted into the banking industry. BOQ has been and will continue to be an active participant in these processes with the Board and management team active in advocating for more competitive neutrality and a level playing field between competitors. We expect there will be further structural changes in the industry as a result of continued industry scrutiny, but continue to believe your Bank is well prepared to adapt to whatever scenarios may eventuate.

## OUTLOOK

Although credit growth has been slowing, other key macroeconomic indicators are mostly heading in the right direction. Importantly, there are now signs of improvement in the Queensland and Western Australian economies, whilst New South Wales and Victoria continue to perform well. In addition, although overall system growth for commercial lending has slowed, BOQ continues to find good opportunities in its target niche segments which tend to be in higher growth sectors of the economy.

One of our core priorities for the remainder of 2018 includes improving user experience in digital channels. In this regard, the Bank is actively upgrading its online platforms, partnering with Fintechs to deliver better solutions for our customers. We are beginning to move the Group's technology infrastructure into a modern

cloud environment. This will further improve the customer experience, speed of our project delivery and reduce costs.


Customer centricity is critical to BOQ's future, with a number of core, customer focused initiatives underway that are aimed at providing a differentiated and superior service offering. This includes a number of new deposit gathering products that will be launched in the second half to assist customers to better manage their deposits. These include an improved merchant capability and the launch of our partnership with a digital payments provider. These two products will make it easier for our SME customers to receive payments and manage their transaction accounts.

In summary, since 2012 BOQ has consciously evolved its business model. In the retail space, we have gone from being a mono-line distribution business to a diversified multi-channel retail bank. On the commercial side, we are now a niche specialist business bank with a focus on higher growth sectors of the economy. Across the Group, we have expanded our geographical reach and now have a national presence.

Underpinning this expansion is our commitment to growing the right way. Meeting our responsible lending obligations therefore remains core to our operating model.

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

Yours sincerely,



**Roger Davis**

Chairman

## 2018 FINANCIAL CALENDAR

Full year results and dividend announcement	<b>4 October 2018</b>
Ex-dividend date	<b>24 October 2018</b>
Record date	<b>25 October 2018</b>
Final dividend payment date	<b>14 November 2018</b>
Annual General Meeting	<b>29 November 2018</b>

## 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](http://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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