CHAIRMAN'S HALF YEAR LETTER TO SHAREHOLDERS

May 2019

Dear Shareholder,

I am writing to update you on the first six months of BOQ's 2019 financial year. Although BOQ's asset quality and capital position remain strong and good progress has been made in our niche business strategy, it has been a period of significant change for the industry, with the Final Report from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) handed down in February. This is already leading to a significant increase in both regulatory requirements and customer expectations for all banks. The inevitable result of these developments will be a requirement for additional resources and therefore higher costs being incurred at BOQ as the focus on conduct, compliance and meeting customer and community expectations increases.

The first half of 2019 has seen some other significant developments both across the industry and at BOQ. The industry continues to face a slowdown in credit growth and ongoing reductions in housing prices, especially in the major capital cities. Closer to home at BOQ, Managing Director and CEO Jon Sutton announced his resignation for health reasons in December and earnings have been impacted by a number of revenue headwinds. This has contributed to a weaker than expected financial performance for the February 2019 half just ended.

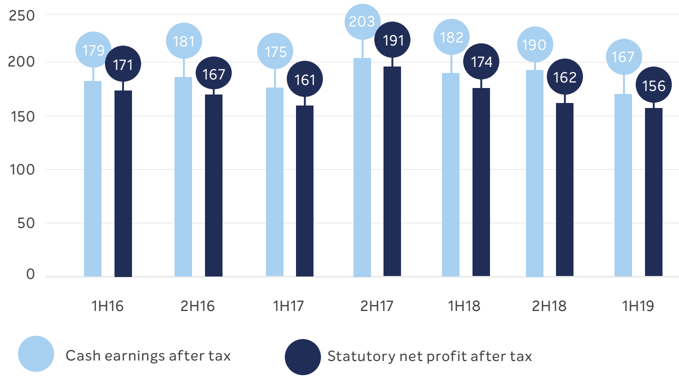
Performance overview

Cash earnings after tax for the period decreased 8 per cent from 1H18 to $167 million, whilst cash basic earnings per share was 41.8 cents per share, a decrease of 10 per cent from 1H18. Cash return on equity also declined during the half, falling 110 basis points to 8.8 per cent. Lending growth of $500 million in the half represented an increase in balances of 2 per cent annualised in a slowing market. Net interest margin decreased four basis points from 2H18 to 1.94 per cent, due to intense competition for new lending, a higher bank bill swap rate and the associated impact on hedging costs.

Other key drivers of our first half results included a 13 per cent reduction in non-interest income, a trend that has been common across the industry. Operating expenses grew by two per cent as investments continued to be made to set the business up for the future. Impaired assets reduced by 12 per cent and loan arrears remained low. However, loan impairment expense increased $8 million, primarily due to an increase in the collective provision. This reflects the impact of the move to a new provisioning model to align with new accounting standards. Under the new model, the impact of less certain general economic conditions, more dynamic provisioning for arrears and other forward looking assumptions are more pronounced.

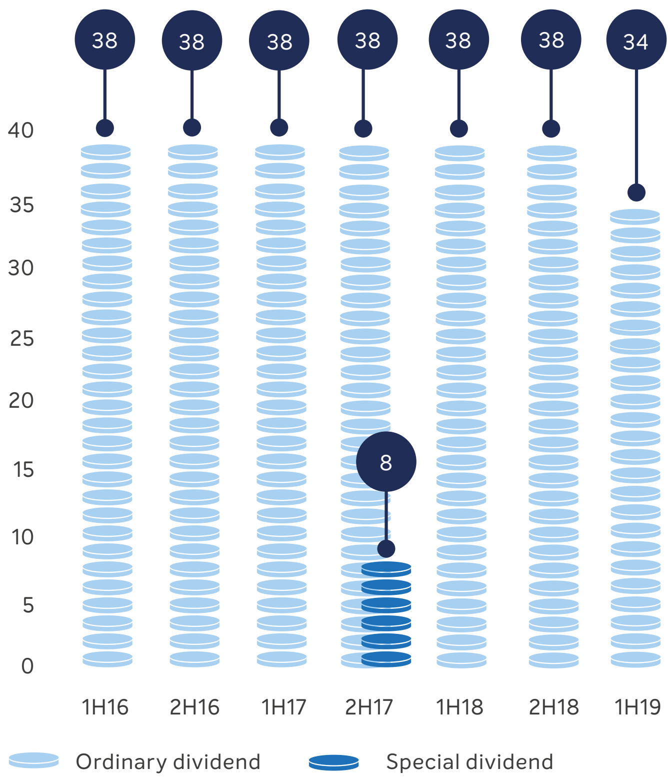
BOQ's capital position remains strong at 9.26 per cent, but as a result of the challenging revenue and cost environment that BOQ and the industry face, the Board has announced a dividend of 34 cents per share. This is a reduction of four cents per share from prior periods.

Profit results ($ million)



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

Dividends (cents per share)



BOQ GROUP

Retail Banking hampered, but niche growth remains strong

Virgin Money Australia has once again exceeded expectations and achieved $469 million of housing loan growth for the half, taking the portfolio to over $2 billion. We remain optimistic about the potential for this brand to become a meaningful challenger in the Australian banking market and are actively considering options to make this a reality.

Our core retail business however has continued to face challenges. Our lending processes, digital platforms and the ability to attract new owner managers in an environment of regulatory uncertainty, have hampered customer acquisition and returns.

We acknowledge there is significant room for improvement in this regard and we are working on a number of key initiatives to address these challenges and improve customer experience.

On a positive note, strong levels of growth in our niche banking segments demonstrates that BOQ's strategy of building niche businesses is working.

In this regard, BOQ Finance had a successful half and delivered growth of $303 million or 13% annualised for the period, through its equipment, dealer and structured finance programs.

Meanwhile, BOQ Specialist continued to contribute solid growth in its housing and commercial loan portfolios of $287 million and $70 million respectively.

Initiatives underway for long term value creation

In recent years, we have taken a conservative approach to managing the Bank by maintaining high risk standards and focusing our strategic initiatives on improving our branch network, investing in the digitisation of the bank and modernising our technology architecture. These initiatives are prerequisites to any investment being made in new customer-facing systems. Whilst they take time and money, we believe they have been the right steps to take and will provide the foundation for the future of BOQ.

In the short term however, the focus on delivering foundational investments has arguably impacted our Retail Banking customer proposition and therefore growth in particular. Pleasingly, however, we are making significant improvements in our lending processes and digital platforms which will deliver better outcomes for our customers. The management team continues to remain focused on delivery of these critical infrastructure and technology investments.

In parallel with these initiatives, and given the challenging outlook for earnings and returns, a segment by segment analysis is also now underway to identify opportunities that will sharpen our focus, simplify the way we do things and improve the long term value creation for our customers and shareholders. Following completion of this process, the Board and management team has committed to providing investors with a detailed update on the Group's strategy and outlook for long term value, later in the year.

Although the current earnings profile is not at the level that we aspire to, there is a lot to be optimistic about in terms of the progress made through our niche market strategies, Virgin Money Australia, and the opportunity of reinvigorating the retail banking business in the coming 12 months.

I would like to thank everyone in the BOQ team who are working hard to adapt the business to the new environment. I would also like to thank all of our customers and shareholders, for your ongoing loyalty and support.

Yours sincerely,

Roger Davis
Chairman

2019 Financial Calendar	
Full year results and dividend announcement	**17 October 2019**
Final ex-dividend date	**6 November 2019**
Final dividend record date	**7 November 2019**
Final dividend payment date	**27 November 2019**
Annual General Meeting	**10 December 2019**

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-centre**

Share registry services

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

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