



## ASX RELEASE

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30 November 2016

### **Chairman's Address 2016 Annual General Meeting**

BOQ's focused strategy on niche segments has delivered an increased profit for the fourth consecutive year. This has been achieved against a backdrop of record low interest rates, continued market volatility and intense competition for both loans and deposits.

Cash earnings after tax increased 1% to \$360 million, and earnings per share was down only slightly, from 97.3 cents in 2015 to 95.6 cents in 2016. The Bank's Common Equity Tier 1 capital ratio remains strong at 9%. Reflecting our confidence in the strength of the Bank, your Board has chosen to maintain the half yearly dividend at 38 cents, taking full year dividends to 76 cents per share fully franked; an increase of 2 cents on the previous year.

Whilst our return on equity decreased 40 basis points to 10.3% in 2016, our credit quality continues to remain robust across all portfolios. This is the direct result of the disciplined approach we have taken to risk management since 2012. The business is now on a much more sustainable footing and better placed to withstand the up and downs of the Australian economy.

2016 has not been without its challenges and the list of industry specific headwinds we face is indeed lengthy: Interest rates at all-time lows, increased public scrutiny, slowing credit growth, continued market volatility, greater regulatory uncertainty and increased attention to stable funding and capital ratios. Meanwhile cost pressures are increasing as all banks fight to better manage rapid changes in technology and changing customer preferences. Competition for loans and deposits is also intensifying, adversely impacting Net Interest Margins. The combination of all of these factors has made it a difficult year for all banks, with one analyst noting that revenue growth across the sector in the second half of 2016 was at the lowest level in 25 years.

As a result of these headwinds and the relative impact on BOQ, our share price has been under pressure through the year with Total Shareholder Return being negative for the past 12 months. This should, however, be considered in the context of performance over the past 3-4 years – a period in which BOQ has outperformed the sector and the broader market on a TSR basis.

I want to assure shareholders that despite the challenging environment which all banks are facing, BOQ remains in good shape.

#### ***Macroeconomic environment***

Our future is influenced by the general economy we operate in, and whilst a rising tide lifts all boats, you can't swim for long against an ebbing tide. It is therefore important to note that Australia's transition from a resources led growth phase to one predicated on services, exports and construction, will take time – especially in the wake of broader global volatility. Despite these challenges, we are still enjoying a period of solid economic momentum domestically, supported by low interest rates, and relatively low unemployment and exchange rates which we believe are helping the Australian economy perform at an acceptable level.

Economic growth remains mixed across the states, including Queensland and the other commodity based states. As a national bank, we benefit from our geographic diversification but, remain cautious about increasing household debt, housing affordability and serviceability, growing under-employment and declining participation in the labour market, and the potential impact of rate rises and housing market weakness. Against this background, it's not surprising that future growth prospects for the banking sector and your Bank, remain subdued. The headwinds we've discussed all impact the sector's ability to maintain earnings growth and generate traditionally higher ROE.

### ***BOQ's focused strategy***

Even in this environment, BOQ has maintained its strong financial position, good profitability and sound risk management. This is testament to management's ability to continue to execute our robust strategy, albeit with an even greater emphasis this year on strategic cost management, productivity gains and managing for performance in trying market conditions, for the reasons I mentioned earlier. Our commitment to create Australia's most loved bank by focusing on niche banking segments that value a more intimate customer relationship, and supporting them with an ethical framework that emphasises our 4 strategic pillars 'Customer in Charge', 'Grow the Right Way', 'There's Always a Better Way' and 'Loved Like No Other', remains unchanged and we believe will continue to deliver superior returns for shareholders over the long term.

Certainly in 2016 we continued to deliver against our strategic pillars. One of the most pleasing aspects of this year's result is the continued strong contribution from our specialist niche businesses, especially BOQ Specialist and BOQ Finance, who continue to exceed our expectations and deliver strong returns. Our Virgin Money business has just launched a new highly attractive mortgage product using Velocity points that is delivering strong growth and providing unique access to an exciting new customer base that could not be sourced through our traditional banking footprint. The goal for management is to integrate all our distribution platforms – OMBs, corporate branches, Virgin Money into a seamless distribution network, improving efficiency and client focused standards that we pride ourselves on at BOQ. I am pleased to say that work on this initiative is already well advanced, ably assisted by a reengineered digital technology strategy.

### ***Industry scrutiny***

I would also like to take this opportunity to comment briefly on four industry issues that are attracting increasing shareholder and public interest. These are conduct and culture, remuneration policies, bank capital levels and risk in the housing market.

#### ***Conduct and culture***

A number of events over the past few years has increased scrutiny of the industry's conduct and culture. At BOQ, we understand that banks have a social license to operate. We take this very seriously and are committed to operating with the highest ethical standards. Our Executive team and many of our staff have voluntarily adopted the Banking and Finance Oath. We established our own Ethics Committee in 2015 and have conducted extensive ethics and integrity training across the Bank. Add to this our support of the ABA's six point plan that emphasises a strengthened Code of Banking practice; Customer Advocates being appointed in each bank; improved whistle blower standards; the removal of those exhibiting poor conduct; a review of product sales commissions; and an extension of ASIC's powers, and we believe we will be able to continue to lead BOQ in a manner that is firmly underpinned by the right trust and ethical standards.

### *Remuneration policies*

Remuneration remains high on the banking industry's agenda, especially with respect to pay equality, performance metrics and absolute levels of compensation.

In terms of remuneration, at BOQ we continue to strive for a high performance culture predicated on profitable growth where executive awards are regularly benchmarked by independent consultants and are based on performance not an entitlement culture with the Board retaining full discretion of all outcomes. Our remuneration philosophy includes a deferral element, and is incentive based along the lines of one third base and two thirds incentives. The incentives are tightly correlated to the returns to shareholders and reflect performance against a mix of financial and non-financial measures. Remuneration includes a risk gateway and customer and staff satisfaction scores, whilst long term performance grants are based on face value not fair value.

Your Board however remains increasingly aware of community expectations with regard to executive remuneration. In this regard, it may be worth noting that, your Executive teams' compensation, in terms of short term incentives, are down this year, confirming that at BOQ, the path of executive compensation is not always up despite an unbroken increase in profits over the last 4 years.

### *Bank capital levels*

The question of capital adequacy is also topical given the increased regulatory standards being imposed by global regulators and the desire of the local regulator to ensure bank capital levels are "unquestionably strong" when internationally benchmarked. While we acknowledge that the direction of regulated capital levels remains unclear, in the short to medium term we still see BOQ as a relative beneficiary of the new capital regulations. However, we strongly believe that regional banks continue to be disadvantaged in our "bread and butter" business of writing residential mortgages and would welcome a further narrowing in risk weights between the majors and ourselves to level the playing field.

### *Risk in the housing market*

The other important Banking issue for shareholders to note is the current topic de jour, and one I have already eluded to namely asset quality especially as regards residential real estate. Certainly current residential real estate prices, both single and multi-dwelling, remain high, predicated on continued strong immigration levels, traditional supply shortages in the Eastern states, low unemployment and "lower for longer interest" rates. However, arguably a looming "settlement bulge" in Melbourne and closer to home, in Brisbane, is creating an identifiable stress point in the economy which needs to be closely monitored.

But, is there a housing bubble?

Well, certainly there is not one in every market across the nation, given the varying supply demand imbalances in each market. As a national bank operating across the country, we see first-hand many of these market conditions and therefore are well positioned to opine. Indeed pricing in some markets is still struggling to beat previous market highs and prices in Perth actually falling so to unequivocally state that Australia is facing a housing bubble is clearly not accurate. Having said that however, there are indeed areas and regions across the nation and especially on the East coast, where prices continue to set new highs on the back of supply constraints and lower interest rates and thus are arguably fully priced with average prices across the combined capital cities up 7% in the 12 months to September 2016.

Given these environmental conditions, we naturally remain cautious about the domestic housing market but take comfort from several mitigating factors in managing our exposure especially our strong risk culture and conservative risk settings.

## ***Board renewal***

Saying farewell and thank you to past directors is one of the sadder moments of any Chairman's address. On that note I would like to call out the significant contribution of long standing Virgin-nominated director Neil Berkett, who resigned from BOQ's Board during the year to pursue his diverse business interests in the UK where he lives. Neil has been a significant contributor to the Board over many years and we salute his service and contribution and wish him well for the future.

To offset Neil, and other previous directors' departures, we welcomed three new Directors to our Board this year who offer themselves for election today. The new additions continue your Bank's evolution as a high quality, high performance Board with complimentary, yet diverse skill sets that we believe are highly relevant to the Bank's future strategy.

A very special welcome to Karen Penrose who joins your Board with significant experience in banking as well as a successful career as a Non-Executive Director. John Lorimer also joins us this year and brings to your Board not only wide ranging banking skills in risk management and retail but also considerable skills as a seasoned Non-Executive Director with a global footprint. Finally, Warwick Negus is our latest addition replacing Neil as the Virgin nominated Director on our Board. He comes to us after a distinguished career in financial services especially in investment banking and funds management. You will hear more from these three Directors later when they address you all as part of their election process but, in the interim I welcome them to the BOQ Board.

## ***Conclusion***

In summary, 2016 has been a challenging year for all banks. However we believe we can hold our heads high because despite the changing operating environment we've increased profits for the fourth year running, made solid progress against our strategic objectives and strengthened our leadership team at Board level. Against this background, the positive contribution from our specialist, higher margin, niche commercial businesses is pleasing, as is our focus on a disciplined approach to risk management and profitable growth.

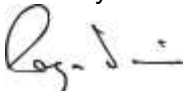
The outlook for revenue growth across the industry remains subdued, but we are well positioned to operate and adapt to this new environment and continue to be committed to our strategy which provides significant opportunities for growth which the Bank has not had in the past.

Finally it beholds me to express my thanks to all our wonderful staff for their hard work and to you the shareholders for all your patience and support during the past year.

Ladies and gentlemen thank you.

I will now hand over to Jon for his CEO address.

Thank you



**Roger Davis**  
**Chairman**