



## ASX RELEASE

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30 November 2016

### **Managing Director and CEO Address 2016 Annual General Meeting**

Thank you Roger and good morning ladies and gentlemen.

It's a pleasure to be here today to talk about BOQ's performance over the past financial year and how we're continuing to adapt to the operating environment.

Rapid technology advances and ongoing market volatility make for uncertain times globally, as well as here in Australia.

As the Chairman noted, 2016 has also seen a number of industry-wide headwinds emerge for banking. But rest assured, BOQ is well positioned to navigate these headwinds. The refreshed strategy I announced to the market just over a year ago, focuses on niche segments which should deliver superior returns over time. Over the past few years, we've also developed a number of levers which enable us to be more nimble as we navigate the current landscape. I'll talk about these in more detail shortly.

#### **FY16 financial results**

In 2016, BOQ delivered an increased profit for a fourth successive year. Cash earnings after tax increased to \$360 million, up \$3 million from the prior year.

This is a good result in the current operating environment.

We've responded appropriately, adapting to our surrounds by continuing to:

- balance margin and growth;
- drive productivity and efficiency; and
- strengthen our asset quality.

As some of the key levers behind our financial performance, I'd like to take a closer look at each of these.

#### *Balancing margin and growth*

With interest rates at record lows, deposit holders are actively seeking the best return on their cash. This creates an interesting dynamic for banks looking to increase deposit balances and reduce dependency on wholesale funding. This coupled with slowing system credit growth which has increased price competition, has impacted our Net Interest Margin which reduced by 3 basis points over the year.

This environment has made it even more important for BOQ to closely manage our margins. We have to balance the outcomes for shareholders and for customers on both the lending

and deposit side. These decisions are not made lightly and we continue to keep our pricing under review to ensure we remain both competitive and profitable.

We've also had to continue being selective about where and how we grow. For example, during the second half of FY16 we slowed asset growth and increased our focus on growing higher margin asset segments such as commercial lending.

This is in line with our core strategic focus on specialist niche businesses which continues to deliver strong returns:

- BOQ Specialist maintained its momentum with commercial loans growing 13% while maintaining good margins and low loss rates.
- BOQ Finance, our quiet achiever has also delivered good returns with a 3% increase in asset growth in a flat market.
- Niche business banking segments grew above system and we're seeing positive early results in retirement living, hospitality and agribusiness.
- Virgin Money launched its Reward Me home loan product. At the time of our full year results, Virgin Money had received \$100 million worth of home loan applications.

I wanted to take a closer look at a few of these niche businesses. Virgin Money has been a great acquisition for us. It is a powerhouse brand that attracts a new and different customer than BOQ traditionally would. This is helping us to diversify our customer base and distribution channels. The Reward Me home loan is already in market and since our full year results announcements, we've partnered with two additional major brokers – Aussie Home Loans and Connective. We have the brand rights for the next 37 years and see lots of opportunity as we continue to evolve the product offerings underneath this brand with a deposit product to follow shortly.

Also if I could call out BOQ Specialist which continues to go from strength to strength, delivering substantial growth to the Group. This business has a dominant market share with medical professionals that it specialises in servicing. Its high asset quality continues to contribute to the overall quality of the broader portfolio. We see ongoing growth opportunities in this business, for example, we've begun partnering with a number of universities to provide transaction and credit card accounts to medical and finance students. This is in line with the BOQ Specialist approach of being a finance partner through all stages of our clients' careers.

Finally, in terms of balancing growth and margins we've also increased our emphasis on deposit gathering and see further upside in this over time as our focus on deposits extends to all business groups within BOQ. Our OMB network has been particularly successful in this regard, demonstrating the continued importance of this unique service proposition.

### *Driving productivity and efficiency*

We've also maintained our strong focus on costs.

In 2016 we kept underlying expense growth to 4%. This includes the investment in Virgin Money's mortgage product roll-out and the \$15 million efficiency investment we announced in February which is on track to deliver above its payback target.

We've also introduced a number of additional efficiency initiatives which fit within our current expense profile and will deliver important ongoing expense savings into the future.

Productivity and efficiency will remain priorities for the year ahead. We expect to keep underlying expense growth to 1% in 2017, while continuing to deliver our strategy.

### *Strengthening asset quality*

We've also continued strengthening asset quality across all portfolios, a reflection of the disciplined approach we have taken to managing risk over the past four years.

Loan impairment expense reduced 9% to \$67million or 16 basis points of total loans. An extremely good result given the transition that is continuing to occur across the economy.

Our sound risk management settings have significantly reduced our exposure to residential apartment development hotspots and mining reliant regions.

### **Outlook**

This is also an opportune time to look at what lies ahead for the Australian economy and the banking sector.

The Australian economy is performing reasonably well. GDP growth is supported by low interest rates and relatively low unemployment.

I'm optimistic about the outlook for the Queensland economy, with some positive signs emerging.

Tourism is an important contributor here in in our home state. Three out of the four fastest growing airports in Australia are Queensland tourism areas Gold Coast, Cairns and Sunshine Coast.

Queensland is also experiencing the highest net interstate migration since 2012.

In terms of the banking sector, as I have already indicated, the outlook remains subdued. The headwinds the Chairman and I have discussed all impact the sector's ability to maintain revenue growth at the level it has in the past.

However, amongst the headwinds, opportunities exist. One in particular that I wanted to address is how advances in technology are driving changes in consumer preferences and the future of banking.

Bank customers are increasingly adopting digital and mobile channels. This is changing the face of our service provision and increased investment in digital channels.

This is creating increased investment requirements and tighter turnaround time on what's now considered basic technology hygiene factors such as:

- improving our mobile apps for Virgin Money (Australia) and BOQ
- upgrading our website platform across the Group, and
- upgrading to the latest smart ATMs with touch screens.

The number of Fintech start-ups are also growing by the day, as technology creates opportunities for disruption across different parts of the value chain. We see this as an opportunity to partner with Fintechs and to accelerate our digital enablement.

### **FY17 priorities**

Looking ahead at our strategic priorities for 2017.

We'll continue to mature our multiple distribution channels by further building out accredited brokers for Virgin Money which when combined with BOQ's existing broker channels, will give us access to 75% of the broker market.

We will continue to grow the right way by optimising our deposit growth with the help of data analytics. And of course we'll continue our core strategy of focusing on niche target business segments and high margin business.

Our strong focus on managing costs will be delivered through a number of initiatives which form part of our efficiency program.

We will continue to invest in our leadership, diversity and ensuring all of our staff understand the importance of maintaining the highest ethical standards possible.

I also wanted to reiterate the Chairman's comments on ethics and business conduct. This is top of mind at BOQ across all our processes and stakeholders. We have a strong focus on how we service our customers, how we support our workforce and how we protect our shareholders value. Every decision, every action is taken through this lens.

All these priorities position us to deliver our goal of EPS outperformance over the long term.

## **Summary**

In summary, we are making good progress against our strategic objectives.

Our increased profit for the fourth consecutive year has been a good result.

The outlook for revenue growth across the industry remains subdued, but we are well positioned to operate and adapt to this new environment.

We will continue to focus on growing in higher margin segments while maintaining our risk discipline.

Managing our costs remains key to our success. This will be supported by the rollout of further efficiency initiatives.

Finally, I'd like to take this opportunity to thank the Board, my executive team and all the Group's employees whose collective efforts have made this result possible.

I'd also like to thank all of our shareholders for your ongoing support. This has enabled us to build a strong and profitable business that is positioned well for the future.

Thank you.



**Jon Sutton**  
**Managing Director & CEO**