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Chairman's Address
2017 Annual General Meeting

BOQ has again delivered a very solid set of financial results in 2017.

Management is to be congratulated on this achievement as well as for successfully navigating many of the challenges that have impacted the industry during the year.

These have included the introduction of a major banking levy, the prospect of a Royal Commission, major compliance and conduct issues, allegations of anti-money laundering breaches, multiple government enquiries, new class actions, declining system growth and several major new macro prudential policies effecting risk policies and compensation.

Despite all these industry headwinds, BOQ enjoyed success operationally, financially and strategically as we continued to embed ourselves as Australia's most loved bank. It is helpful at this time to reflect on that success including:

- Increased cash earnings for the fifth successive year to $378m which was up 5% on the prior year and included a 16% increase in second half cash earnings;
- Very strong Common Equity Tier 1 Capital ratio of 9.39%, up 39bps from 2016;
- Low loan impairment expenses of 11bps of gross loans and advances;
- Good expense control with underlying costs up only 1%;
- A 10bp increase in cash return on equity to 10.4%; and
- For our shareholders, dividends totalling 84 cents per ordinary share, including an 8c special dividend.

The market has recognised these achievements with BOQ enjoying the highest Total Shareholder Returns for 1, 3 and 5 years of any Australian listed bank with the current 2017 year's total return to shareholders, being 26.5%.

However, our goal is not just to outperform this year; it's to outperform consistently through a sustainable, long term, growth strategy that delivers superior value to our shareholders. Critical to achieving this goal is strategic optionality. To be successful over the long term, BOQ needs to embed in its operating model and business platform; an appropriate degree of optionality so that we are well-positioned for whatever challenges and opportunities may arise in an uncertain future.

Why?

Because we all know that the bank of tomorrow will be different from that of today, so as a Bank, we need to be prepared and ready to successfully pivot for whatever may eventuate. This journey, this commitment to transforming BOQ, having strategic optionality and managing for sustainable growth, is already underway.

It is predicated on ensuring that we complete the digitisation of the Bank by achieving digital parity; that we have a strong balance sheet, outstanding adaptable leaders, a strong customer-focused culture grounded on service excellence, trust, increasingly agile technology that emphasises “anywhere, anyhow, anytime banking” and that we have the right culture, the right leadership and an unambiguous understanding of the obligations and commitment necessary to continue and enhance our social license.

The criticality of culture and community trust in these circumstances can’t be under estimated and the Bank’s executive team is committed to maintaining and enhancing these foundations.

Indeed, I share many of the views of some of the major Bank Chairmen, when I observe that the domestic banking industry at present and perhaps globally, needs to win back community trust. As an industry, we need to better explain the value we bring to the community and the Australian economy and in so doing, better preserve our social license to operate. This colours our future as an industry. As a Bank, whether or not we are directly involved in any banking scandals, we are indirectly impacted by negative community perception about whether bankers can be trusted to do the right thing.

At BOQ, we are committed to changing this perception through an emphasis on ethics, full transparency, superior service and products and customer centricity. We also have now appointed our very own Customer Advocate to represent you, our customers. Her name is Tanya Aaskov and she is here today and I encourage you to meet her.

So, we are making progress on our journey to raise the level of trust in the Bank but, we still have a long way to go before we are fully satisfied.

Fortunately for BOQ, a majority of our customers and staff believe that we are different, that we do care about customers. We have also put in place a sound ethical framework to assist our people to make the right decisions. If we can leverage this and build on it, it arguably better positions us for a brighter future.

Our immediate future, of course, depends not just on our agility as a smaller bank or our customer centricity, our niche strategies, our planned digital transformation or the opportunity to successfully pivot our future strategy off a strong operating model. It also depends on the tailwinds of a solid set financials and a strong economic environment.

Certainly, our recent financial results show that we are well positioned for the future with a strong balance sheet, high capital levels, strong liquidity, experienced leadership, and outstanding asset quality and earnings momentum. But all these advantages can be dissipated in a weak economy where even the strongest struggle to swim against an ebbing tide. We are therefore heartened by the recent strong business condition survey results and comments from the RBA that they “expect GDP growth to pick up to average a bit over 3 per cent over 2018 and 2019”"[1] because a rising tide, helps lift all boats. Importantly, Queensland economic forecasts also confirm this positive outlook for the State off the back of continuing low interest rates, a strong growth in tourism, resources, housing and public expenditure.

[1] Philip Lowe, Governor, Reserve Bank of Australia, “Some Evolving Questions”, Address to the Australian Business Economists Annual Dinner, Sydney – 21 November 2017

We operate of course in a market environment that is also characterised by high household indebtedness in a low inflation environment, a rising cost of living, weak income growth, under employment and potentially higher interest rates. This combination does pose risks for the housing market if risk is not properly managed. This explains why BOQ maintains conservative serviceability and credit settings and monitors our housing exposures very closely, sometimes at the cost of asset growth. It also partly explains why the Regulator is using tougher macro prudential policies to de-risk bank exposures and better align system and income growth, so as to ensure the ongoing integrity and health of the financial system.

However, while speculation of a housing bubble or even a housing collapse in these circumstances continues, BOQ takes some comfort from moderating east coast housing prices and risk conditions especially in Sydney and sees no evidence of any systemic weakness in its housing portfolio or substantive increases in its mortgage arrears. With a loan impairment expense ratio of 11bp across the portfolio and impaired assets of only $192m, our risk portfolio would appear to be conservatively positioned.

These key risk metrics are outstanding results by anyone's reckoning and reflect the Bank's robust risk culture, diversified portfolio and disciplined approach to risk management. However as I said last year, we do remain wary of conditions in the residential apartment market, especially in Brisbane, where the RBA[2] is warning that this financial year is "crunch time" given the oversupply, low rental increases, tightening credit conditions and ongoing targeted macro prudential regulations.

Before I hand back to Jon, I wanted to make several other brief comments as to the Bank's health and strategic ambitions. One is about increased regulatory engagement and governance; two is about technology, three about customers and people, the engine room of BOQ's future growth ambitions, fourth is about remuneration and the final one about the continuing need for a level playing field in the Australian banking market.

Perhaps if I could start with the last point, the level playing field, and emphasise that at present, BOQ is competing against the majors with its hands tied in what all the regional banks believe is an uneven competitive landscape. As per our recent submission to the Productivity Commission, we believe this must change, that further policy reform is needed to not only reduce the artificial funding cost advantages enjoyed by the major banks but also, to address the significant gap that still exists between the capital requirements and risk weights of the major banks and standardised banks. Only then, will we have a level playing field where our customers and shareholders will benefit. We need, in popular parlance "a fair go", and therefore welcome the comments from the ACCC that going forward, competition in the banking sector will be a matter of stronger interest.

Secondly on remuneration, the continual focus on remuneration levels in the banking industry, especially in the wake of considerable conduct issues and questions regarding the legitimacy of the industry's social contract, means industry reward schemes are increasingly now under the spotlight. BOQ is now in the process of responding to the Banking Executive Accountability Regime, also known as "BEAR", the ASIC and Sedgwick reviews and a host of other regulatory actions.

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[2] Luci Ellis, Assistant Governor (Economic), Q&A response at the Australian Business Economists (ABE) Lunchtime Briefing, Sydney – 20 September 2017

Assisting us in this compliance task, is our robust and arguably dynamic remuneration policies which we continually adapt to reflect community attitudes and which have received good support from proxy advisors and investors. I believe that is because we listen. Our robust compensation policies clearly emphasise the link between returns to shareholders and employees, paying for performance and clear benchmarking. Under this model, if the Bank does well, then so too will our employees and vice versa. It's a fair and well accepted remuneration framework and it works with total shareholder returns this year of 26.5%.

In terms of technology and having an operating platform that is fit for purpose, I don't need to lecture you all on the increasing digitisation, disruption and change that is occurring in the financial markets. It is substantial, rapid and seemingly has no end and, there is no obvious playbook for success! We therefore need to be positioned to not only protect BOQ from these disruptive changes and therefore protect our franchise but, as an agile, challenger bank, we also need to be able to take prompt advantage of changes so as to better serve our growth prospects and achieve sustainable growth.

Pleasingly, the Bank's path to digital parity is under way, not only in our IT infrastructure, application architecture and core banking system but in the back office and at the customer front end. Certainly, the use of robotics, data analytics and artificial intelligence is increasing, straight through processing via our mortgage hub is well advanced, whilst at the customer front end, we are making numerous improvements. The time to yes has also shortened dramatically from weeks to days, new, easy to navigate, mobile-friendly and award-winning websites at Virgin Money, BOQ Specialist and soon across the whole bank, have been introduced with a positive response. In addition, Samsung Pay has recently become available; we have substantially upgraded our ATM network and have also entered into a unique partnership for SMEs with Square Australia, a US Fintech and digital money company.

Fourth, a few words on regulation, especially the increased macro prudential supervision of investor and interest only loans and the new Banking Executive Accountability Regime (also known as "BEAR"), which promises to substantially change the way all Australian banks are managed and operate and I haven't even got around to the other 15 to 20 existing Government inquiries into the industry. While some are undoubtedly directed to improving much needed trust and accountability in the sector, the cost and inequity of treating all Banks the same and heavily penalizing the smaller Banks for the disproportionate cost of compliance with Government inquiries, is often overlooked, despite the fact that the ultimate cost is paid by our customers or shareholders. The cost versus benefits of these reviews needs to be more closely reviewed to ensure pragmatic and meaningful outcomes that are in the interests of all stakeholders.

Finally on customers; if we are to secure a robust future for BOQ, valued partnerships with our customers are critical. Our recent digitisation initiatives, new service standards and OMB balanced scorecards, our improved times to yes, our new ICON branches and ATMs, all evidence that our desire to do better, to differentiate and to substantially improve our service and product offerings. The results of all these endeavours are reflected in our top 3 ranked Net Promoter Scores which provide further proof that our journey to becoming the premier, customer centric Bank is well under way. This is what we call customer capital and as with financial capital, customer capital needs to be diligently managed, grown and successfully propagated as a key platform of our growth platform.

In summary, 2017 has been a challenging year for all banks, however BOQ can hold its head high with increased profits for the fifth year running, continued momentum against its niche business strategic objectives especially at Virgin Money, BOQ Specialist and BOQ Finance, robust risk management practices and a sector leading total shareholder return of 26.5%.

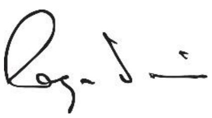
Yes, the outlook for revenue growth across the industry remains subdued as the regulator attempts to reduce system growth to the levels of earnings growth, but regardless, we believe we have the optionality, right strategy, people and balance sheet to continue to provide opportunities for growth.

Finally, in closing I would like to express my thanks to all our wonderful people, whose work is critical because ultimately despite all the digitisation and technology, people do business with people and we must never lose sight of that.

Thanks also to my Board colleagues for their hard work and support and of course to you our shareholders for all your patience and loyalty during the past year. It has been greatly appreciated.

Ladies and gentlemen thank you.

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



Roger Davis
Chairman