

Thursday, 1 June 2023

**Chairman's letter to shareholders**

Dear Shareholder

I am taking this opportunity to write to you following my recent appointment as Chair.

**Enforceable Undertakings**

As previously disclosed, internal and external reviews led to identification of deficiencies in BOQ's operational resilience, risk culture and governance. BOQ's engagement with APRA and AUSTRAC in this regard resulted in BOQ entering into a voluntary undertaking with each regulator.

BOQ will use the commitments entered into as a platform to continue the work commenced under the Integrated Risk Program. BOQ has already made good progress in strengthening its financial resilience and holds strong capital and liquidity buffers.

**2023 Half Year Results**

BOQ's cash earnings after tax for the half were \$256 million. Statutory profit after tax of \$4 million was impacted by two one off non-cash items, being a \$60 million provision for an Integrated Risk Program and a \$200 million impairment of goodwill.

As we discussed at the 2022 AGM in December, we recognise the Bank has work to do in uplifting our financial and operational resilience. Pleasingly, following the transition of Patrick Allaway to Chief Executive Officer and Managing Director and the shift in focus on strengthening the Bank, we have a strong capital and liquidity position, with CET1 of 10.71% as of 28 February.

Our Integrated Risk Program is aimed at addressing the operational resilience uplift and improvement in our risk culture across the Bank. This is a well scoped, multi-year program, focussing on building strong foundations while we continue to transform BOQ. We will continue to report to shareholders on the progress of the Program.

While the mortgage market was highly competitive over this time, we were focussed on protecting shareholder value and did not actively participate in a market where mortgages were being written below the cost of capital. Accordingly, our mortgage growth was relatively flat for this period. However, our SME business growth in our target segments was above system, providing 19% income growth against the prior comparative period and with a cost-to-income ratio of 40.2% in the Business Bank. We have been careful in deploying our capital to these areas of our business which have favourable returns.

BOQ maintains the balance between attractive returns to our shareholders with the capital required to continue with our material transformation while strengthening and simplifying the business. We declared an interim dividend of 20 cents per share for the period, representing a 61% payout after the one-off provision for the risk program is included.



## Operating Environment

There are a number of challenges in the current operating environment for both the Bank and for our customers. For example, we are experiencing a period of sustained high inflation combined with increased interest rates. This reduces borrowing capacity and puts pressure on households. With softer property prices it also reduces the size of the mortgage market, intensifying competition. There is pressure across the industry on net interest margins as wholesale funding markets have faced periods of uncertainty and increased competition with the sector's replacement of Term Funding Facilities. There is greater pressure on deposit competition as an attractive source of funding as a result.

In saying this, the Australian economy is resilient, supported by low unemployment and strong terms of trade. We deliberately reduced lending with high loan to variable ratios and high debt to income ratios over the last two and a half years. We are aware some of our customers will experience some financial difficulty and we will support them through this, yet the portfolio is well placed coming into this period of slowing economic growth.

## Digitising BOQ

We have made significant progress against our digitisation strategy and have a proven team in place with a clear set of capabilities delivering on this. Confident in our strategy, we have accelerated the ME Bank digitisation, with the build-out and migration of deposit customers on this platform and are well progressed in building a low-cost, scalable national brand and operating model.

## Simplifying BOQ

Over time, BOQ has grown and acquired other businesses. Our operating model is complex. At this point in our transformation, it is appropriate for us to reflect on what is most critical to success in this next phase. I have spoken of our need to strengthen while we digitise, and our Integrated Risk Program will deliver on this. Our digitisation will allow us to decommission legacy systems and achieve a material reduction in operating costs, but we recognise that we can't wait for this to occur, we have seen increasing costs due to our complex structure and duplication in processes. Accordingly, we are part-way through detailing a simplification program which will offset the increase in our costs while we continue to invest in the transformation of the Bank. We look forward to providing you with further detail on this in the second half of financial year 2023.

## Optimising BOQ

We acknowledge the current industry headwinds and the ongoing investment in our business requires a medium-term view of benefits to shareholders and we thank you for your patience. We understand the share price has been disappointing and we are confident that in undertaking these integrated programs, BOQ will emerge a stronger, simpler, digital Bank, which will be in a position to grow at scale with a low-cost base and provide sustainable returns to our shareholders.

## Building a sustainable business

We recognise that our customers and our people are key to our success. We are strengthening our risk culture and building a future fit organisation our people can continue to be proud to be part of. Further, we are actively engaged with our communities through partnerships such as Mother's Day Classic, Orange Sky and Clontarf along with our owner-managers deeply embedded in their local communities.



The decarbonisation of Australia is vital and we have a significant role to play, we are committed to our environmental targets with 100% of our energy to be sourced from renewables by 2025 and reducing our carbon footprint by 90% for scope 1 and 2 emissions and 40% for scope 3 by FY30<sup>11</sup>.

### **Board composition**

As you know, Patrick Allaway moved into the role of Executive Chairman in November 2022 and was then appointed as Chief Executive Officer and Managing Director on 27 March 2023 with a commitment up to December 2024. This appointment provides stability and continuity, enabling the management team to focus on delivery of strengthening, simplifying, digitising and optimising BOQ.

It was a great privilege to be elected Chairman of BOQ, and together with the Board, I am looking forward to supporting Patrick and the executive team in the coming years as they continue to transform BOQ to provide a world class experience for our customers and our bankers.

Thank you to our customers, our people and our shareholders for their ongoing support of BOQ.

Yours faithfully,



Warwick Negus  
Chairman

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<sup>1</sup> Compared to a 2020 baseline. Scope 3 refers to organisational supply chain emissions.

