

## Chairman's report

---

In my time on the BOQ Board, which has spanned 15 years, the last three years have undoubtedly been the most challenging. The difficult economic conditions and natural disasters in 2011 have impacted materially on our profit and share price.

The European sovereign debt issues have created a crisis of confidence as investors and consumers across the globe anticipate how governments will manage their enormous levels of debt and prevent recession in many advanced economies.

At the time of writing this report, Greece was on the brink of defaulting on its sovereign debt obligations and analysts were trying to predict how this event would affect other economically weak, debt-laden countries, such as Ireland, Portugal, Spain and Italy.

The United States too, has its debt problems and has lost significant financial backing from China and Japan, being respectively the first and second largest foreign holders of US Treasury bonds. China has stated that they see the US as a growing credit risk and Japan is understandably focusing its investment on internal reconstruction efforts following their earthquake and tsunami.

Australia has little direct exposure to the countries most at risk, but a slowdown in Europe or the US would certainly affect the world's emerging economic leader, China, which would in turn have consequences for Australia, most notably through weakened demand for our natural resources. The International Monetary Fund has estimated global growth will weaken in 2012, making this a credible risk.



**Neil Summerson**  
Chairman

While domestic conditions are much better than overseas, consumers are acting with caution and this can be seen through higher rates of savings, which have been of benefit to the banking sector, but detrimental to the retail and property markets.

Our banking sector has not been immune from the consequences of these difficult times, with many customers seeking hardship relief and higher levels of mortgage default which historically have been negligible for our Bank. A portion of this can be attributed to the dreadful one-off natural disasters in Queensland at the start of 2011.

### Profit

While natural disasters are outside our control, the business aspects that the Bank can control have gone well and are tracking to plan. BOQ was able to announce a normalised net profit after tax of \$176.6 million for the full year to 31 August 2011 and importantly an 18% increase of underlying profit when compared to the prior corresponding period.

This result was lower than what the Bank wanted to achieve, mainly due to the increase in bad debts to \$201 million as a result of a combination of large property exposures, the current economic conditions, and the extreme weather events.

Assisting the Bank to achieve this profit were continued cost disciplines and positive contributions from recent acquisitions, namely St Andrew's Insurance and vendor finance organisation CIT, which has now been rebranded to BOQ Finance to incorporate both Equipment Finance and Debtor Finance.

### Leadership

The Board appointed Mr Stuart Grimshaw as the Bank's new Managing Director and CEO in November 2011, to succeed Mr David Liddy. Mr Grimshaw has worked across all facets of the banking and finance industry, including most recently as CEO of Caledonia Investments, which manages approximately \$2 billion for retail investors.

With his diverse background and impressive track record, the Board has every confidence that Stuart has the skills and experience the Bank needs to lead it into the next phase of its strategic growth.

The Board would like to thank Mr Liddy for more than ten years of exceptional leadership. Mr Liddy has effected a massive cultural change at BOQ, transforming a small regional bank into a true challenger brand, with a culture of innovation, integrity, passion, teamwork and achievement. He has been a true leader in every sense of the word, which was particularly crucial during the Global Financial Crisis and the Board would like to sincerely wish him all the best going forward.

### Future

It is still too premature to determine what will happen to the worldwide financial markets overseas and what the outcome will be for Australia, although it is believed that the Australian economy will be strong enough to withstand a crisis. This is primarily due to Australia's sound financial sector.

BOQ has a clear strategy to grow and our new team leader will make it happen. While the share price is disappointing at present it does reflect circumstances and events primarily outside our control and these will reverse as economic conditions improve. Western Australia and Queensland are the two states where economic activity will boom in the years ahead. With 71 per cent of our business in these two states, BOQ is in a unique position to capitalise on this opportunity.

BOQ is a strong, dynamic organisation, with a 137-year history of enduring and prospering through many economic cycles. I am confident that the Board and management will continue to grow our company, and shareholder value.

On behalf of your Board, I thank all shareholders for your loyalty and support.