



ASX RELEASE

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Acting CEO's address 2014 Annual General Meeting

Thank you Roger.

I've been part of this management team for over two and a half years now and I am personally very proud of what we have achieved in that time.

As Roger mentioned in his speech, we have significantly strengthened the organisation's business fundamentals and have addressed, or are well advanced in addressing, the legacy challenges faced by BOQ.

Clear strategy being delivered

Our clear, simple strategy has been established and we have a talented management team in place. We are now all focused on delivering a comprehensive transformation program and there is a detailed roadmap in place to do this.

Our four pillar strategy is designed to help us achieve our dream of creating Australia's most loved bank.

The first pillar involves opening more doors to more customers by putting the customer in charge and making it easier for them to interact with us in the way they choose.

A good example here is our entry into the mortgage broker market, where we expect to have around 2,500 accredited brokers nationally by the end of this financial year. We are also looking at new branch designs, our digital and mobile phone offerings, and other ways to make things easier for our customers.

The second pillar focuses on balancing risk and return, or growing the right way – for example, through our Business Bank diversification.

We take a disciplined approach to pricing for risk and seek to provide a whole of banking service proposition which covers transaction banking, leasing and foreign exchange. BOQ Specialist gives us additional distribution and diversification capability and will provide another important growth dimension to our organisation.

The third pillar involves becoming more operationally efficient, or finding that there's always a better way.

We're investing in projects such as the digitisation of our back office to take paper out, speed up the 'time to yes', and give customers a better experience.

The delivery of our new lending platform will be one of the biggest transformation programs we have ever undertaken.

The first phase is underway with a new records management system now in place, and the lending platform scheduled to pilot from April 2015. Productivity and efficiency benefits are expected to start flowing through from the 2016 financial year.

The final pillar involves having the right people, capability and culture to ensure success, or being loved like no other – which is evident in our strong ongoing customer satisfaction measures.

In terms of retail customer satisfaction, our Net Promoter Score remains well ahead of the major banks. Looking at high advocates – those who score us between 8 and 10/10 – we achieved the largest annual improvement of the major and regional Australian banks.

In our Business Bank, we continue to outperform our peers in customer satisfaction surveys. We have led the pack in East & Partners' Business Banking Index for six years running and recently achieved a record high.

What you see today is a bank that has come a long way in a short time.

This management team is very aware that there is still more to do but we have solid foundations in place. We are now well into building a bank that is lower risk, lower volatility, and set up for a strong and sustainable future.

Importantly, this solid base also gives us the future strategic flexibility and optionality that we need, to thrive in the rapidly changing financial services marketplace we operate in.

FY14 performance snapshot

I mentioned that we are starting to make real progress in delivering our strategy, and our 2014 results demonstrate this.

By all key measures, it was a strong and successful year for BOQ. Our statutory profit was up 40% to \$260.5m while after tax cash earnings were up 20% to \$301.2 million. Both of these were record results.

Earnings per share rose a healthy 15% to 89.5 cents a share and full year dividends were up 14% to 66 cents per share.

We proactively managed both sides of the balance sheet and increased our net interest margin to 1.82%. This was a strong result in a very competitive market.

Our cost-to-income ratio continued to improve, falling another 40 basis points to 43.9%.

2014 highlights

Turning to our 2014 highlights, our share price performance was strong and we again outperformed on a total shareholder return basis. BOQ returned 39% compared to 18% for the financials index.

Our disciplined approach to lending continued in a low credit growth environment, characterised by intense competition in mortgages, and growing competition in business lending. We're simply not prepared to compromise credit quality or join the race to the bottom on pricing, particularly when competing against major banks with significant capital advantages.

While this impacted our retail asset growth in particular, we managed the levers we can control to deliver strong underlying results. This was evident, as I've mentioned, in areas such as our net interest margin.

Another key take-out from last year's result was the quality and strength of the balance sheet. This reflects the significant work we've done to embed risk management culture and process over the past two and a half years.

We continued to invest in growth by strengthening frontline resources in Retail and Business Banking. This enabled us to open new distribution channels, and pursue productivity and efficiency improvements such as back office digitisation.

We're all looking forward to leaving 1980s technology behind when we can finally stop relying so heavily on fax machines and Australia Post to move our paper around for us.

Finally, I'd like to call out BOQ Specialist, which is the former Professional Finance business we acquired from Investec Australia earlier in the year.

Together with the asset finance business which we also acquired, BOQ Specialist is a natural fit with our strategy to grow the right way. The transaction is a great example of how a disciplined approach to acquisitions can enhance an existing organic strategy.

BOQ Specialist provides finance to medical and healthcare practitioners, as well as finance professionals such as accountants. These are high growth industry segments delivering high margins and low impairment expenses, which provide us with additional diversity in terms of industry and geography.

BOQ Specialist originates around a billion dollars of mortgages a year, currently funded by third parties. We're expecting to fund around 50 per cent of these originations via our balance sheet within a year or so, which will assist us with our growth in mortgages.

Levelling the playing field

Now I'd like to turn to what has been a very topical issue throughout 2014 – the Financial System Inquiry, chaired by David Murray.

As you may be aware, we have been working closely with the other regional banks to respond to the Inquiry and seek changes that level the playing field in Australian banking.

One of the key areas of concern for the regional banks is the regulatory mortgage risk weighting regime, which is completely inequitable. This requires smaller banks to hold significantly larger amounts of capital against housing loans compared to our major bank peers.

What this means is if you or I walked into a major bank branch and asked for a home loan, they would have to put aside on average around \$1.50 for every \$100 they lend. If BOQ lent you the same \$100, we would have to set aside more than double that amount for the same customer, with the same risk profile, purchasing exactly the same property.

Clearly this gives the major banks huge advantages over the rest of the market.

The arguments we've made to the Inquiry do appear to have gained some traction. Recent commentary from domestic and international regulators suggests the internal ratings models being used by Advanced banks are not reliable and certainly not comparable across banks.

As the chart on this slide shows, internal ratings in use at the major banks since the introduction of Basel II in 2008 have resulted in a significant increase in the proportion of lending being allocated to housing. This is hardly surprising when you hear about just how much the major banks have been able to reduce their risk weightings and leverage their capital.

We are supportive of any changes that provide better transparency on the risk weightings being applied under Advanced models, including limiting the amount that Advanced banks can deviate from the standardised approach.

This would help level the playing field and reduce the large capital disparities that currently distort the Australian market.

While it is pleasing that both the Inquiry and global regulators appear to understand these important issues, we are concerned that the timeframes to implement any regulatory changes could be some years away.

We would like to see action taken quickly to address this issue, before the dominance of the Big Four is further entrenched. If that happens, Australian consumers will ultimately be the losers.

I am passionate about the role that regional banks such as BOQ play and the importance of offering customers an alternative to the major banks.

While we will always find ways to compete and differentiate ourselves, we deserve the opportunity to do this on a more even playing field. Regardless of what measures the Government decides to implement, we hope this is a key achievement of the Inquiry process.

2015 outlook

In summary, the 2014 financial year was a good one for BOQ, with record profits and healthy shareholder returns.

I am pleased to be able to report that the 2015 financial year has also started well. We are seeing encouraging signs of asset growth despite continued fierce competition across most market segments.

While it's still very early days, and all of us understand there is still much to do, we are heading in the right direction.

The Business Bank is growing in line with our expectations, with much of the new business being generated outside of Queensland.

Its performance is a real testament to the effectiveness of our relationship-based approach which appeals to small and medium sized businesses in particular. Credit should also go to our team of experienced bankers which now has a real presence in the eastern States and Western Australia.

The Retail Bank is improving performance off the back of some highly focused activity from our Spring Lending Campaign, although it still faces headwinds such as the line of credit product run-off.

In October, retail housing approvals were up by over 20% from September. The increased activity generated from the lending campaign is likely to drive higher settlements and lending growth in coming months.

All distribution channels are building momentum and the continued strong performance of the broker network remains a highlight.

At the end of August, 14% of mortgage applications came from brokers. By last week, that figure had risen to 20%. This time last year, the figure was 3%.

In Queensland, where we have just started working with mortgage brokers and our brand is strongest, we accredited more than 300 brokers in our first month. To give you an idea of our progress, it took around six months to reach this number of brokers following our WA launch.

Given around 43% of all Australian mortgages now come from brokers, we are excited about the potential for growth in this channel as our capability matures.

Over the remainder of this year, we will continue to expand our distribution channels, including unlocking the potential of our branch network. A full year contribution from BOQ Specialist, which is performing in line with our expectations, will also assist growth.

I can't overemphasise the importance of digitising our lending processes. The new retail lending system will, in time, provide significant benefits to customers and improve our ability to compete and grow.

What we won't do, however, is chase growth for growth's sake or be tempted to move higher up the risk curve.

We remain committed to managing costs as tightly as we can, recognising there is a lag between investment in our transformation program, and the productivity and efficiency benefits we expect over time.


In terms of business conditions, we expect this financial year to be similar to the last. We remain well placed to capitalise on any improvement to the Queensland economy, which will benefit if falls in the Australian dollar can be sustained.

In summary, we remain confident in BOQ's future. Subject to macro conditions, we expect sustainable growth in earnings and dividends to continue.

I would like to express my appreciation to the Board, my colleagues and all BOQ people for their efforts over the past year. Your hard work was crucial to the company's strong performance over the last 12 months.

I would also like to acknowledge Stuart Grimshaw, who has been a friend and colleague for many years. His contribution at BOQ was significant and will be remembered by all of us who worked alongside him. We wish Stuart the best in his new role in the United States.

Finally, I would also like to thank shareholders for their ongoing support.



Jon Sutton
Acting Chief Executive Officer