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Chairman's address
2013 Annual General Meeting

It is my privilege to address you this morning about the Bank's financial and operational performance in the 2013 financial year, as well as provide some insights into what we're seeing from a macroeconomic perspective and how this is impacting us all at BOQ.

I'll then pass over to our Managing Director and CEO, Stuart Grimshaw, to discuss the Bank's results and strategy in more detail.

Introduction

Before starting the business of the meeting, I thought it would be worthwhile to give you some background about who I am. I have served on the Board now for over five years and, along with Carmel Gray, I am one of the Bank's longest serving Directors.

I believe I know how the place works, although I have seen a lot of change since I joined the Board and more than our fair share of challenges. Pleasingly the Bank has worked its way through these and is now in a very strong position. I believe I am well prepared to help move it further forward.

Although I am a Sydneysider by birth and education, I have strong ties to Queensland having lived in Brisbane for many years in the early 1980s and indeed only sold my home here at the start of the new millennium. I played rugby for the University of Queensland and despite my obvious Waratah heritage, I was also in the Queensland Reds squad with my old national coach Bob Templeton.

Career-wise, I am a long-term banker having spent over 30 years working in banks and financial institutions in Australia, Japan and the US. I sit on a number of publicly listed boards and work for the international investment bank, Rothschild.

Today it's my honour to Chair the Bank and to ensure that shareholders, staff and customers continue to benefit from our unique heritage, our national network, our growth culture and our personal touch as we seek to continue to generate profitable growth.

FY13 performance

The financial results for the year end 31 August 2013 showed that by any measure of bank health – be it liquidity, asset quality, earnings, dividends, capital or management – BOQ is strongly positioned and at the top end of its peer group.

Cash earnings for the Bank for the year just past increased to a record $250.9 million, up from $30.6 million in the prior year as bad debts declined significantly, while statutory net profit rose to $185.8 million from last year's $17.1 million loss.

Just as importantly, underlying cash profit, which nets out the impact of loan impairment expenses, was also up a strong 8% year on year demonstrating our ongoing capacity for growth in a low-growth, highly competitive market.

Shareholders also benefited from tighter expense management and ongoing productivity improvements. Our strong financial performance and ongoing confidence in BOQ's future prospects allowed us to increase the final dividend to 30 cents per share fully franked, taking the full year dividend to 58 cents per share, a 12% increase on last year's dividend of 52 cents.

Importantly, our strategy, financial strength and business performance were also validated by the decision of ratings agency Standard and Poor's in September to upgrade our long-term credit rating to 'A-'. This is the highest credit rating the Bank has ever held and should not only increase the range of funding opportunities available to us but, over time, help lower our cost of funding.

Yes, it was a good year across the board for the Bank and management are to be congratulated on this performance.

Not surprisingly, the market is also pleased with our balance sheet strength and momentum and has endorsed our performance with the result that BOQ is arguably the best performing Australian bank over the last 12 months with a sector beating share price increase of 77% since 26 November 2012.

In dollar terms, what this has meant for shareholders is that, since this time last year, the value of your Bank has increased by $1.8 billion to around $4 billion which now positions it within the top 60 on the ASX Top 100 list. The total return both by way of dividends and capital appreciation has been over 85% in the same time frame.

Macroeconomic environment

Past performance of course is no guarantee of future performance. While we are pleased with the 2013 result, we also recognise the challenges the year ahead will bring with slowing economic growth, continued margin pressure especially from the asset side of the balance sheet, rising regulatory imposts, continued weakness in non-mining sectors of the economy, frustratingly high foreign exchange levels and, of course, continued global growth concerns.

Certainly there are pluses with the national economy at present with record low interest rates, increasing business and retail confidence, surprisingly strong employment, solid wealth gains with the stock market up 21% year on year and the housing market improving. Throw in improving business and retail confidence, green shoots in Europe, and a slowly strengthening US economy and there is also room for optimism.

Our sense is that the year ahead will be not dissimilar to the one we've just had and that a broad-based recovery is still up to 12 months away and dependent on a number of factors, especially any depreciation in the current value of the Aussie dollar.

In such an environment, no company can afford to rely on a rising tide to lift all boats and hope the economy turns quickly. Instead, we have chosen at BOQ to look after our own destiny by emphasising returns over volumes, ongoing productivity improvements, good risk discipline and the need to be more customer-centric in everything we do.

Only then can we build a truly differentiated offering that allows us to generate profitable growth in a slow/no growth market, as business and consumers continue to be cautious due to uncertainty about the future.

BOQ strategy

While I've outlined some of the challenges facing the market, let me be very clear that at BOQ we believe the cup is half full as distinct from being half empty in terms of our prospects. Our role as a Board is to assist management negotiate these economic shoals and to continue to create growth opportunities for the Bank.

Our financial strength and the optionality that it provides as a consequence, makes this an easier task although in today's volatile world growth is still challenging…. for all of us. The key question is - how do you grow when the global market remains frustratingly slow?

As a challenger brand to the major banks, we understand that dilemma and believe that you can only grow through access to new markets, new client bases, new geographies or improved productivity.

The latter clearly drives net margin, but access to new markets, client bases and geographies is easier said than done. Clearly we won't be leaving Australia to search for new hunting grounds but, over the last few years, we have spread our wings and can now legitimately call ourselves a national bank; a bank who acts locally but thinks nationally. This provides a solid foundation for future growth.

Another platform for growth is our focus on new customers which can be acquired either through organic growth and ongoing service and product enhancements, or by acquisition.

The 2013 year saw us use the latter option to access new customer markets by acquiring Virgin Money Australia. This was a relatively small acquisition of some 185,000 customers but one that provides us with a critical foothold in the youth and metro market with its unique brand name, market segmentation strategies and digital skills which would be hard to access through our traditional branch structure.

Similarly our initiatives in business banking, agri-lending and our enhanced focus on SMEs also provide existing new higher margin/higher return client opportunities. Stuart and his team are well aware of the prize to be earned from these new business segments if we execute successfully, as well as the potential risks.

We are, as you would expect, moving cautiously. The old adage that "all that glistens is not gold" will certainly not be forgotten so while we perceive business banking, SME and agribusiness to be potentially attractive segments, any growth strategies here will be underpinned by strong risk platforms, innovative products, quality services, robust operating models, better technology and multiple distribution channels that enable us to be smarter, and more agile than the competition.

Our new branding 'It's possible to love a bank' encapsulates these messages, redefines the inherent "promise" that a bank makes to its client base and hopefully differentiates us in no uncertain terms from our competition.

We believe it is possible to love a bank, a bank that is personal, responsive, approachable and of high integrity. We believe BOQ is such a bank and will be able to grow and prosper as our client base grows and prospers.

Part of that approach is our commitment to giving back to the community. This year we continued to work with our long-standing partners, particularly those that assist young people and their families.

For the tenth consecutive year, we ran our national Banking on our Kids appeal to raise money for Children's Hospital Foundations Australia – a partnership of five of Australia's major children's hospital foundations in Sydney, Melbourne, Brisbane, Perth and Adelaide.

We thank those shareholders who also supported this worthy charity by choosing to invest their dividends through our Investing in Hope program. Together these initiatives raised over $210,000 which will be used to fund vital equipment and research at the Foundation's five partner children's hospitals.

We are involved in a range of other partnerships including one with The Smith Family to help disadvantaged school students realise their potential through education. Our branches are also collecting for The Smith Family's annual Toy and Book Appeal.

To support our growth initiatives, we must of course have in place the right strategy, culture, governance structure, leadership team, risk platforms and risk culture.

In terms of strategy, the Bank has identified four key strategic growth pillars that support the direction we are taking to secure balanced and profitable growth. In 2013 we made great progress across all of these areas and Stuart will talk in more detail about what we have done.

I would, however, like to briefly mention the Bank's notable achievements in the areas of leadership and improving risk frameworks.

The Bank now has its top leadership team firmly in place. Seasoned, professional, energised, passionate and knowledgeable, they are all committed to delivering superior returns for the Bank's shareholders.

Considering that all of Stuart's Group Executives are new to the Bank over the last 18 months and are nearing their first full year together as a management team, the results the Bank has delivered over that time are a testimony to their skills. Indeed as proud shareholders, we should all acknowledge what they have done in 2013 in terms of de-risking the Bank and improving shareholder returns.

The challenge now is to further support and develop the team across the Bank and into middle management and below. People do business with people and naturally seek out the best to deal with. We are committed to delivering on this cornerstone of our growth strategy.

Finally, a few words on risk and the Bank's refreshed commitment to building and maintaining a strong risk culture.

Risk is one of the four fundamental growth pillars of the Bank today and like the brakes on a car, clearly determines the speed at which we should grow. Again substantial progress has been made during 2013 on our risk platform and the improved risk metrics clearly show this improvement especially in terms of the reduction of impaired assets, total provisioning and loan loss expense.

These are important improvements in the health of the Bank's balance sheet and come at a time when we grew pre-provisioning operating profits by 8% in FY13.

Clearly it is possible in times of slower growth to not only grow but, to have the right risk disciplines; to be able to ensure that we are writing business that doesn't just grow the top line but is profitable through the cycle; to have the courage to say no; and to be capable of ensuring that any credit issues that do arise, are identified early so they can be dealt with appropriately, quickly and at minimum cost because in banking, speed is everything.

Improved metrics of course only tell half the story of the work done in Risk during the year. There have also been substantial improvements in process as well as portfolio management with housing arrears being reduced substantially due to improved collection practices, better resourcing, earlier identification and active management of problem accounts.

New centralised credit approval processes, balanced scorecards in the branches, tighter approval limits and improved skill levels are also important factors in this improvement.

Conclusion

In reviewing 2013, change however has not only occurred in strategy, risk, and executive leadership across the Bank. Change has also occurred at Board level.

The last 12 months have seen us say adieu to our long standing Chairman Neil Summerson who retired after 5 years as Chair and 17 years on the Board.

Neil has been a tremendous servant to the shareholders of BOQ. I've enjoyed working with him and would like to thank him personally for his contribution, as well as on behalf of shareholders – thank you Neil and we wish you all the best for life after BOQ.

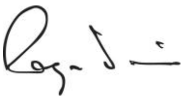
We also said farewell to another long-serving director, John Reynolds, and welcomed Neil Berkett who stands for election as a director today. Neil joins us from Virgin Media in the UK and brings strong digital communication skills, management skills and a background in banking. We welcome him to the Board.

As I look back on the results of 2013 all of these activities and the results that flow from them please me and should please you all. While there's no doubt that the external environment is mixed, we mustn't just hope for the best. We must ensure we are ready, willing and able to address the challenges that may come along as well.

Certainly we are getting the fundamentals right and thus positioning for performance and preparing for growth. The market likes what we have done…thus far…but we know we mustn't take our eye off the ball because it is a brutal judge of performance.

We acknowledge that we still have a ways to go but our management team, business model, product offering, IT, culture, risk management platform, client management skills, capital, liquidity and all the other enablers of good performance are increasingly in place and should enable us to get our mojo back as the best performing challenger bank to the Big 4.

I'll now hand over to Stuart who will provide an update on the Bank's activities in more detail and again, my thanks to all of you for making the time to join with us today. It is greatly appreciated.



Roger Davis
Chairman