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Chairman's Address
2015 Annual General Meeting

Ladies and gentlemen, good morning.

My name is Roger Davis and I am delighted to formally welcome you to the 141st AGM of the Bank of Queensland.

This is a seminal event in our yearly calendar as it provides you, the shareholders, with a unique opportunity to hear direct from the Board and management about the past year's results.

It also enables me, as Chair, to enjoy one of the unique prerogatives of the position, namely to provide the Chairman's review of the Bank's performance from the balcony so to speak and, in so doing, take a high level view of our results, our challenges and our opportunities.

Our relatively small scale, compared to the major Banks at least, is the great enabler in this regard as it fosters agility, a client-focused culture, speed to adapt and an ability to quickly capitalise on opportunities in a rapidly changing financial services market. We should celebrate these advantages as they support shareholder growth.

Strong performance

In reviewing the year just ended, I am pleased to say that on all accounts, BOQ's 2015 scorecard was very encouraging, despite tough external operating conditions affecting all banks.

I sincerely hope you are all pleased with the progress made especially in relation to your Bank's financial health, market positioning and return to shareholders. Consider the results.

Starting with shareholder returns first, BOQ recorded total shareholder returns of 6.3 per cent during its financial year, the highest return of any listed Australian bank during this period whilst the all-important full year dividend was up 12 per cent on the prior year to 74 cents.

During the year, Net Profit after Tax and Pre-Provision Operating Profit also increased by 19 per cent and 12 per cent to $357 million and $587 million respectively largely driven by increased revenue, an improved asset book and a continued focus on costs.

Finally, the Bank also benefited during 2015 from improved internal capital generation, a robust core Tier 1 capital level of 8.91 per cent, strong liquidity, healthy earnings per share growth and, of course, first class management, ably led by our new CEO, Jon Sutton.

These are all critical measures of success for a bank and I hope you are pleased with the platform they have created for future growth.

2015 of course, has not been an easy year for banking generally given intense competition, especially in mortgages.

In addition, the market was handicapped by minimal economic growth; an evolving regulatory environment with increased demands for higher capital levels; lower system growth (which was down from the mid-teens some years ago to high single digit levels); increased macro prudential regulation; and rapid changes in technology bringing new market entrants and new challenging business models.

While this may be a particularly subdued assessment of our banking environment, it does however provide valuable context for the Bank's excellent 2015 results and highlights how well the management team has performed.

Managing growth: challenges and opportunities

In reviewing these results, it is critical to appreciate that we are now at that point in the Bank's development where we are seeking to move from managing for performance to managing for growth so our challenges are subtly changing.

Whilst I am confident that we have the foundations and all of the necessary resources required to make this successful transition, the road ahead does have its issues.

Certainly at a macroeconomic level, the underlying uncertainty in our economy, its volatility and below trend growth is unlikely to disappear any time soon.

We are transitioning from a resources-led economy to one predicated on services, residential construction and manufacturing and this transition, albeit softened by the falling Australian dollar and low interest rates, will take some time despite recent green shoots in domestic consumption.

In the interim, weak income growth, the end of the mining investment boom and declining terms of trade will continue to constrain growth although lower interest rates will continue to support solid final demand growth, especially in dwelling construction in New South Wales and Victoria.

We therefore expect continued low levels of economic growth in the months ahead with national growth rates in the 2 – 2.25 per cent per annum range.

Closer to home, Queensland's growth rate is expected to be at the lower end of that range notwithstanding higher LNG and resource exports, increased tourism and stronger retail activity off the back of a lower dollar. Fortunately, the Bank's recent diversification away from Queensland provides mitigation against the State's short-term growth profile.

The good news amongst all the noise, is that in this environment, interest rates are expected to stay lower for longer, making debt financing for small business and Australians' housing aspirations, the cornerstone of your Bank, all that more attractive.

Challenges do, however, remain not least of which is how to generate higher shareholder returns in such a low growth market.

Bank regulation

Lower economic growth rates, of course, aren't the only hurdle to building higher long-term returns for shareholders.

As I mentioned earlier, at a global regulatory level, we are seeing a move towards higher capital levels – particularly for Advanced Accredited Banks such as the Majors. As you would expect, these global initiatives are also part of the domestic regulatory agenda.

Regional banks in Australia however, already hold significantly higher levels of capital than the Big Four given they traditionally held two to three times the amount of capital against an owner-occupied Australian mortgage and, as such, currently enjoy a degree of protection from the current tide of regulatory capital increases.

The gap however, is narrowing as the Federal Government and APRA have now endorsed the recommendation of David Murray's Financial System Inquiry to reduce the regulatory capital disparity on mortgages between the major banks and the rest of the market.

What this effectively means is that if capital levels continue to increase, BOQ stands to be less affected – as they say, a rising tide lifts all boats and your Bank is already at a higher water mark. This is an issue we continue to monitor closely.

In Australia, some of this upward trend in capital was predicated by concerns about a bubble in the property markets, especially in Sydney and Melbourne where prices are 42 per cent and 21 per cent above previous peaks, or 2 – 3 times the compound inflation rate for the period.

Whether this represents what punters describe as a bubble – meaning "a good or fortunate situation that is isolated from reality or unlikely to last" – is questionable although, I think we can all agree prices in these two markets are very toppish despite a housing supply imbalance in those cities.

By contrast, in other State capitals such as Brisbane and Perth, housing prices are only 0.3 per cent and 0.8 per cent above previous highs so if there is a housing bubble, it is hard to argue it exists in these markets.

Despite these disparate growth rates and the ongoing debate about the semantics of a housing "bubble" we continue to be comfortable with the Bank's existing housing exposure given our strict credit standards, strong risk policies and our increasingly diversified national housing portfolio.

Just as importantly, the Bank remains underweight in the Sydney and Melbourne markets where price growth has been highest, adding further strength to the quality of our national housing portfolio.

We are, however, very cognisant of the possible adverse consequences to the general economy from any moderation in the housing cycle due to further macro-prudential tightening.

This could potentially make the next growth cycle all that much harder to find for all banks, given the prevailing operating environment.

Future growth

So how will we respond to these challenges both economic and regulatory? How will we continue to grow at BOQ?

Our growth strategy is predicated on four strategic pillars which in a nutshell are about being highly customer focused; risk return aware; efficient and digitally enabled; and loved. Nothing earth-shattering here some might say but, as with all strategies, the devil is in the detail and in the execution.

I don't intend to spend a lot of time on our strategic pillars but, as part of the view from the balcony, I would like to emphasise several points.

The first is that, fundamental to our customer in charge and return focus, is our identification and diversification into those sweet spots in the banking market that offer high market share opportunities, customer intimacy and market leading returns such as those we see in our BOQ Specialist and BOQ Finance businesses.

Second, if we are going to grow and grow successfully with the customer in charge we must address imbalances in our traditional distribution arrangements to make sure we have the right distribution model for our customers.

This is especially the case in the small business and personal banking segments, where it is critically important for our customers to access our “anywhere, anyhow and anytime banking” with that friendly “it’s possible to love a bank” smile as exemplified by our unique Owner-Manager network.

We must also continue to leverage new distribution channels particularly our growing digital platform and broker distribution channels, which accounted for 15 per cent of our mortgage distribution last financial year thanks to the collective efforts of 2,500 brokers nationally.

Considering we didn’t have one broker servicing our client base two years ago, this is a remarkable achievement – and an especially important one – in a market where around half of all mortgage originations come from brokers.

Next, if we are to be more efficient, maximise returns and give a faster time to “Yes”, we must also simplify and digitalise our technology backbone, partner more effectively with our new technology partners, and continue to drive costs down.

Finally, if we are to be truly loved, we must do something more and the more is about customer intimacy, engagement, leadership and having the right culture across our organisation.

Is it working? Are the changes and refocused strategy making a difference?

Well certainly at the customer level we seem to be making progress with Net Promoter Scores and customer satisfaction both on the rise and in the top quartile.

You know there’s an old saying in banking about “happy staff, happy customers” and, in our case, where employee engagement is increasing and a cultural change emphasising the importance of accountability, responsibility, integrity, trust, service and compliance is taking place, it is certainly true and shareholders are now clearly benefitting from the results.

Our BOQ Finance, BOQ Specialist and Virgin brands are pathfinders in embracing our new strategic imperatives and are already delivering attractive returns to shareholders with hopefully more to come especially once Virgin enters the mortgage market in the first quarter next year with a new product, an innovative distribution model and a trusted brand!

But we are not resting on our laurels and focusing just on the niche businesses.

Our opportunities, especially in our core small business and personal banking businesses, remain significant as the market continues to evolve offering attractive possibilities for agile, focused, digitally enhanced, strong service orientated banks serving the right customer segments.

These segments – which we call the Aussie Achievers, Today’s Families, Leading Lifestyles and Metrotechs – as well as those customers who value being treated differently offer an addressable profit pool of some $15 – 20 billion. Now that’s a prize worth chasing!

We also will continue to focus on risk and compliance to make sure that the attraction of growth does not become an elixir with the focus on growth for growth’s sake.

We want profitable growth, growth that engenders trust from our customers and the blessings from our regulators where the scorecard continues to evolve. The recently announced ASIC inquiry into the mortgage broker industry is a good example of this.

So whilst much heaving lifting needs to be done with systems, technology, low system growth and changing distribution models, I remain optimistic that our agility, culture, strong customer proposition, an increased focus on new distribution models, a relentless focus on costs and the use of smart technology, will be key to our future success.

I have every confidence that we will succeed and continue to grow.

Successes

Finally, I would like to call out some key successes during the year as we transition to growth mode and a performance ethic that reflects this.

Firstly, to Jon Sutton and his management team, thank you all for your “above and beyond” response to the challenges of the year while delivering the BOQ Specialist strategy and remaining very much on track to deliver Virgin’s mortgage product early next year.

This is Jon’s first year as CEO, albeit his second AGM, and we continue to be delighted with his performance and that of his team. Management and leadership define who we are and what we have achieved and for that I thank them all immensely for their efforts.

I would also like to thank the Bank’s employees, our customers and of course, you, our loyal investors for your support during a challenging year.

Before acknowledging my fellow directors, I would also like to call out the immense contribution of Carmel Gray, who will be retiring from the Board.

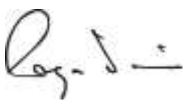
Carmel, who was appointed to the Board in 2006, is our longest serving Director and has been a constant during the highs and lows the Bank has experienced since. Her significant experience and the insights she brings to our cohort of Directors will be sorely missed. Thank you for everything you have done, Carmel.

We will be announcing a new Non-Executive Director in the near future.

Finally I would like to thank my fellow Directors for your wisdom and support. It has been much appreciated and, indeed, fundamental to us being able to build a strong balance sheet, liquidity, management team and profitability, all of which help us deliver a bright future for the organisation and its shareholders.

How can you not love a Bank like this?

Thank you



Roger Davis
Chairman