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Managing Director's Address
2015 Annual General Meeting

Ladies and Gentlemen, it is a privilege to be here and have the opportunity to address you, the shareholders and owners of this great organisation.

Today, I would like to focus my address on three key areas:

- an overview of our results for the 2015 financial year;
- an update on our strategy and how we are progressing on the key strategic goals we have set for the Bank; and finally
- a brief outlook on market conditions.

Record result delivered in FY15

Let me begin with our financial results.

We were pleased to deliver another record result in the 2015 financial year. This was a significant achievement in an environment of low growth and changing regulation as Roger has outlined.

Statutory profit after tax was up 22 per cent on the prior year to $318 million while after tax cash earnings increased by 19 per cent to $357 million.

This was driven by higher net interest margin, a strong full year contribution from our new BOQ Specialist business and further improvement in impairment expense.

In a market where most of our competitors reported margin contraction, our cash net interest margin increased by 15 basis points to 1.97 per cent. This was due primarily to the higher margin BOQ Specialist business and demonstrates our ability to manage our balance sheet.

A key highlight of the result was our return to growth. Although we have more work to do, our Customer in Charge focus to increase our distribution channels is driving improved performance.

For example, brokers contributed around 15 per cent of housing settlements for the year. There is further upside in this area as we get closer to our natural market share.

We also improved our branch performance, including our franchise capability program. We now have more than 30 Owner Managers on the new franchise agreement, with a balanced scorecard that better aligns objectives.

This is already starting to drive improved outcomes for the organisation, such as the 14 per cent lift we saw in low cost deposits.

As I've mentioned, the acquisition of BOQ Specialist has exceeded all expectations and created significant value for our shareholders.

BOQ Specialist was integrated on time and on budget. With cash earnings of $43 million for FY15, it also delivered well ahead of the maintainable earnings guidance of $38 million we provided at the time of the acquisition.

Our costs in the first half were impacted by a number of one-offs but, over the course of the year, we managed expenses tightly. While BOQ Specialist is a higher margin business it also has higher costs. As a result, the Group's underlying cost to income ratio has rebased at 45 per cent.

There is more work to do, particularly around returning to higher levels of asset growth, but most of our key financial metrics are moving in the right direction.

Sector-leading shareholder returns

This has translated into sector-leading total returns to shareholders over one and three year timeframes.

Our Return on Equity was up 200 basis points from the first half of 2013 to 11.2 per cent in the second half of 2015.

These results have provided a compound annual growth rate of 13 per cent in earnings per share over that period.

We are aware of the intense market focus on banking sector dividends in the current regulatory environment. Equally, we understand the importance of dividends to our shareholders. Let me assure you, we remain committed to growing dividends on a sustainable basis.

Our strengthened capital position and improved financial performance enabled us to pay a final dividend of 38 cents per share. This took full year dividends to 74 cents per share fully franked, up 8 cents on the previous year.

Strategy and outlook

The second area I want to discuss briefly today is our strategy.

During the year, we sharpened our strategic focus but this was very much a case of evolution rather than revolution.

BOQ's point of difference has always been, and remains, the strength of our customer relationships. We have no desire to be a "mini me" of the big four banks.

Our strategy is to focus on those niche markets where we have a sustainable competitive advantage and where customers value intimate banking relationships, like at BOQ Specialist and BOQ Finance.

Our vision remains to create Australia's most loved bank, which is evident in our most recent customer Net Promoter Scores and Employee engagement results.

Our Net Promoter Score has significantly improved to 30.5 from below zero in early 2013. This puts us well ahead of the major banks who average 0.5. Our customer satisfaction is further demonstrated in the East & Partners Business Banking Index which we have topped for seven consecutive years.

Having the right strategy is one thing. Having the right people and the right culture to execute that strategy is paramount.

Our staff engagement score has increased from 43 per cent in 2014 to 67 per cent, demonstrating the progress we are making to improve our work culture.

The management team and I are absolutely focused on implementing our challenger bank strategy to deliver earnings per share outperformance over the long term.

Key priorities in FY16

Turning to our key priorities for FY16.

In the Retail Bank we will continue to expand distribution channels. We expect to lift the number of accredited brokers from 2,500 to 4,000.

I am excited to say that we are on track to launch our Virgin Money mortgage product through the broker channel in the first quarter of 2016. This allows us to grow in a new customer demographic to BOQ.

Soon after, we will follow this with Virgin deposit products, further diversifying our retail funding base.

We have spoken regularly in the last 12 months about our new retail lending origination program. This system will unclog the arteries of the Bank, significantly reduce loan approval time for our customers and improve branch productivity.

Key priorities for Business Banking are to continue growing through niche specialist sectors. Through process improvements, streamlining documentation and more efficient credit decisions around non-complex deals less than $1 million, we will also seek to grow small business lending.

At a Group level, we remain committed to reducing costs and growing revenue to drive our cost to income ratio towards the low 40s, in percentage terms, in the years ahead.

Outlook

The third area I will discuss briefly is the market outlook. Roger has already provided context about the external environment and some of the opportunities and challenges facing all financial services organisations.

While we know the economy has been running below trend, it is encouraging to see recent improvements in business and consumer confidence. However, it is likely to take some time to see a sustained improvement in activity.

Looking across the nation, state economic performance is mixed. New South Wales is doing well, as is Victoria. However, Western Australia continues to adjust to weakening demand for its key commodities and prices.

Our home state remains a patchwork quilt, economically speaking. On the positive side, the lower currency is starting to help tourism-related regions – for example in Cairns.

In September we held our annual retail conference in Cairns and the resurgence in the local economy was obvious. Cairns airport had the fastest growth in passenger movements of all major Australian airports in the year to June 2015.

Mining-reliant regions are finding the going tougher, although we remain comfortable with our general exposures in these areas.

In time, better housing affordability should help encourage increasing net migration to Queensland, further boosting the State economy.

On the regulatory front, we welcomed the Government's endorsement of the Financial System Inquiry. This included the changes that APRA has made to mortgage risk weightings for advanced accredited banks, providing a more even playing field from mid next year.

As a standardised bank we remain very comfortable with our strong capital position. We will continue to monitor the Basel process and assess the benefits of advanced accreditation under Basel IV.

Last week we held a strategy update, an important part of our market engagement which allows shareholders and potential investors an opportunity to gain a better understanding of the strategies we are implementing across the business. A recording of that event is available on our website for anyone who is interested.

Following the update, a number of research analysts upgraded their expectations for BOQ's earnings in FY16 and beyond. While we concur that the outlook for smaller banks is relatively bright, I'd like to take this opportunity to reiterate what we said at our full year results announcement with respect to the outlook for income growth in FY16.

In terms of net interest income, we believe the repricing that occurred across the industry for investor housing loans in August was largely in response to a contraction in margins that had emerged over the preceding months. We were not immune to this and see this repricing step as restoring our net interest margin profile.

We made the statement at the full year results release in October that the outlook for margins was looking more positive than it had six months earlier. The variable mortgage repricing that occurred across the industry in November has validated that view and has expanded our net interest margin, which will assist our earnings growth in 2016.

However, other factors such as very competitive pricing for new business and the low interest rate environment will reduce the full effect of this margin increase.

We also note that some analysts have factored in a meaningful rate of growth in the Bank's non-interest income in the coming year.

As we have said for some time, this is an income line that continues to face a number of headwinds. While there are a number of moving parts, the most likely outcome we currently expect for this line item in FY16 is a flat to low growth result compared to FY15.

Conclusion

In conclusion, our team has delivered another record set of robust results in a challenging environment.

We have demonstrated our ability to manage margins and costs, producing solid underlying performance. We are also seeing good momentum in asset growth without compromising margin or credit quality.

The acquisition of BOQ Specialist has delivered significant value to our shareholders, and we expect this business to remain a strong contributor to the Group going forward.

All in all, I am pleased with the progress we have made in our transformation. We have a solid platform from which to continue building on our plans for the year ahead.

While markets remain volatile, I am confident about the future of BOQ and our ability to deliver consistent performance and solid returns for our shareholders.

Finally, I would like to express my appreciation to the Board, my executive team and all of the Group's employees for their ongoing efforts to continually improve what we do.

I would also like to acknowledge everyone who has taken the time to attend our AGM today and, more broadly, all of our shareholders. We thank you for your ongoing loyalty to our company and look forward to continuing to improve on what we do for you.

Thank you.

Jon Sutton
Managing Director & CEO